

External review of the Office for Budget Responsibility

Kevin Page

September 2014

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September 2014



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Foreword

The Budget Responsibility and National Audit Act 2011 requires the Non-executive members of the United Kingdom's (UK) Office for Budget Responsibility (OBR) to commission an external review every five years, to examine the content and quality of the reports published by the OBR.

On 4 April 2014, I was officially appointed by the two Non-executive members of the OBR, Lord Burns and Dame Kate Barker, to undertake the organisation's first independent review. Prior to the appointment by the Non-executives, Mr Robert Chote, the OBR Chairman, had approached me in the summer of 2013 to inquire as to whether I would be available (and interested) to undertake such a project. At the time, I had just completed my five-year mandate as Canada's first Parliamentary Budget Officer and had begun a new assignment at the University of Ottawa (Faculty of Social Sciences), as the Jean-Luc Pepin Research Chair (JLP).

I was principally interested in the project because, from afar, I had been aware of both the quality and perceived impact of the work of the OBR. Independent fiscal institutions (IFI) like the OBR or Canada's Parliamentary Budget Office (PBO) tend to have relatively small budgets and, contrastingly, significant mandates. So, as practitioners, we tend to look abroad to see what our peers might be doing. We look for references, for instance in the provision of fiscal forecasts or sustainability analysis and the resulting impact that these reports might have on political discourse, transparency and accountability.

At about the same time as I received the appointment for the OBR review, I had also been tasked by the Organisation for Economic Co-operation and Development (OECD) to develop a framework for the evaluation of IFIs, whose numbers had grown rapidly in the wake of the 2008 global financial crisis. Within this new community of practice, some of the IFIs, like that in Canada, had experienced trials and tribulations towards political acceptance even though the gains in fiscal transparency for legislatures and other stakeholders had been significant.

The remit of the OBR is clear and includes as its main duty 'to examine and report on the sustainability of the public finances' and the responsibility to carry out that work 'objectively, transparently and impartially'. The terms of reference for the external review are equally clear and include the examination of the quality of the OBR's main publications, the effectiveness of its methodologies and governance, and the capability of the OBR team. It is my view that the UK Parliament should be commended for including the provision of a periodic external review in the OBR's founding legislation. Periodic external reviews should be considered a best practice to be emulated by other IFIs.

The approach taken in the evaluation framework, which includes four distinct elements (context, inputs, outputs and outcomes), follows a performance framework approach used by governments around the world. It starts with context – in this case, the institutional structure and objectives of the organisation. The OBR has a very distinct structure given its dual accountabilities to both the executive branch and legislative branch (i.e. Parliament). Capability, methodology, governance (i.e. inputs) and products (i.e. outputs) are assessed against benchmarks in other OECD countries and, where possible, against observable counterfactuals. Two separate detailed surveys were conducted for Parliamentarians and stakeholders to assess the impact and quality of OBR work from an outcome perspective. This work was supplemented by expert interviews. The interview list and the survey questions are provided in the annexes to this report.

I also wish to attest that the evaluation effort was undertaken both with complete independence and with the full cooperation and support of the entire OBR team and the Non-executives. The interactions included in-person interviews, the exchange of documents as well as other data and information. An embargoed draft copy of the evaluation was shared with the two Non-executive members on 20 August 2014, the Budget Responsibility Committee on 26 August 2014 and senior civil servants in HM Treasury on 27 August 2014. The purpose of sharing the embargoed document was to enable these parties to prepare their respective official responses to the published report, if they deemed it necessary.

The evaluation team included my two colleagues from the University of Ottawa, Sahir Khan and Helaina Gaspard, as well as a former colleague from Canada's Parliamentary Budget Office, Randall Bartlett. Mr Khan is a former Assistant Parliamentary Budget Officer in Canada and Dr Gaspard is a senior research associate with JLP Chair. The team also included two seconded (but independent) civil servants from Her Majesty's Treasury, Victoria Jones and Naomi Adams. Their work was invaluable and the result of their tireless effort and dedication to the project.

Kevin Page

Jean-Luc Pepin Research Chair

University of Ottawa

Canada

Executive summary

The Office for Budget Responsibility (OBR) was established in 2010 ‘to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy’.¹ Its legislative foundations lay in the *Budget Responsibility and National Audit Act* (2011) (the Act) and are operationalised through the *Charter for Budget Responsibility* (2011) (the Charter). Accountable to the Chancellor of the Exchequer (Chancellor) and to Parliament (namely through the Treasury Select Committee), the OBR has five principle responsibilities arising from the Act and the Charter:

- 1 the production of economic and fiscal forecasts;
- 2 an assessment of the extent to which the government’s fiscal targets have been, or are likely to be, achieved;
- 3 an assessment of the accuracy of its previous fiscal and economic forecasts;
- 4 an assessment of the long-term sustainability of the UK public finances; and
- 5 scrutiny and certification of the government’s policy costings (the OBR itself does not produce costings).

To fulfil its mandate, the OBR produces reports and related documents, supports the Chancellor and his/her department in their management of the public finances and responds to stakeholder questions, including those of Parliamentarians. The OBR is required to lay its legally mandated reports before Parliament and to provide testimony and evidence to Parliamentary committees related to budgetary and fiscal matters.

The terms of reference for this review require that the quality of the OBR’s publications, the effectiveness of its methodology and governance, and the capability of its staff to fulfil its mandate be evaluated, pursuant to its legislation. For this first evaluation, the OBR was assessed using a framework generally recognised among governments, via a methodology being developed by the University of Ottawa’s Jean-Luc Pepin Research Chair, with the supporting sponsorship of the Organisation for Economic Co-operation and Development (OECD).

This IFI evaluation framework is comprised of four categories – context, inputs, outputs and outcomes – defined below.

- 1 **Context:** The unique political and institutional environment housing the independent fiscal institution (IFI) as well as its legally defined mandate. For IFIs there are both domestic and international contexts for their operations.
- 2 **Inputs:** Quantification and quality assessment of the IFI’s resources (both financial and human). It is necessary to consider organisational inputs as a factor for comparison and possible influencers of institutional capacity, productivity and relevance.
- 3 **Outputs:** The quality of products developed and released by the IFI based on the functions defined in its mandate (i.e. economic and fiscal forecasting, fiscal sustainability, costing, budgetary advisory).

¹ HM Treasury (2014) *Charter for Budget Responsibility*, ch.2.2.

4 Outcomes: Stakeholders' perceived confidence in the IFI's work and their use of its products.

This evaluation is based on: data collected from the OBR, government departments and agencies, and international organisations; expert stakeholder interviews; a stakeholder survey; media tracking analysis; and an evaluation of the OBR's products.

Context

The OBR's domestic context is composed of its legislative mandate and its political and institutional environments. The OBR's founding legislation defines the Chancellor and Parliament as the OBR's legally defined stakeholders. The Office is also linked to a number of government departments which it relies upon for information and expertise. From a non-legal perspective, there are various other parties that engage with the OBR's reports. These stakeholders include think tanks (such as the Institute for Fiscal Studies and National Institute for Economic and Social Research), academics, media, as well as the general public.

The OBR is at the service of the government, while having some linkages to Parliament and maintaining a measure of distance by being responsible for its own work and outcomes.

The OBR's global context is linked to the broader community of IFIs found in established and emerging democracies around the world. Within the OECD, the 19 countries that have introduced an IFI have created the OECD Network of Parliamentary Budget Officials, of which the OBR is a member organisation.² The Network developed the *Principles for Independent Fiscal Institutions* (OECD Principles), which were ratified by the OECD in February 2014.³

Analysis demonstrates that the OBR's remit and conventions of operation compare well to these ratified OECD Principles (see Table 0.A). This adherence to defined global standards provides the Office with legitimacy among its global community of peers and should provide confidence to its stakeholders in the UK.

Table 0.B compares the legislative underpinnings of the OBR with its peer IFIs in the OECD community. For each of the legislative elements tested, the OBR finds itself aligned with the majority grouping of its peers, showing that the provisions and safeguards in the OBR's founding legislation broadly align with international norms.

Whilst the comparisons demonstrate that as an IFI the OBR exhibits a basic level of adherence to OECD Principles and common legislative underpinnings, what they do not show is the fundamental difference in the foundation and inputs of the OBR relative to its peers, which make it unique within the international IFI community. Unlike most IFIs, the OBR has no global twin for its structure and operation.

² According to the OECD, there are 19 IFIs in member countries. They are: Australia (Parliamentary Budget Office), Austria (Fiscal Advisory Council), Belgium (High Council of Finance), Canada (Parliamentary Budget Officer), Denmark (Economic Council), Finland (Fiscal Policy Audit and Executive Office), France (Haut Conseil des Finances Publiques), Italy (Parliamentary Budget Office), Ireland (Fiscal Advisory Council), Korea (National Assembly Budget Office), Mexico (Centro de Estudios de las Finanzas Públicas), Netherlands (Bureau for Economic Policy Analysis), Portugal (Conselho das Finanças Públicas), Slovak Republic (Council for Budget Responsibility), Slovenia (Fiscal Council), Spain (Independent Authority for Fiscal Responsibility), Sweden (Fiscal Policy Council), United Kingdom (Office for Budget Responsibility) and United States (Congressional Budget Office). Points to note: Italy's office is in its founding stages, although its leadership has been appointed; Chile recently disbanded its attempt at a fiscal council; Hungary's fiscal council is in a weakened state; and Germany's Advisory Council to the Stability Council is meant to fulfil EU requirements for a fiscal council.

³ The OECD Principles for independent fiscal institutions are now a Council Recommendation. This means that the Principles were not only ratified by the Network, but also adopted by OECD member governments. See: OECD (2014) *Recommendation of the Council on Principles for Independent Fiscal Institutions* (OECD).

Table 0.A: Comparing OBR legislation and convention with the OECD Principles for Independent Fiscal Institutions

| Principle | Legislation ^a | Alternative mechanisms ^b | Convention or practice | None |
|---|--------------------------|-------------------------------------|------------------------|------|
| 1. Local ownership | | | | |
| IFIs require broad national ownership, commitment and consensus across the political spectrum | • | • | • | |
| Local needs and the local institutional environment should determine an IFI's role, structure, functions and protections | • | • | | |
| 2. Independence and non-partisanship | | | | |
| IFIs should be precluded from normative policy-making duties to avoid even the perception of partisanship | • | • | • | |
| IFI leadership should be selected on merit and technical competence, without reference to political affiliation | • | • | • | |
| Leadership qualifications should be made explicit including professional standing and relevant experience | | | • | |
| Leadership term lengths and numbers, and dismissal criteria and processes, should be specified in legislation | • | | | |
| IFI leadership terms should optimally be independent of the electoral cycle | | | • | |
| The head of the IFI should be a remunerated and full-time position, conflict-of-interest standards should apply | • | • | • | |
| IFI leadership should have full freedom to hire and dismiss staff in line with applicable labour laws | • | • | • | |
| Staff should be selected through open competition based on merit and technical competence, in line with civil service conditions and without reference to political affiliation | • | • | • | |
| 3. Mandate | | | | |
| An IFI's mandate should be defined in legislation including required reports, analysis, recipients and timelines | • | • | | |
| IFIs should have scope to produce reports within their mandate at their own initiative and autonomy to determine their own work programme | • | • | | |
| Clear links to the budget process should be established within an IFI's mandate | • | • | | |
| 4. Resources | | | | |
| The resources allocated to IFIs must be commensurate with their mandate | • | | • | |
| IFI appropriations should be published and treated in the same manner as the budgets for independent bodies | | | • | • |
| Multi-annual funding commitments may further enhance an IFI's independence and provide additional protection from political pressure | | • | • | • |

| Principle | Legislation ^a | Alternative mechanisms ^b | Convention or practice | None |
|--|--------------------------|-------------------------------------|------------------------|------|
| <p>5. Relationship with the legislature</p> <p>Mechanisms should be put in place to encourage appropriate accountability to the legislature</p> <p>The role of the IFI and Parliament's budget committee (or equivalent) should be established in legislation</p> | • | • | • | |
| <p>6. Access to information</p> <p>IFIs should have full access to all relevant government information in a timely manner and at no cost</p> <p>Any restrictions on access to government information should be clearly defined in legislation</p> | • | • | • | |
| <p>7. Transparency</p> <p>IFIs should act as transparently as possible including in their work and operations</p> <p>IFI reports, analysis, underlying data and methodology should be published, made freely available to all and sent to Parliament</p> <p>The release dates of an IFI's major reports and analysis should be formally established</p> <p>IFIs should release their reports and analysis, on matters relating to their core mandate, in their own name</p> | • | • | • | |
| <p>8. Communications</p> <p>IFIs should develop effective communication channels from the outset</p> | | | • | |
| <p>9. External evaluation</p> <p>IFIs should develop a mechanism for external evaluation of their work</p> | • | | • | |
| <p><i>Source: Review team analysis of OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions, the Act, the Charter, the Framework and other OBR documentation.</i></p> | | | | |
| <p>^a Budget Responsibility and National Audit Act 2011.</p> | | | | |
| <p>^b Charter for Budget Responsibility (2014), Office for Budget Responsibility and HM Treasury Framework Document (2014), and Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions, and HM Revenue & Customs (2011).</p> | | | | |

Table 0.B: Comparing the OBR's legislative underpinnings with peer IFIs in the OECD community

| Legislative feature | Australia | Austria | Canada | Ireland | Korea | Netherlands | UK | USA |
|---|------------------|----------------|---------------|----------------|--------------|--------------------|-----------|------------|
| Date of founding legislation | 2011 | 2013 | 2006 | 2012 | 2003 | 1947 | 2011 | 1974 |
| Does the legislation define the IFI's relationship with: | | | | | | | | |
| • the executive | • | • | ○ | • | ○ | • | • | • |
| • the legislative | • | • | • | • | • | ○ | • | • |
| • civil society and / or the public? ^a | ○ | • | ○ | ○ | ○ | • | ○ | ○ |
| Are the IFI's mandated duties defined in legislation? | • | • | • | • | • | ○ | • | • |
| Who appoints the head of the IFI in legislation? ^b | L | E&O | E&L | E | L | E | E&L | L |
| Are the skills, competencies or educational requirements for the IFI leadership defined in legislation? | ○ | • | ○ | • | ○ | ○ | ○ | ○ |
| Does the legislation define the IFI's organisational structure? ^c | ○ | • | ○ | ○ | • | • | • | ○ |
| Does the legislation provide for the independence of the IFI's inputs? ^d | ○ | • | ○ | • | • | ○ | ○ | • |
| To whom is the IFI accountable as defined in legislation? | L | E | L | E&L | L | E | E&L | L |
| Is the legislation prescriptive in terms of outputs (required reports and analyses)? | • | • | • | • | • | • | • | • |
| Are there provisions for access to government/state data in the IFI's legislation? | • | • | • | ○ | • | ○ | • | • |
| Does the legislation provide a mechanism for recourse for infringement of the IFI's access to data? | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Does the legislation prescribe modes or timing of communication for outputs? | • | ○ | ○ | • | ○ | ○ | ○ | • |

Source: Review team analysis of the IFI founding legislation of selected countries (see bibliography).

Key: E = executive L = legislature O = other third party • = yes ○ = no

^a Yes requires the specification of a particular role or duty the IFI must or can perform in relation to the listed bodies. It includes information sharing arrangements.

^b Responses to this question are restricted to the body (or bodies) that formally appoints the IFI leader, determines a list from whom the leader must be selected and/or whose consent must be received by law.

^c Yes means the legislation requires specific governance arrangements, leadership structures or committees to be established, or in the case of fiscal councils detail is needed on the frequency of meetings, attendees and other aspects of its organisation. Prescribing the different leadership roles required or the fact that an IFI will have staff is not sufficient.

^d Yes means the IFI has legislative provision to receive regular funding and the ability to hire staff, not simply the inclusion of a general provision for the duty and function of the IFI to be 'independent'.

Inputs

Analysis undertaken for the review indicates that the OBR is generally well-funded, in comparison to its international peers, that it has a legislative guarantee to access government data and information, and that it is perceived by its stakeholders to be politically independent. Its human resources arrangements, on matters such as leadership and interdependence with other government agencies, merit closer attention.

The review identifies that the OBR's leadership, namely the Budget Responsibility Committee (BRC), is an important feature for the organisation's staff and stakeholders. To work directly with the UK's top economists and fiscal experts on widely read and legally mandated reports is considered a draw for young talent. Finding successors to the current trio of senior leaders and continuing to secure high-quality staff will be crucial in fostering the long-term success and sustainability of the OBR. However, the size of the fiscal community, and the subsequently small pool of talent from which the OBR can draw its leadership and analysts, present challenges for the organisation.

The interdependence of the OBR's structure demonstrates that whilst the OBR fulfils its mandate, it does so with more than its core staff of 19 employees.⁴ The OBR is dependent on approximately 125 full-time equivalent (FTE) employees from other government agencies (depicted in Table 0.C) to produce its core reports. Her Majesty's Revenue and Customs (HMRC) provides a significant majority of this resource with approximately 64 out of 125 FTE from the department. The principal sources of the OBR's dependence on external expertise are policy costing certification and its Economic and Fiscal Outlooks (produced twice a year).

Table 0.C: Government resource contribution to OBR report production

| Agency | Full-Time Equivalent staff numbers over a year ⁵ | | | | | Agency total |
|---------------|---|------------------------------|----------------------------|------------------------------|----------------|----------------|
| | Economic and Fiscal Outlook ^a | Fiscal Sustainability Report | Forecast Evaluation Report | Policy Costing Certification | Welfare Report | |
| HM Treasury | 7 | 0.6 | 0.3 | 3 ^b | 0.1 | 11 |
| HMRC | 17 | 1 | 2 | 43 | 1 | 64 |
| DWP | 18 | 4 | 1 | 20 | 1 | 44 |
| ONS | 3 | 2 | 1 | 0 | 0 | 6 ^c |
| Product total | 45 | 7.6 | 4.3 | 66 | 2.1 | 125 |

Source: Data provided by each government department or agency.

^a Resource figures reflect the fact that the EFO is produced twice a year – in the spring and autumn.

^b Does not include 100 plus tax policy officials across HM Treasury who are responsible for the scrutiny of policy costings that fall within their portfolio.

^c Does not include the ONS staff that produce a wide range of statistics for public consumption, as well as for OBR's reports.

Outputs

Based on its mandate, the OBR is required to produce and release a suite of products that are its principal outputs. The OBR's four main annual products are: two *Economic and Fiscal Outlooks*

⁴ Excluding the BRC but including two administrative staff.

⁵ Figures represent rounded estimates for resource that feeds into the production of each listed OBR report. It does not include resource that solely collects or produces data. Not all of the work produced by this resource is provided for the sole purpose of the OBR's reports; some of the work has other customers such as government ministers and the general public.

(EFO), the *Fiscal Sustainability Report (FSR)*, and the *Forecast Evaluation Report (FER)*. These outputs were examined by technical experts in the review team in two different ways.

First, the outputs were assessed against international standards and the work of the OBR's peers. It was found that the documents were both complete, in that they fulfil the OBR's mandate, and demonstrated high levels of transparency regarding disclosures, risks and sensitivities, to the extent that they lent themselves to additional analysis by third parties. Furthermore, the core products of the OBR improve with consecutive iterations, making them ever better at meeting the OBR's legislative mandate. As a result, stakeholders that rely on the OBR's analysis should have confidence in its work. However, the same documents could also be seen to be inaccessible to non-technical readers, including important stakeholders such as Parliamentarians.

Second, the review assessed the OBR's reports for specific transparency gains against HM Treasury's analogous products prior to the creation of the OBR in 2010, to help determine whether in fact the OBR has successfully reduced the perception of bias in economic and fiscal forecasting. It was found that the gains in transparency, for the OBR's four major report types, were both observable and marked. The gains in transparency have been such that they should have provided stakeholders with greater confidence in a decision-making context, whether it is one of budget making (i.e. resource allocation and policy formulation) or scrutiny of the government's fiscal plans, such as might be required in a Parliamentary context.

Outcomes

To assess outcomes, the perceived confidence of stakeholders in the OBR's products and the organisation itself were evaluated, given their relevance to the OBR's sustainability. The OBR's success in this area was measured in three ways.

First, a survey of 130 of the OBR's non-Parliamentary stakeholders was undertaken. A statistically valid response rate (i.e. 71 responses) informs the observations and findings with respect to outcomes in this report. A survey of Parliamentarians, including both Members of Parliament (MPs) and Members of the House of Lords, was organised and released. However, exceptionally low response rates made the survey unusable for the report.⁶

Based on the results of the stakeholder survey, the review concludes that the OBR has succeeded in imbuing its work with a perception of independence and transparency, the source of which appears to be individuals in the leadership and staff of the OBR, as well as the soundness of methodologies and data. Stakeholders generally have confidence in the OBR's outputs and use them regularly in their work. It is interesting to note that the OBR's individuals, tools and transparency are greater sources of stakeholder confidence than legislative underpinnings and organisational structure.

Second, media tracking analysis to quantify the OBR's presence was undertaken using the *Factiva* database.⁷ This showed that the majority of the OBR's media attention, in print and online, is focused on the release of its main annual reports with its Economic and Fiscal Outlook attracting the greatest coverage. To promote its work, the OBR depends principally on its website⁸, through which 99% of stakeholders (who responded to the survey) access reports and information about the Office. Direct communication between OBR analysts and its stakeholders is extensive and deemed useful. Use of other communication channels, such as TV, radio and social media, appear to be far less common among stakeholders for accessing the OBR's work.

⁶ Please see Annex E and Annex F for the Stakeholder Survey and the Survey of Parliamentarians and their respective methodologies.

⁷ Please see Annex G for the media tracking methodology.

⁸ www.budgetresponsibility.org.uk.

Third, interviews were undertaken between May and July 2014 with a series of experts and stakeholders.⁹ Based on these interviews, the OBR is positively perceived by its stakeholders in government (politicians and civil servants), Parliament (Peers and MPs representing the three main political parties), the media, civil society and academia. The Office is considered to be independent, transparent, accountable and credible. Its authority is derived principally from its transparency, the quality of its reports and its highly-regarded leadership team.

Although interviewees were supportive of the OBR and its work, these experts with linkages as founders, observers, stakeholders or all three, raised issues of concern. Chief among them was the sustainability of the OBR's success, which focussed on three key questions:

- 1 Is the initial success of the organisation bound up in its leadership?
- 2 What happens when that leadership changes?
- 3 Does the organisation have the institutional memory necessary to carry its work forward?

Given the OBR is likely to face two points of inflection within the coming year, with potential changes in government and leadership within the Office, these questions and concerns regarding the organisation's sustainability are both relevant and timely. It is important to note that other IFIs, such as those in Canada and Hungary, have experienced challenges in mediating these inflection points.

Some stakeholders also raised concerns about the organisational structure of the OBR given its joint accountabilities to the Chancellor and to Parliament – two different constitutional branches. The OBR has so far only existed under the government that created it and so stakeholders questioned how the tension presented by this dual accountability might be mediated in the future and in particular what might happen with a change in government. A number of stakeholders also identified that the expansion of the OBR's mandate – while others considered it necessary – in fact presented risks to the organisation, most notably to its ability to perform a purely technocratic function (and avoid being dragged into the political sphere) and its capacity to deliver (given its structural interdependence with government departments).

Conclusion

This evaluation has found that the OBR has succeeded in reducing perceptions of bias in fiscal and economic forecasting and has increased the transparency of its products. Confidence in the OBR's products is consistently strong across stakeholder groups, though it is principally ascribed to the OBR's senior leadership team and the competence of its staff.

The OBR is likely to face a number of new challenges in the near future which present risks to its sustainability. This highlights the importance of the OBR focusing on longer-term planning and enhanced stakeholder engagement to help mitigate these risks going forward.

A specific set of *lessons learned* is derived from the analysis in the evaluation framework and are defined below. These lessons highlight key issues for consideration by the Non-executive members of the OBR, as the Office advances beyond its successful first five-year term.

⁹ Please see Annex H for the list of interviewees.

Inputs

- 1 The OBR's funding is linked to the Treasury, which means that the political will of the party or parties that make-up the government of the day can potentially influence the OBR's budget.
- 2 The OBR's structure is not free from dependencies on the executive branch and Civil Service, primarily because the OBR was designed to address a particular political problem of perceptions of bias in forecasting. However, there may be concerns on the part of Parliamentarians that its requirements as a legal stakeholder are not fully reflected in the governance of the organisation.
- 3 The OBR is interdependent with a range of government departments and agencies and draws on resources far beyond its organisation in order to fulfil its mandate.
- 4 The OBR's credibility, which largely stems from its transparency, and its ability to effectively communicate and defend its reports, is linked to its leadership.
- 5 The renewal of OBR leadership and staff must be actively considered and managed, as the pool of qualified and eligible candidates is limited.

Outputs

- 6 The OBR's independence is clearly demonstrated via the transparency of its analysis. The OBR must continue to clarify misinterpretations of its work by government.
- 7 The OBR has succeeded in significantly reducing perceptions of bias in economic and fiscal forecasting.
- 8 The OBR's products satisfy its legislative mandate and are methodologically sound. The quality of analysis and commitment to transparency often surpass those of its international peer group and the work done previously by HM Treasury, and improve with each successive publication.
- 9 The OBR's products demonstrate high levels of transparency regarding disclosure, risks and sensitivities, to the extent that they lend themselves to additional analysis by third parties. However, the same documents could be seen to be inaccessible to non-technical readers.

Outcomes

- 10 The OBR has succeeded in imbuing its work with a perception of independence and transparency.
- 11 Stakeholder confidence in the OBR is tied more strongly to its people (i.e. leadership and staff), methodological approaches and transparency than to its legal underpinnings and operational structure.
- 12 The OBR's legislative and operating structures are potential sources of risk for the long-term sustainability of the organisation.

Recommendations

In the context of this review, recommendations are being made with reference to the particular remit and organisational construct of the OBR, the bounds of the remit of the evaluation itself

and the feasibility of implementation with respect to financial resources, risks and time. These recommendations are suggestions for consideration by the Non-executives of the OBR.

The recommendations principally address issues of sustainability of outcomes for the OBR as an organisation. They also address to a lesser extent issues concerning the quality of documents, particularly as they relate to the nature and extent of transparency, which lies at the heart of the value of its products.

Recommendations

- 1 As per the OBR's enabling legislation and interconnected Charter for Budget Responsibility, the UK Parliament is a legal stakeholder of the OBR. As part of this evaluation, an unsuccessful effort was made to broadly survey MPs and Peers vis-à-vis their perceptions and interactions with the OBR and its products. The long-term sustainability of the OBR will depend on ensuring relevance to key stakeholders, particularly those in Parliament. In an effort to address the gap in understanding of MP and Peer perceptions, **it is recommended that the survey of Parliamentarians be reissued before the end of this session of Parliament.** The survey and suggested guidelines for reissuing can be found in Annex F.
- 2 Stakeholder confidence in and the initial successes of the OBR are inextricably linked to its senior leadership (i.e. the Budget Responsibility Committee). With such importance placed on human resources, **it is recommended that long-term succession planning be undertaken to mitigate risks related to the eventual transition of the OBR's senior leadership** to ensure the continuity of the organisation and the development of *institutional* confidence. Such a plan would need to go further than merely staggering the contracts of senior leaders. Long-term planning should strive to foster institutional memory and organisational sustainability over many years.
- 3 When compared to peer IFIs, this evaluation found the OBR's staff to have the necessary competencies for the execution of its mandate. Its human resources practices also appeared consistent with the relevant OECD Principles. The OBR's on-going success depends on the retention and renewal of the expertise and competencies of its staff, many of which are drawn from various departments in the Civil Service. This operating feature is reinforced by the OBR's interdependency with government officials for the discharge of its mandate. **It is therefore recommended that a formal fiscal community-wide staff development and rotation programme be established to maximise the talent pool upon which the OBR can draw.** While such a programme should aim to increase the availability of expertise necessary for the OBR, it should also be mindful of not depleting scarce Civil Service human resources in this field.
- 4 Given that the organisational underpinnings of the OBR are in their institutional infancy and are interdependent with a host of government departments and agencies, **it is recommended that caution be exercised in considering the expansion of the OBR's mandate (e.g. costing certification of opposition manifestos).** The OBR may not have the organisational capacity to expand its remit without further drawing on the resources of other government

departments. In addition, the particularly narrow legal framework of the OBR and its interdependencies with the executive branch may risk creating perceptions of conflicts-of-interest.

- 5 The nature of the fiscal community in the UK is relatively closed, as it is in other OECD jurisdictions. The OBR, together with HM Treasury and other government departments, have made significant strides in transparency in economic and fiscal forecasting to support the democratisation of access. However, additional measures are recommended to further enhance the OBR's efforts. **It is recommended that additional backgrounders be included with the publication of major reports to aid the accessibility of the documents for non-technical readers.** This includes briefing material and associated outreach documents that promote a broader understanding for Members of Parliament, Members of the House of Lords, civil society and citizens of the approach and analytical tools used by the OBR to prepare its Economic and Fiscal Outlooks and Fiscal Sustainability Reports (such as OBR (2014) *A brief guide to the public finances*).

1

Introduction

1.1 The Office for Budget Responsibility (OBR) was established in 2010 ‘to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy’.¹ Its legislative foundations lay in the *Budget Responsibility and National Audit Act (2011)* (the Act) and are operationalised through the *Charter for Budget Responsibility (2011)* (the Charter). Accountable to the Chancellor of the Exchequer (Chancellor) and to Parliament (namely through the Treasury Select Committee), the OBR has five principle responsibilities arising from the Act and the Charter:

- 1 the production of economic and fiscal forecasts;
- 2 an assessment of the extent to which the government’s fiscal targets have been, or are likely to be, achieved;
- 3 an assessment of the accuracy of its previous fiscal and economic forecasts;
- 4 an assessment of the long-term sustainability of the UK public finances;
- 5 scrutiny and certification of the government’s policy costings (the OBR itself does not produce costings).

1.2 To fulfil its mandate, the OBR produces reports and related documents, supports the Chancellor and his/her department in their management of the public finances and responds to stakeholder questions, including those of Parliamentarians. The OBR is required to lay its legally mandated reports before Parliament and to provide testimony and evidence to Parliamentary committees related to budgetary and fiscal matters.

1.3 The terms of reference for this review require that the quality of the OBR’s publications, the effectiveness of its methodology and governance, and the capability of its staff to fulfil its mandate be evaluated, pursuant to its legislation. The Act requires the OBR’s Non-executive members to commission an external review into its reports every five years.

1.4 The OBR is part of a global community of independent fiscal institutions (IFIs) that provide decision support and analysis for budget creation, maintenance and a general role of surveying the state of public finances. As a member of this community, the first assessment of the OBR is rooted in an evaluation framework generally recognised among governments, via a methodology being developed by the University of Ottawa’s Jean-Luc Pepin Research Chair, with the supporting sponsorship of the Organisation for Economic Co-operation and Development (OECD).² The draft framework was first presented at the OECD’s Network of Parliamentary Budget Officials meeting in Jerusalem in March 2014 and received broad support from Network members.³ The framework is comprised of four categories: context, inputs, outputs and outcomes.

¹ HM Treasury (2014) *Charter for Budget Responsibility*, ch.2.2.

² See Annex C.

³ While generally accepted by members, in concept, no endorsement by the OECD or its member countries is implied. To cite this framework, please reference: Jean-Luc Pepin Research Chair (University of Ottawa), for the Organisation for Economic Co-operation and Development (OECD), *Evaluating the Performance of Independent Fiscal Institutions: Toward a Common Evaluation Framework (Draft)*, 2014.

1.5 This review uses the above-mentioned framework and is based on: data collected from the OBR, government agencies and international organisations; expert stakeholder interviews; a stakeholder survey; media tracking analysis; and an evaluation of the OBR's products. The fundamental question addressed in this report is: has the OBR succeeded in significantly reducing or eliminating perceptions of bias in economic and fiscal forecasting, imbuing it with a sense of transparency; and if so, is this outcome sustainable?

1.6 The review concludes that the OBR has succeeded in reducing perceptions of bias in fiscal and economic forecasting and has fostered greater transparency through the detail published in its reports and the publication of supplementary documentation on its methodologies and approaches. The organisation has gained the trust of stakeholders who principally attach their confidence to the OBR's senior leadership team and staff. As an early-stage organisation, the OBR's initial successes are laudable.

1.7 However, there are issues of sustainability that must also be considered in the context of this evaluation. Potentially complicated by its dependence on the quality of its leadership and staff, and its interdependence with other government agencies, the OBR must prepare to face two points of inflection in the future and possibly in the coming year: a change in government and a change in the organisation's leadership. To mediate the effects of these changes while promoting the continuity of the organisation, the OBR must engage in longer-term planning and enhanced stakeholder engagement, on several fronts, to foster its sustainability as an *organisation* rather than merely on the basis of its people.

2

Methodology

2.1 The purpose of this review, in line with its terms of reference, is to evaluate the products, governance and capability of the OBR. To undertake the review, a four-part evaluation framework, first presented at the 2014 meeting of the Organisation for Economic Co-operation and Development (OECD)'s Network of Parliamentary Budget Officials in Jerusalem, was adopted. The framework received broad support from the delegates at the meeting (including the UK) based on its ability to assess independent fiscal institutions (IFI) within their unique context, given the heterogeneity of the community of practice.

2.2 The evaluation framework highlights the importance of contextual differences in undertaking the review. Assessment of context is critical because the OBR is situated in a particular institutional context with legislatively defined stakeholders (i.e. the Chancellor of the Exchequer and Parliament) with distinct fiduciary obligations. Each of these stakeholders would view outcomes from distinct lenses of fiduciary and political responsibilities and accountabilities, and as such both require evaluation. Building on context, the framework evaluates the inputs, outputs and outcomes of the OBR. Each of the four categories of analysis as defined in the OECD paper is described in brief below:

- 1 **Context:** The unique political and institutional environment housing the IFI as well as its legally defined mandate.
- 2 **Inputs:** Quantification and quality assessment of the IFI's resources (both financial and human). It is necessary to consider organisational inputs as a factor for comparison and possible influencer of institutional capacity, productivity and relevance.
- 3 **Outputs:** The quality of products developed and released by the IFI based on the functions defined in its mandate (i.e. economic and fiscal forecasting, fiscal sustainability, costing, budgetary advisory).
- 4 **Outcomes:** Stakeholders' perceived confidence in the IFI's work and their use of its products.

2.3 The terms of reference for the review require examination of three key aspects of the OBR and its work.¹ Each of these terms is linked to the adopted evaluation framework as follows:

- 1 The quality of the OBR's four main annual publications – two *Economic and Fiscal Outlooks*, the *Fiscal Sustainability Report* and the *Forecast Evaluation Report* – published since October 2010, and supporting working papers, briefing papers and discussion papers.
 - The forecasts, reports and working, briefing and discussion papers are considered to be **outputs** of the OBR. Undertaking analysis for this part of the evaluation framework, we define quality on two fronts. The first is methodology,

¹ Please see Annex B for the review terms of reference.

i.e. the scientific soundness by which the reports are produced. The second is an assessment of the transparency of the OBR's work relative to international standards and to HM Treasury's analogous products prior to 2010.

- 2 The effectiveness of the methodology and governance by which the OBR produces its forecasts, assessments and analyses presented in these reports.
 - The perceived confidence of stakeholders (i.e. the OBR's **outcomes**) was assessed in relation to the products, people and governance of the OBR, to determine whether a relative weighting of sources of confidence (or lack thereof) could be identified.
- 3 The capability of OBR staff to support the Budget Responsibility Committee in meeting the objectives they have been set by government.
 - To evaluate this capability, we treat it as a function of **inputs** including the human and financial resources attributed to the OBR, the independence of these inputs and the OBR's access to data. We evaluate whether these inputs are commensurate to the Office's mandate and compare them to internationally recognised benchmarks.

2.4 For further detail on this evaluation's methodology, please refer to Annex C.

3

Context

3.1 Context comprises the environmental and legal factors that influence the OBR operationally and structurally, and serves to define its stakeholders. A clear conception of context is integral to understanding the factors that affect the Office's actions and is directly linked to its outcomes. In the case of the OBR there are two contexts that must be addressed: domestic and global. This chapter reviews each of these in turn.

Domestic context: mandate

3.2 The OBR was created by the coalition government in 2010 to 'address past weaknesses in the credibility of economic and fiscal forecasting' and ultimately, to improve fiscal policy.¹ Such action was precipitated by a political desire to significantly reduce or eliminate the perception of bias in economic and fiscal forecasting. The creation of the OBR in the UK was consistent with the emergence of independent fiscal institutions (IFI) around the world, many of which were established in response to the global financial crisis.

3.3 The OBR's domestic context is composed of its legislative mandate and its political and institutional environments. From these components, we can identify the OBR's primary stakeholders, to which we return later in this chapter.

3.4 The core of the OBR's remit is defined in the *Budget Responsibility and National Audit Act* (2011) (the Act) and is operationalised in the *Charter for Budget Responsibility* (the Charter) drafted by HM Treasury. In the context of this evaluation, the mandate and accountability of the OBR are drawn from both the Act and the Charter. The OBR's accountability to Parliament is also clarified through the Charter.

3.5 Other documents such as the *Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue & Customs* (2011) and the *Memorandum of Understanding between the Office for Budget Responsibility and HM Treasury – the macroeconomic model* (2011) offer frameworks for the operation and execution of its various tasks in conjunction with other departments.

3.6 As stated in the Act, the OBR's fundamental duty is to 'examine and report on the sustainability of public finances'.² To do so, the OBR is responsible for producing fiscal and economic forecasts twice a year as well as assessing the achievement of the government's fiscal mandate or likelihood of achieving it. In addition, once a year, the OBR is required to assess the accuracy of its own fiscal and economic forecasts and produce an analysis of the sustainability of the UK's public finances.³ Overall, this means that the OBR has five main roles, as defined in the Act and the Charter:

- 1 the production of economic and fiscal forecasts;

¹ HM Treasury (2014) *Charter for Budget Responsibility*, ch.2.2.

² Budget Responsibility and National Audit Act 2011, s 4(1).

³ Budget Responsibility and National Audit Act 2011.

- 2 an assessment of the extent to which the government's fiscal targets have been, or are likely to be, achieved;
- 3 an assessment of the accuracy of its previous fiscal and economic forecasts;
- 4 an assessment of the long-term sustainability of the UK public finances; and
- 5 scrutiny and certification of the government's policy costings (the OBR itself does not produce costings).

3.7 The legislative mandate of the OBR clearly defines its roles and responsibilities.

Domestic context: organisation, accountability and stakeholders

3.8 The OBR's organisational structure can be defined in four parts: the Non-executive members (who chair the Oversight Board), the executive leadership (the Budget Responsibility Committee), the OBR Head of Staff, and the Office's permanent staff and analysts (see Chart 3.A).

3.9 The Non-executive members of the OBR, currently Lord Burns and Dame Kate Barker, are accountable for ensuring the operations of the OBR conform to its legislative mandate by:

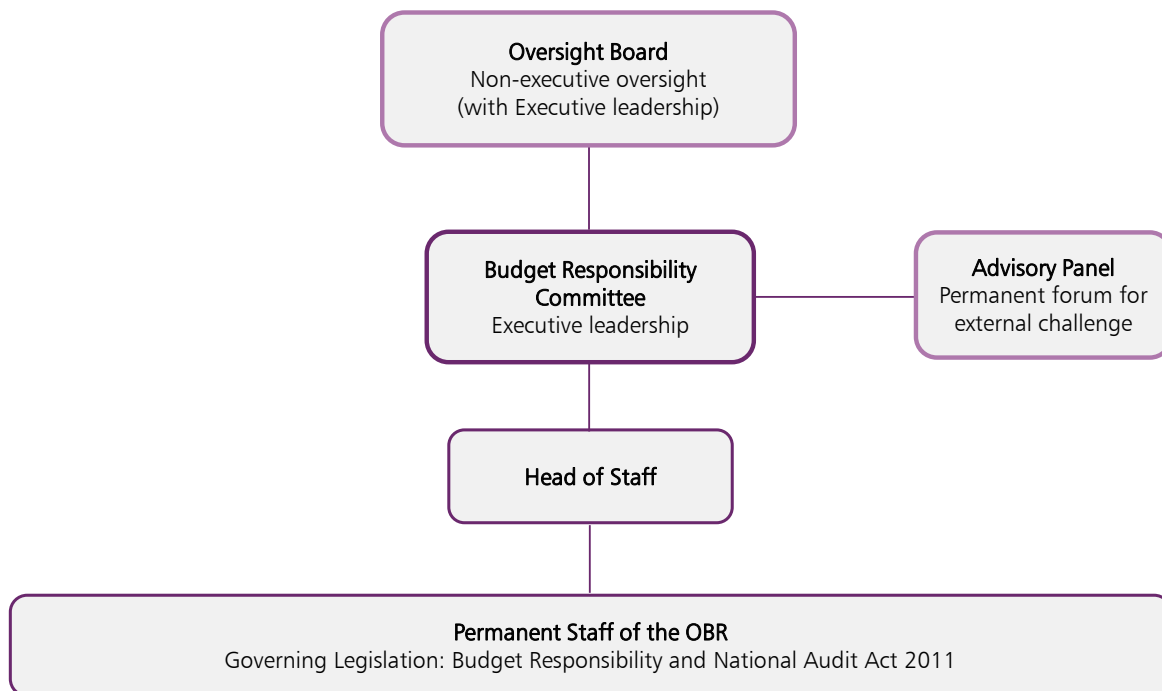
- assessing if the OBR 'has been able to perform its main duty with complete discretion and in line with its three principles (impartiality, objectivity and transparency); and report on this in the OBR's annual report';
- reviewing regularly that the OBR has 'appropriate processes in place to ensure it produces a high standard of work'; and
- appointing, at least every five years, 'independent, expert reviewers, to conduct a review to consider the quality of all the reports produced by the OBR in that period'.⁴

3.10 The Budget Responsibility Committee (BRC), composed of Robert Chote, Steve Nickell and Graham Parker, has executive responsibility for carrying out the core functions within the OBR's mandate, as set out in the Act and the Charter. The Chair of the OBR in particular has 'executive responsibility for management of the OBR; is responsible for representing the views of the OBR to the Chancellor, Parliament and the general public; and bears personal responsibility as Accounting Officer for the OBR'.⁴ The Head of Staff and analysts support the BRC in fulfilling the OBR's mandate.

3.11 In an effort to ensure effective governance, the Non-executive members established an Oversight Board with the responsibility to ensure that arrangements are in place to assure risk management, governance and internal control. The Board consists of the OBR's two Non-executive members and the three members of the BRC. All Board minutes are published on the OBR website.

⁴ OBR (2011) *Office for Budget Responsibility Oversight Board – Terms of reference*.

Chart 3.A: Organisational structure of the Office for Budget Responsibility



3.12 With the adoption of the Act in 2011, the government was required to prepare the Charter. The Charter defines for the OBR ‘how it should perform its duty as part of the fiscal framework’, although it makes no ‘provision about the methods by which the OBR is to perform its duty’.⁵

3.13 The Chancellor is dependent on the work of the OBR. The official forecasts prepared by the Office inform the Chancellor’s economic and fiscal policy. Beyond the OBR’s requirement to produce specific types of economic and fiscal reports and assessments, the Office is also required to provide necessary analysis and information to the government. As defined in the Charter:

‘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 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’.⁶

3.14 Ultimately the OBR is required to serve the government’s fiscal and budgetary informational needs. The government, acting principally through the Chancellor, is not required to agree with or accept the OBR’s work, but the OBR is required to produce it for consideration by the government. Indicative of the Chancellor as a primary client and source of accountability is the fact that the Chancellor sets the publication dates for the OBR’s Economic and Fiscal Outlook reports, given that they inform his annual Budget and Autumn Statement. This puts the entire state apparatus on a particular schedule, the rigour and discipline of which was noted as positive by various stakeholder interviewees.

⁵ HM Treasury (2014) *Charter for Budget Responsibility*, ch.1.3.

⁶ HM Treasury (2014) *Charter for Budget Responsibility*, ch.4.16.

3.15 The Chancellor is also responsible for appointing the executive members of the OBR. As defined in Schedule 1 of the Act, the Chancellor appoints the Chair of the OBR, pending the approval of the Treasury Select Committee (TSC). The consent of the TSC is also required for the appointment of the two other members of the Budget Responsibility Committee and for any proposed appointment terminations.

3.16 In addition to its accountability to the Chancellor, the OBR is simultaneously accountable to Parliament. The OBR is required to lay its legislatively mandated reports before Parliament, respond to questions from all Parliamentarians (Members of Parliament (MP) and the House of Lords) about its reports, and provide testimony and evidence to Parliamentary committees related to budgetary and fiscal matters.

3.17 The MPs that sit on the aforementioned TSC have a more direct link to the OBR. The TSC is mandated to 'examine the expenditure, administration and policy of HM Treasury, HM Revenue & Customs and associated public bodies, including the Bank of England and the Financial Conduct Authority'.⁷ Along with the TSC, the Shadow Chancellor, as well as any MP or Member of the House of Lords broadly concerned with the UK's public finances, may take a greater interest in the work and products of the OBR.

3.18 The OBR is linked to a variety of government departments, namely HM Treasury, HM Revenue and Customs (HMRC), and the Department for Work and Pensions (DWP). Linkages to these organisations are based on a need for information and expertise. The connections are derived from and defined within the aforementioned memoranda of understanding, which do not have the force of law. They are, in essence, agreed upon frameworks for engagement. However, the OBR's sources of accountability - the Chancellor and Parliament - are derived from the Act and Charter. Identifying the Office's institutional linkages and sources of accountability are essential for understanding its responsibilities and stakeholders. Precisely how the Office interacts with other government agencies will be discussed below.

3.19 The *Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue & Customs* (2011) defines how each of these departments are to contribute to the OBR's efforts to fulfil its mandate and responsibilities:

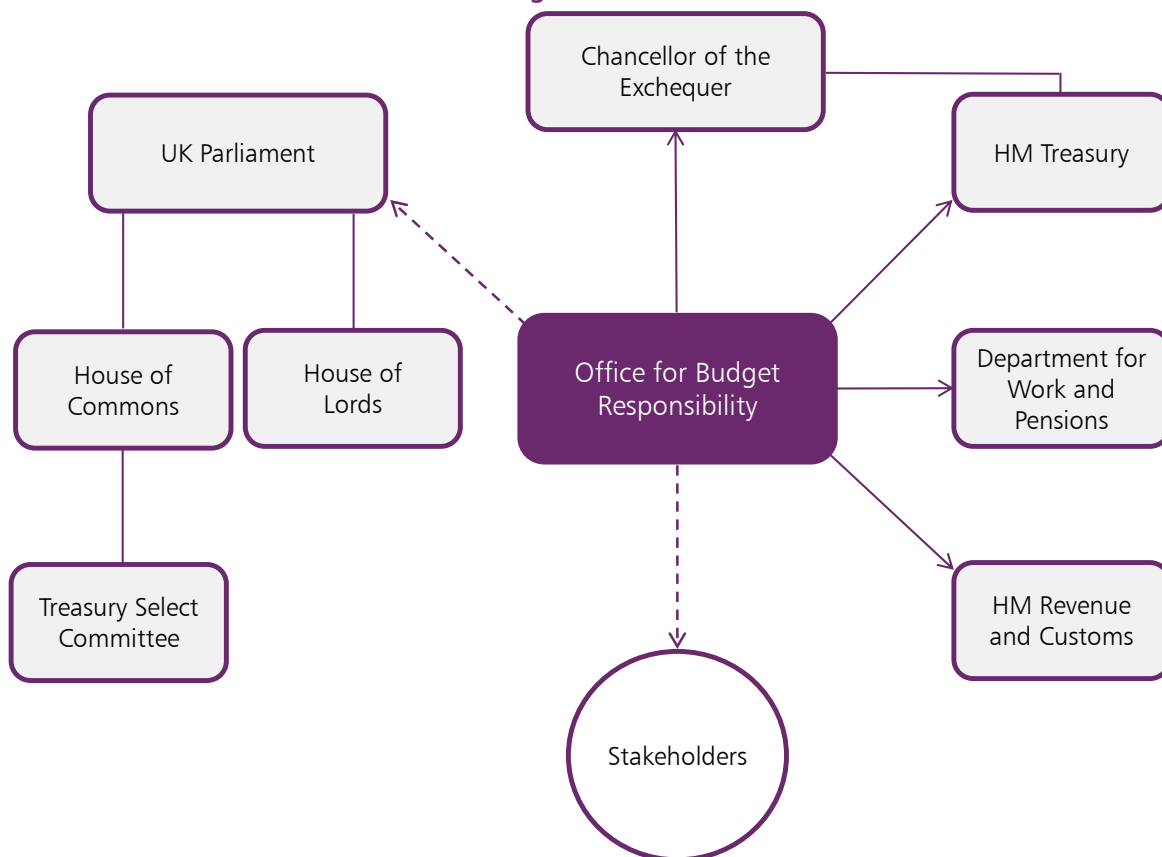
- **HM Treasury:** As the Treasury is responsible for economic and fiscal policy, it will provide the OBR with 'analysis of the direct impact of Government policies on the public finances [...] for independent scrutiny' by the OBR. The OBR will make an assessment of the information and 'determine any resultant impact on the economic forecast'.⁸ HM Treasury is also responsible for producing the Charter for Budget Responsibility. This document governs the operation and governance of the OBR and must be laid before Parliament and approved by the House of Commons (as would be necessary for any modifications to the Charter).⁹
- **Department for Work and Pensions:** Based on the economic determinants and assumptions of the OBR, DWP will 'provide forecasts of benefit payments, using their expertise on individual benefit regimes and access to benefit claimant data'.⁸
- **HM Revenue and Customs:** Based on economic determinants and assumptions of the OBR, HMRC will 'provide forecasts of tax revenues and tax credit payments, using their expertise on individual tax regimes and access to confidential customer data'.⁸

⁷ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/role/> (accessed July 7, 2014).

⁸ OBR et al. (2011) *Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue & Customs*, p.2.

⁹ Budget Responsibility and National Audit Act 2011, s 1.

Chart 3.B: OBR accountabilities and linkages



3.20 These three organisations provide crucial data and human resources to the OBR to support it in fulfilling its mandate. This interdependence, defined in the OBR’s founding legislation, is integral to the organisation’s ability to operate.

3.21 From a broader, non-legal perspective, there are other stakeholders that engage with the OBR’s reports, including think tanks, academics, media, as well as the general public. Other than civil servants, the OBR’s more extensive relationships tend to be with independent forecasters and other external analysts, with whom it meets ahead of the publication of its reports to inform its internal work. The OBR also meets with its permanent Advisory Panel of external experts annually to challenge and inform its work programme and technical and methodological approaches. Throughout the year, the OBR consults with the Advisory Panel on an ad hoc basis. A survey of stakeholders across professional sectors was undertaken as part of the review to assess their perspectives. Later in the report we analyse the results of the survey and the perceptions of confidence in, and transparency of, the OBR.

3.22 Overall, this type of arrangement, where the OBR is at the service of the government while having responsibilities to Parliament and maintaining a measure of distance by being responsible for its own work and outcomes, is unique among the global community of IFIs.

Global context: the IFI community

3.23 IFIs reflect a range of organisations that exist to provide ‘non-partisan oversight of fiscal performance and/or advice and guidance’.¹⁰ These organisations aim to reduce information asymmetry and improve fiscal responsibility in public finance with a focus on real-time analysis

¹⁰ Hagemann, R. (2011) ‘How Can Fiscal Councils Strengthen Fiscal Performance?’, in *OECD Journal: Economic Studies*, Vol. 2011/1, p.76.

of fiscal matters.¹¹ The global IFI community is heterogeneous with institutional forms ranging from the advisory fiscal council (as in Austria, Belgium, Slovenia), which are typically accountable to the executive branch and have a more constrained remit, to the parliamentary budget office which as their name implies, are accountable to the legislative branch (as in Australia, Canada and South Korea).¹² The OBR is one among many versions of an IFI, although one that is not replicated elsewhere.

3.24 IFIs are found in established democracies largely as a response to the recent fiscal crisis as well as in emerging democracies on the basis of conditionality, for instance financial investment from multilateral organisations such as the World Bank or International Monetary Fund. Within the OECD, the 19 countries that have introduced an IFI have created the OECD Network of Parliamentary Budget Officials, of which the OBR is a member organisation. This Network meets annually and collaborates regularly to promote their efforts.

3.25 The Network has ratified the OECD *Principles for Independent Fiscal Institutions* (the OECD Principles).¹³ The 22 OECD Principles provide a framework of best practices in the creation and management of IFIs, and range from the need for an IFI's resources to be commensurate to its mandate, to the periodic, independent review of IFIs (as the OBR has codified in its legislation and is fulfilling with this review). It was the ratified OECD Principle on external evaluation that propelled the development of a framework for evaluation, which received broad support at the OECD Network of Parliamentary Budget Officials meeting in Jerusalem in March 2014 and was adopted for this first external review of the OBR.

3.26 The OECD community of IFIs provides a rich and useful comparative context in which to evaluate the OBR. Although the Office is principally evaluated against its own mandate, it is important to consider how its inputs (resources) and outputs (products) compare to those of its peers. Comparing the OBR's activities against an internationally accepted benchmark such as the OECD Principles provides another form of a 'check' on the Office's activities. The OECD Principles are also a benchmark the OBR can seek to meet or surpass in keeping with internationally recognised norms and standards.

3.27 Analysis demonstrates that the OBR's remit and conventions of operation compare well to the OECD Principles (see Table 3.A). This adherence to defined global standards provides the Office with legitimacy among its global community of peers and should provide confidence to its stakeholders in the UK. The legislative underpinnings of the OBR are also comparable to those of its peers in the OECD Network of Parliamentary Budget Officials (see Table 3.B). For each of the legislative elements tested, the OBR tends to find itself among the majority grouping of its peers, showing that the provisions and safeguards in the OBR's founding legislation broadly align with international norms. For instance, the OBR is among the majority of IFIs that have a legislative provision to access data.

¹¹ Jean-Luc Pepin Research Chair (2014), *Evaluating the Performance of Independent Fiscal Institutions: Towards a Common Evaluation Framework*, draft presented at the OECD meeting of Parliamentary Budget Officials (Jerusalem, March 2014), p.2.

¹² For a discussion of the various forms of IFIs, please see Kopits (2011) *Restoring Public Debt Sustainability*.

¹³ The OECD Principles for independent fiscal institutions are now a Council Recommendation. This means that the Principles were not only ratified by the Network, but also adopted by OECD member governments. See: OECD (2014) *Recommendation of the Council on Principles for Independent Fiscal Institutions* (OECD).

Table 3.A: Comparing OBR legislation and conventions with the OECD Principles for Independent Fiscal Institutions

| Principle | Legislation ^a | Alternative mechanisms ^b | Convention or practice | None |
|---|--------------------------|-------------------------------------|------------------------|------|
| 1. Local ownership | | | | |
| IFIs require broad national ownership, commitment and consensus across the political spectrum | • | • | • | |
| Local needs and the local institutional environment should determine an IFI's role, structure, functions and protections | • | • | | |
| 2. Independence and non-partisanship | | | | |
| IFIs should be precluded from normative policy-making duties to avoid even the perception of partisanship | • | • | • | |
| IFI leadership should be selected on merit and technical competence, without reference to political affiliation | • | • | • | |
| Leadership qualifications should be made explicit including professional standing and relevant experience | | | • | |
| Leadership term lengths and numbers, and dismissal criteria and processes, should be specified in legislation | • | | | |
| IFI leadership terms should optimally be independent of the electoral cycle | | | • | |
| The head of the IFI should be a remunerated and full-time position, conflict-of-interest standards should apply | • | • | • | |
| IFI leadership should have full freedom to hire and dismiss staff in line with applicable labour laws | • | • | • | |
| Staff should be selected through open competition based on merit and technical competence, in line with civil service conditions and without reference to political affiliation | • | • | • | |
| 3. Mandate | | | | |
| An IFI's mandate should be defined in legislation including required reports, analysis, recipients and timelines | • | • | | |
| IFIs should have scope to produce reports within their mandate at their own initiative and autonomy to determine their own work programme | • | • | | |
| Clear links to the budget process should be established within an IFI's mandate | • | • | | |
| 4. Resources | | | | |
| The resources allocated to IFIs must be commensurate with their mandate | • | | • | |
| IFI appropriations should be published and treated in the same manner as the budgets for independent bodies | | | • | • |
| Multi-annual funding commitments may further enhance an IFI's independence and provide additional protection from political pressure | | • | • | • |

| Principle | Legislation ^a | Alternative mechanisms ^b | Convention or practice | None |
|--|--------------------------|-------------------------------------|------------------------|------|
| <p>5. Relationship with the legislature</p> <p>Mechanisms should be put in place to encourage appropriate accountability to the legislature</p> <p>The role of the IFI and Parliament's budget committee (or equivalent) should be established in legislation</p> | • | • | • | |
| <p>6. Access to information</p> <p>IFIs should have full access to all relevant government information in a timely manner and at no cost</p> <p>Any restrictions on access to government information should be clearly defined in legislation</p> | • | • | • | |
| <p>7. Transparency</p> <p>IFIs should act as transparently as possible including in their work and operations</p> <p>IFI reports, analysis, underlying data and methodology should be published, made freely available to all and sent to Parliament</p> <p>The release dates of an IFI's major reports and analysis should be formally established</p> <p>IFIs should release their reports and analysis, on matters relating to their core mandate, in their own name</p> | • | • | • | |
| <p>8. Communications</p> <p>IFIs should develop effective communication channels from the outset</p> | | | • | |
| <p>9. External evaluation</p> <p>IFIs should develop a mechanism for external evaluation of their work</p> | • | | • | |
| <p><i>Source: Review team analysis of OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions, the Act, the Charter, the Framework and other OBR documentation.</i></p> | | | | |
| <p>^a Budget Responsibility and National Audit Act 2011.</p> | | | | |
| <p>^b Charter for Budget Responsibility (2014), Office for Budget Responsibility and HM Treasury Framework Document (2014), and Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions, and HM Revenue & Customs (2011).</p> | | | | |

Table 3.B: Comparing the OBR's legislative underpinnings with peer IFIs in the OECD community

| Legislative feature | Australia | Austria | Canada | Ireland | Korea | Netherlands | UK | USA |
|---|-----------|---------|--------|---------|-------|-------------|------|------|
| | 2011 | 2013 | 2006 | 2012 | 2003 | 1947 | 2011 | 1974 |
| Date of founding legislation | | | | | | | | |
| Does the legislation define the IFI's relationship with: | | | | | | | | |
| • the executive | • | • | ○ | • | ○ | • | • | • |
| • the legislative | • | • | • | • | • | ○ | • | • |
| • civil society and / or the public? ^a | ○ | • | ○ | ○ | ○ | • | ○ | ○ |
| Are the IFI's mandated duties defined in legislation? | • | • | • | • | • | ○ | • | • |
| Who appoints the head of the IFI in legislation? ^b | L | E&O | E&L | E | L | E | E&L | L |
| Are the skills, competencies or educational requirements for the IFI leadership defined in legislation? | ○ | • | ○ | • | ○ | ○ | ○ | ○ |
| Does the legislation define the IFI's organisational structure? ^c | ○ | • | ○ | ○ | • | • | • | ○ |
| Does the legislation provide for the independence of the IFI's inputs? ^d | ○ | • | ○ | • | • | ○ | ○ | • |
| To whom is the IFI accountable as defined in legislation? | L | E | L | E&L | L | E | E&L | L |
| Is the legislation prescriptive in terms of outputs (required reports and analyses)? | • | • | • | • | • | • | • | • |
| Are there provisions for access to government/state data in the IFI's legislation? | • | • | • | ○ | • | ○ | • | • |
| Does the legislation provide a mechanism for recourse for infringement of the IFI's access to data? | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Does the legislation prescribe modes or timing of communication for outputs? | • | ○ | ○ | • | ○ | ○ | ○ | • |

Source: Review team analysis of the IFI founding legislation of selected countries (see bibliography).

Key: E = executive L = legislature O = other third party • = yes ○ = no

^a Yes requires the specification of a particular role or duty the IFI must or can perform in relation to the listed bodies. It includes information sharing arrangements.

^b Responses to this question are restricted to the body (or bodies) that formally appoints the IFI leader, determines a list from whom the leader must be selected and/or whose consent must be received by law.

^c Yes means the legislation requires specific governance arrangements, leadership structures or committees to be established, or in the case of fiscal councils detail is needed on the frequency of meetings, attendees and other aspects of its organisation. Prescribing the different leadership roles required or the fact that an IFI will have staff is not sufficient.

^d Yes means the IFI has legislative provision to receive regular funding and the ability to hire staff, not simply the inclusion of a general provision for the duty and function of the IFI to be 'independent'.

Conclusion

3.28 The environmental and legal factors that make up the OBR's context affect its operation and importantly, this evaluation. Identifying and accounting for the dynamics that inform the OBR is necessary to understanding what it does and why. These dynamics also define the relationships among the inputs, outputs and outcomes of the OBR since no organisation exists in a vacuum.

3.29 From a domestic perspective, the OBR is a young organisation of only four years. It has a narrow and clearly defined mandate based on its legislation, the design of which was based principally on the need to address a political problem of perceptions of bias in forecasting.

3.30 Tables 3.A and 3.B compare the OBR with its peer IFIs in the OECD community. They demonstrate that the OBR exhibits a basic level of adherence to international benchmarks and norms: the OECD Principles and common legislative underpinnings. What the comparisons do not show is the fundamental difference in the foundation and inputs of the OBR relative to its peers, which make the OBR unique. Although the OBR may look like its peers in terms of legislative underpinnings, its outputs and adherence to the OECD Principles, the Office has no global twin for its structure and operation.

3.31 In fiscal and budgetary matters, the executive branch has the role of resource allocation through budgeting. Parliament on the other hand has the role of holding the government to account. This creates a natural tension between these two constitutional branches of government. At a structural level, the OBR must manage a dual accountability to Parliament and the Chancellor, simultaneously, which creates a unique dynamic that it must mediate in contrast to its peers. At an operational level, although its products look similar to those of other IFIs, how they are developed is different if not unique. By virtue of the OBR's interdependence with other departments for expertise, the OBR in fact draws on a pool of expertise beyond those in its organisation to fulfil its responsibilities.

4

Inputs

4.1 Inputs refer to the human and financial resources attributed to an organisation to make it operational. According to the OECD *Principles for Independent Fiscal Institutions* (IFI) (the OECD Principles), an IFI such as the OBR must have resources commensurate to fulfil its mandate, it must have access to government data, and it must demonstrate political independence. The consistency and sustainability of inputs, that is whether they can they be changed or eliminated, also impacts the operation of the organisation.

4.2 Analysis undertaken for the review indicates that the OBR is well-funded, in comparison to its international peers, it has a legislative guarantee to access government data and information, and it is perceived by its stakeholders to be politically independent. Each of the input categories of funding, access to information, independence and human resources will be addressed in turn.

Funding

4.3 The OBR's financial resources (a budget of £1.82 million in 2013-14) are commensurate to its mandate, as depicted in Chart 4.A. The OBR finds itself at roughly the middle of a 15 country ranking of IFI budgets (see Table 4.A). The United States has the largest budget with £27.8 million annually and Slovenia the smallest with £80,000. Relative to other IFIs that produce forecasts, the OBR's budget may appear small. However, many of these other organisations tend to produce fully independent policy costings, which IMF research finds to be a resource intensive function.¹ By contrast, the OBR is responsible for scrutinising and certifying costings produced by government departments, not for producing them.

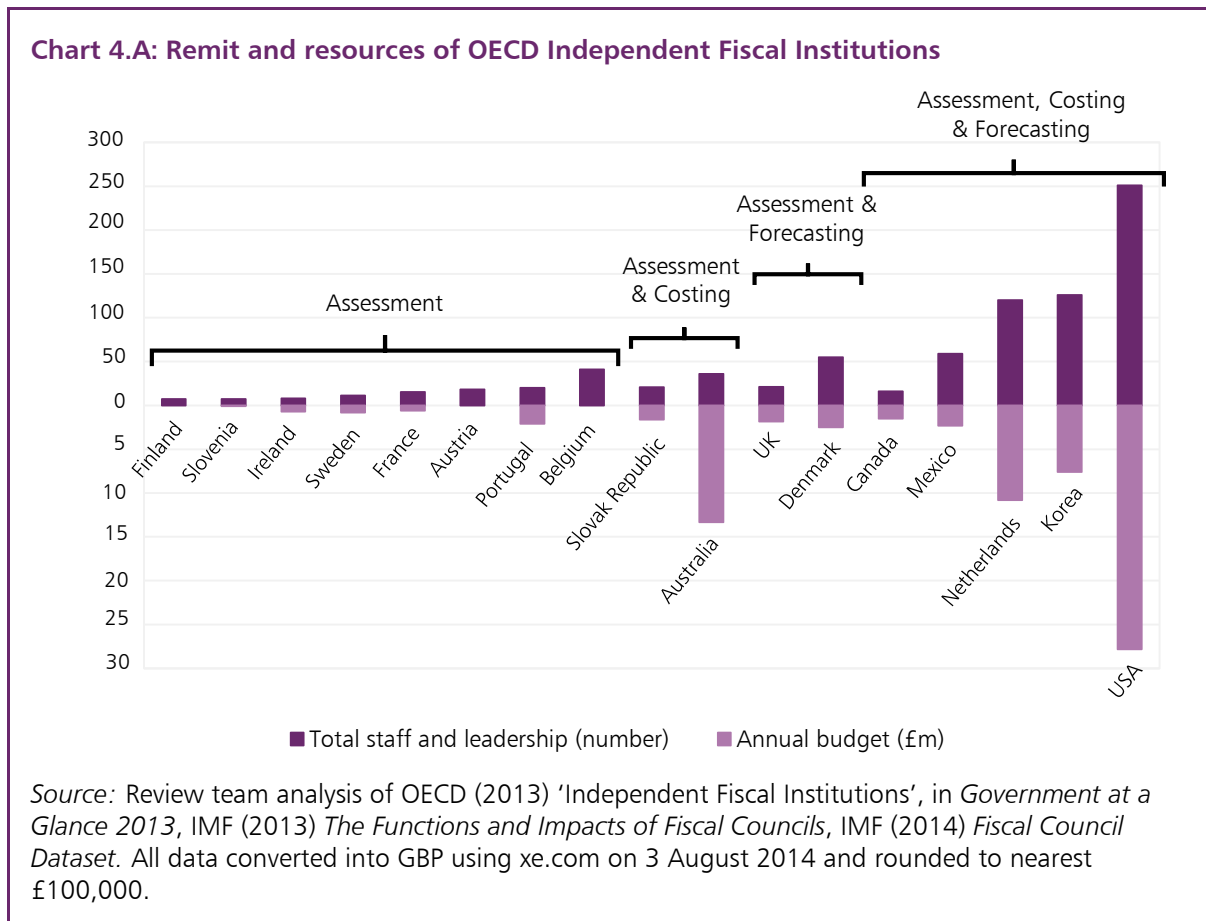
Table 4.A: Budgets of OECD Independent Fiscal Institutions

| Country | Annual budget (£) |
|--------------------------|-------------------|
| United States of America | 27.8m |
| Australia | 13.3m |
| Netherlands | 10.8m |
| South Korea | 7.6m |
| Denmark | 2.5m |
| Mexico | 2.3m |
| Portugal | 2.1m |
| United Kingdom | 1.8m |
| Slovak Republic | 1.6m |
| Canada | 1.5m |
| Finland | 1.1m |
| Sweden | 800,000 |

¹ International Monetary Fund (2013) *The Functions and Impact of Fiscal Councils*.

| Country | Annual budget (£) |
|----------|-------------------|
| Ireland | 700,000 |
| France | 600,000 |
| Slovenia | 80,000 |

Source: Review team analysis of OECD (2013) 'Independent Fiscal Institutions', in *Government at a Glance 2013*, and IMF (2014) *Fiscal Council Dataset*. All data converted into GBP using xe.com on 3 August 2014 and rounded to nearest £100,000.



4.4 Furthermore, the figures in Chart 4.A do not reveal that the OBR utilises staff resources and expertise in other departments to produce its reports. In fact the OBR draws upon the power of approximately 125 full-time equivalent staff at various points in the year. This interdependence with departments will be analysed later in this chapter.

4.5 The OBR is a non-departmental public body of the Treasury that serves the Chancellor by providing fiscal and economic forecasts. As such, the OBR's budget is part of the Treasury Group's budget. The OBR and other arms-length bodies in the Treasury Group, such as the Debt Management Office, each have a separate line in the Treasury's Estimate which is approved by Parliament. Unlike other public bodies in the UK, the OBR has been given a multi-year funding profile until 2017-18 although this is not legislatively guaranteed. Overall, this arrangement for the OBR's appropriated funds can pose risks to funding certainty, since Parliament may have little recourse in addressing reductions of funding initiated by the government.

4.6 Other peer countries have alternative arrangements to ostensibly address such a potential risk. The Netherlands' budget is also part of a department, in their case the Ministry of Economic Affairs, Agriculture and Innovation. However, the Dutch office also receives funding from analytic work contracted with third parties. A change in government – an inflection point which

the OBR will potentially face with the General Election in 2015 – can precipitate a change in funding levels for the OBR because it is linked to the budget of a government department. By contrast, Australia has a guaranteed minimum budget of AUS 6 million dollars per year, with the potential for an increase in short-term funding to meet electoral demands. As indicated in Table 4.A, its current budget is over double that amount. South Korea’s budget is part of the National Assembly’s overall budget that is appropriated independently from the national budget. In the case of the United States, the Congressional Budget Office’s budget is part of the legislative branch’s budget that is approved by Congress as an appropriation bill.

4.7 In these three cases, the IFI’s budget has some insulation from changes in government because there is either a set minimum (i.e. Australia) or it is attributed separately from the government (e.g. South Korea, United States) – notwithstanding a majority Parliament or majorities of the same party in both houses of Congress.

Lessons learned

The OBR’s funding is linked to that of HM Treasury, which means that the political will of the party or parties that make-up the government of the day can potentially influence the OBR’s budget. Since the budget must be approved by Parliament, there is a measure of verification on the sustainability of the Office’s finances, especially in the context of a minority government. However, a majority government could eliminate much of the impact of such a check and, as a result, the OBR’s capacity could be compromised if a government chose to reduce the OBR’s funding.

Access to information

4.8 To support the OBR in the fulfilment of its mandate, the Office has a clearly defined right to access information from government sources. According to the Act, the OBR has a ‘right of access (at any reasonable time) to all Government information which it may reasonably require for the purpose of the performance of its duty’.² For the purposes of the review, Robert Chote, the Chairman of the OBR, confirmed that the OBR received all of the data and analysis from government departments and agencies that it has required to fulfil its mandate since October 2010.³

4.9 Beyond its own right to access government data and information, the OBR has had a race-to-the-top effect on state institutions involved in budgetary and fiscal matters. The OBR was described during stakeholder interviews as a ‘victory for transparency’, which contributes to its perceived independence. Transparency has been fostered through the publication of its own works but also by encouraging other government departments and public bodies to behave in a more transparent fashion. For instance, the Act and the process deriving from it have enabled the OBR to force a consistent timetable on the publication of forecasts requiring departments to adhere to a specific schedule. The structure and discipline imposed by the schedule and process has reduced the scope for discretionary budget measures, particularly those introduced late in the process and with, potentially, less scrutiny and transparency. There is also a strong perception among stakeholders that the leadership of the Office ‘does not bend to political will’ which imbues it with credibility.

² Budget Responsibility and National Audit Act 2011, s 9(1).

³ See Annex D for a letter from Robert Chote confirming access to data.

Independence

4.10 The OBR is seen to have overcome any perception of bias in its work because of its openness. It responds to all requests for information and willingly explains its work to stakeholders, answering any questions. Robert Chote’s speeches, commentaries and responses to misinterpretations of the OBR’s work, including by government, have contributed to solidifying the Office’s reputation for independence and transparency. Independence in this context means freedom from political interference and the risks associated with interdependence with government departments.

4.11 Clearly affirming their commitment to transparency in the OBR’s work, Messrs Chote, Nickell and Parker signed the ‘Foreword’ of their 2013 *Forecast Evaluation Report* in which it is stated:

‘We believe that it is important to publish the detail of our forecasts for 2 main reasons. The first is transparency and accountability: the whole rationale for contracting out the official fiscal forecast to an independent body is to convince people that it reflects dispassionate professional judgement rather than politically motivated wishful thinking – even if people disagree with the particular conclusions we have reached. The best way to do that is to ‘show our working’ as clearly as we can. The second is self-discipline: the knowledge that you are going to have to justify your forecast in detail forces you only to make judgements you are willing to defend. You cannot hide them in the knowledge that no one will ever know’.⁴

4.12 Table 4.B depicts levels of independence for a selection of functions and attributes of the OBR. It demonstrates that although the OBR exhibits independence in its reports, the dissemination of its reports, its access to data and its appointment process, there are elements of its structure that limit its full independence. Specifically these are its dual sources of accountability, its interdependence with government departments and its budget.

Table 4.B: Independence of the OBR’s structure and operations

| Feature | Level of independence | Detail |
|--------------------------------|-----------------------|--|
| Leadership appointment process | ● | The Chancellor’s recommendations for appointments and appointment terminations to the Budget Responsibility Committee must be approved by the Treasury Select Committee (which retains a veto), making the process independent |
| Legal accountability | ⊙ | The OBR’s legally defined sources of accountability (the Chancellor and Parliament) are in tension, challenging its independence |
| Access to data | ● | The OBR has legislatively guaranteed access to government data enhancing its ability to operate independently |
| Analytic capacity | ⊙ | The OBR is dependent on approx 125 full-time equivalent staff from other government agencies limiting its ability to produce reports independently with its own staff |
| Budget | ⊙ | The OBR’s budget is part of the Treasury’s and in practice there is limited Parliamentary recourse to contest any changes, reducing its independence |
| Reports | ● | The OBR’s reports are perceived to be transparent and independent |
| Dissemination of products | ● | The OBR releases its reports and answers questions from stakeholders in a transparent manner and in its own name, contributing to its perceived independence |

Key: Independent ●, Somewhat independent ⊙, Not independent ○

⁴ OBR (2013) ‘Foreword’, in *Forecast Evaluation Report*.

4.13 With two legally defined stakeholders, the OBR serves two different ends: the government and Parliament, the body meant to hold it to account. This tension could in theory affect the Office's ability to choose its projects and publish its work. However, based on the review's interviews with experts and a survey of stakeholders, the Chairman appears to have mediated much of this tension through his public defences of the Office's work and his willingness to publicly correct government misinterpretations. These actions are imperative to fostering perceptions of independence.

4.14 The OBR's interdependence limits its independence because the Office alone does not have the capacity to fulfil its mandate; in fact, it draws on Civil Service resources far greater than those of its Office to produce its reports. Since the OBR cannot operate alone, it cannot be considered operationally independent. The OBR's independence is also limited because its budget is not guaranteed: with its funding tied directly to HM Treasury, the OBR's monetary resources are subject to political will.

Lessons learned

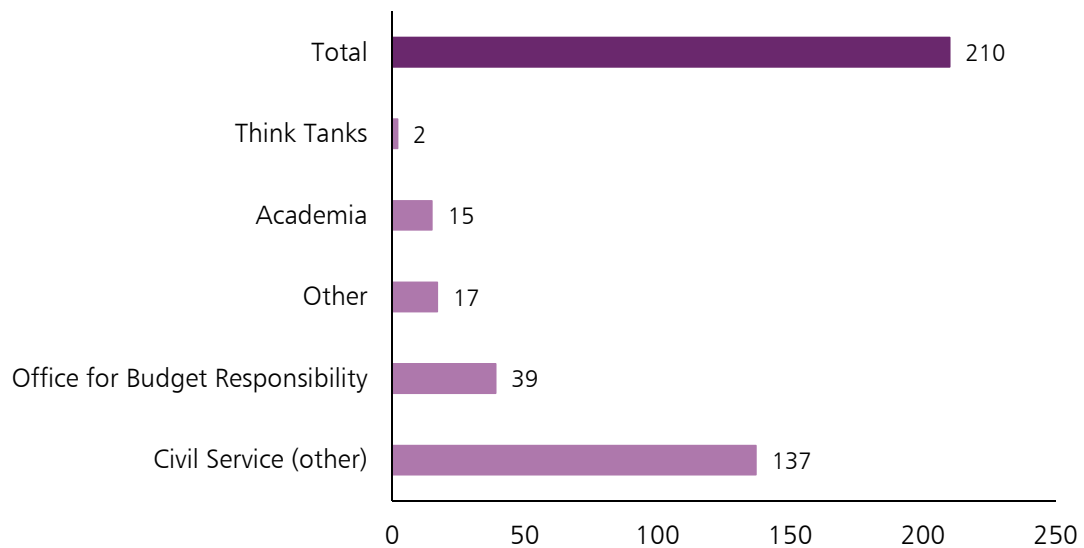
The OBR's independence can be examined via its products and its organisation as a whole. In terms of products, independence is clearly demonstrated via the transparency of the Office's analysis. In order for the OBR to maintain and grow the credibility and perception of independence it has gained, it must continue to be open about its data, methodologies and approaches, while ensuring the Office's leadership is ready, willing and capable of taking on any intrusions or misinterpretations of its work by government.

The OBR's construct is not free from dependencies on the executive branch and the wider Civil Service, but this is a result of the impetus for its creation: the OBR was designed to address a particular political problem of perceptions of bias in forecasting. As such, the Office itself was not meant to be structurally independent from the executive branch of government. There is a risk that this absence of full organisational independence could impact stakeholder's confidence in the Office and thus its long-term sustainability.

Human resources

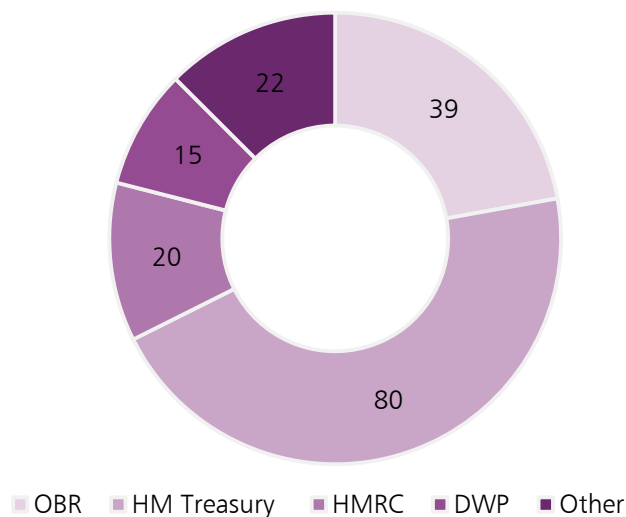
4.15 The OBR has a total of 19 staff, which includes the Head of Staff, 16 analysts and 2 administrative staff. Collectively, the OBR's staff boast 210 years of experience in economics and public finance from government, academia, think tanks and other sources; this includes 39 years in the OBR. On average, each of the OBR's 19 employees brings approximately 11 years of experience to the Office. Chart 4.C depicts the sources of relevant experience among OBR staff and Chart 4.C breaks down the 137 years of experience in the Civil Service by department.

Chart 4.B: Collective economics and public finance experience of OBR staff (years)



Source: Review team analysis of OBR staff data.

Chart 4.C: Collective years spent by OBR staff in the Civil Service

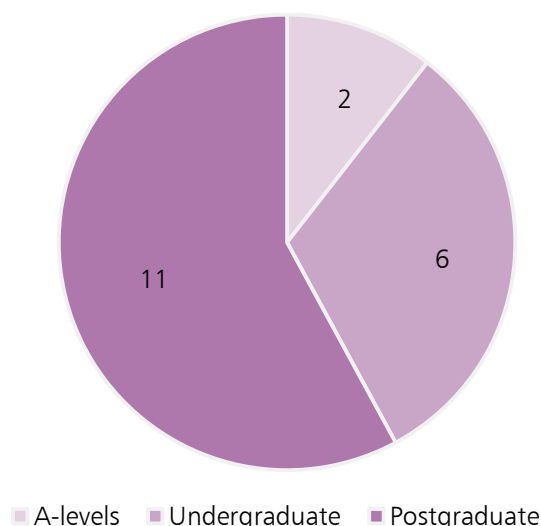


Source: Review team analysis of OBR staff data.

4.16 The majority of OBR staff’s government experience comes from a combined 80 years at HM Treasury. Given that the Treasury was responsible for forecasting prior to 2010, it would seem natural that many of the OBR’s current analysts had experience in the department. Reflecting their many years of experience in government, 13 of the 19 staff members were internally recruited from within the Civil Service. Only 2 staff members were recruited externally while the other 4 transferred to the Office in May 2010.

4.17 The vast majority of staff, and all of the OBR’s analysts, have post-graduate degrees or undergraduate degrees in relevant disciplines. Overall, the OBR’s staff have the necessary educational qualifications to fulfil their mandate and their collective knowledge from previous experience in the Civil Service bolsters their academic qualifications.

Chart 4.D: Highest qualifications of OBR staff



Source: Review team analysis of OBR staff data.

4.18 The OBR is interdependent on staff and expertise from other government departments. In particular, HM Treasury, HM Revenue and Customs (HMRC), the Department for Work and Pensions (DWP) and the Office for National Statistics (ONS) provide expertise and support to the OBR. Table 4.C depicts this interdependence across government agencies.

Table 4.C: Government resource contribution to OBR report production

| Agency | Full-Time Equivalent staff numbers over a year ⁵ | | | | | Agency total |
|---------------|---|------------------------------|----------------------------|------------------------------|----------------|----------------|
| | Economic and Fiscal Outlook ^a | Fiscal Sustainability Report | Forecast Evaluation Report | Policy Costing Certification | Welfare Report | |
| HM Treasury | 7 | 0.6 | 0.3 | 3 ^b | 0.1 | 11 |
| HMRC | 17 | 1 | 2 | 43 | 1 | 64 |
| DWP | 18 | 4 | 1 | 20 | 1 | 44 |
| ONS | 3 | 2 | 1 | 0 | 0 | 6 ^c |
| Product total | 45 | 7.6 | 4.3 | 66 | 2.1 | 125 |

Source: Data provided by each government department or agency.

^a Resource figures reflect the fact that the EFO is produced twice a year – in the spring and autumn.

^b Does not include 100 plus tax policy officials across HM Treasury who are responsible for the scrutiny of policy costings that fall within their portfolio.

^c Does not include the ONS staff that produce a wide range of statistics for public consumption, as well as for OBR's reports.

4.19 In addition to its own staff of 19, the OBR is dependent on approximately 125 full-time equivalent employees from other government agencies. HMRC provides a significant majority of this resource (approximately 64 out of 125). The principal sources of the OBR's dependence on external expertise are for policy costing certification and its Economic and Fiscal Outlooks (published twice a year). A Memorandum of Understanding governs the relationship between the OBR and these agencies.⁶ This includes an agreement that HM Treasury, HMRC and DWP will

⁵ Figures represent rounded estimates for resource that feeds into the production of each listed OBR report. It does not include resource that solely collects or produces data. Not all of the work produced by this resource is provided for the sole purpose of the OBR's reports; some of the work has other customers such as Government Ministers and the general public.

⁶ OBR et al. (2011) *Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue & Customs*.

provide 'necessary' assistance to the OBR to enable it to scrutinise the Treasury's macroeconomic model and the government's other forecasting and analytical models.⁶

Lessons learned

The interdependence of the OBR's staff structure demonstrates that while the OBR fulfils its mandate it does so with more than its core staff of 19 employees - it draws on resources far beyond the scope of the Office. The OBR's own capacity and its structural interdependence with other organisations must be taken into account both when comparing the capacity of the OBR to its global peers and when considering the expansion of the OBR's remit.

Senior leadership

4.20 A collective perception exists among interviewed stakeholders that the initial successes of the OBR are inextricably linked to its leadership. In the persons of Robert Chote, Graham Parker and Steve Nickell, there is a complementary set of competencies that have helped to solidify the OBR's well-regarded reputation.

4.21 Mr Chote, the Chairman of the OBR, is a respected communicator and defender of the OBR's work. With his collective experiences at the Institute for Fiscal Studies (IFS), the IMF, the Financial Times and The Independent, Mr Chote has established a track record for independence. Mr Parker is considered by a number of stakeholder interviewees to be a subject matter expert in budgetary and fiscal forecasting and a rare resource in the broader fiscal community. As described by one stakeholder, he sits at the 'intersection between macro- and fiscal-forecasting', a unique and unusual perch. Bolstering his technical competencies are his many years spent within government. According to many, he is one of the few savants in the UK's fiscal and budgetary world and will be difficult to replace.

4.22 Mr Nickell is one of the pre-eminent economists in the UK and is widely respected for his work in macroeconomics. Both Messrs Nickell and Parker are well-connected in the academic and think-tank domains and represent significant assets to the OBR leadership team. Their ability to reach out to these stakeholders expands the scope and influence of the OBR and provides an important breadth and depth to the team. This leadership team, according to stakeholders, has imbued the OBR with an increased measure of accountability and authority, a particularly important accomplishment in the formative phase of the organisation's development.

4.23 With the influence of the OBR's leadership comes the challenge of succession planning. The OBR's successes would not be sustainable without the continuity of this expertise. While the leadership team of the OBR was widely praised by stakeholders for both their expertise and effectiveness, an additional risk-based stratification was provided. It was felt that while it would be difficult to replace an effective communicator and fiscal educator such as Mr Chote, Mr Parker's particular fiscal expertise, coupled with years of knowledge within HM Treasury, may be even more difficult to replace. There were suggestions for a robust succession planning strategy to begin immediately.

4.24 The observed strength of the OBR's senior leadership should not be seen to overshadow the role and influence of the organisation's staff and the next tier of leadership. For instance, several interviewees mentioned the importance of the Head of Staff, Andy King, to the organisation, commenting that those who underestimate him 'do so at their own peril'. Furthermore, members of the OBR's staff of analysts and economists are considered to be some of the fiscal community's brightest talents.

4.25 The OBR's leadership is an important feature for the organisation's staff. To work directly with the country's top economists and fiscal experts on widely read and legally mandated reports is a draw for young talent. However, the OBR operates on a relatively small scale and employs a flat organisational structure, which can limit long-term career development opportunities for staff.

4.26 In an effort to grow the talent pool to fill vacancies in the OBR, it was suggested by interviewees that formal or informal programmes be developed to rotate staff through key fiscal and budgetary departments, such as HM Treasury, HMRC, DWP and the OBR. This is meant to reduce dependence on HM Treasury for filling staff vacancies and help reduce perceptions that the OBR 'steals the best staff'. It would be ideal, according to stakeholders, if people could cycle through the OBR to cultivate a community of practice, familiar with the organisation and its operations, to fill eventual vacancies. Such cycling could include placements in international IFIs with comparable mandates and products, and other international bodies such as the OECD, the IMF and the World Bank.

Lessons learned

In order to attract and retain top staff and continue to publish well-regarded reports, the OBR's leadership must enjoy the confidence of stakeholders that comes from independence, competence and expertise. Finding successors to the current trio of senior leaders is crucial in fostering the long-term success and sustainability of the OBR. The OBR's credibility, which stems from its transparency, and its ability to effectively communicate and defend its reports, is linked to its leadership. Transition planning for an eventual change in leadership should be undertaken.

5

Outputs: technical assessment

5.1 Based on its mandate, the OBR is required to produce and release a suite of products that are its principal outputs. In this chapter, the OBR's four main annual reports are reviewed. An assessment of the transparency of the OBR's products, in comparison to HM Treasury's previous work, is provided in Chapter 6.

5.2 The OBR's four core annual products are described below.

- The bi-annual **Economic and Fiscal Outlook** (EFO) provides five-year economic and fiscal forecasts which form the basis for the government's fiscal planning. These projections satisfy the legislated requirement that the OBR determine the probability with which the government is likely to reach its budget target and provide calculations and analysis of the government's cyclically-adjusted current balance (CACB).
- The annual **Fiscal Sustainability Report** (FSR) builds on the five-year economic and fiscal forecasts contained in the EFO to provide 50-year fiscal projections. This satisfies legislation requiring the assessment of the fiscal sustainability of the government's finances.
- The annual **Forecast Evaluation Report** (FER) provides analysis and explanations of the forecast errors of the OBR's historical projections against outturn data, as well as a comparison with the forecast errors of other organisations. The FER goes on to outline amendments to the OBR's projection process in light of these errors. This analysis satisfies the legislated requirement that the OBR prepare an assessment of the accuracy of its previous fiscal and economic forecasts.

5.3 This chapter evaluates the OBR's core products against both its legislative mandate and international standards. Overall, the evaluation finds that the main products of the OBR **satisfy** its legislative mandate and **compare well** against international standards. Furthermore, the core products of the OBR improve with successive iterations, making them ever better at meeting the OBR's legislative mandate. Please see Table 5.A for a summary of the evaluation of each main product.

Table 5.A: Evaluation summaries for OBR main annual reports

| Report | Economic and Fiscal Outlook (March 2014) | Fiscal Sustainability Report (July 2013) | Forecast Evaluation Report (October 2013) |
|--|---|--|---|
| Legislation the report is intended to satisfy | Budget Responsibility and National Audit Act 2011; Charter for Budget Responsibility | Budget Responsibility and National Audit Act 2011; Charter for Budget Responsibility | Budget Responsibility and National Audit Act 2011 |
| How the report does or does not help the OBR fulfil this legislative requirement | The EFO fulfils the OBR's legislative mandate by preparing bi-annual economic and fiscal forecasts and assessing the extent to which the fiscal mandate has been, or is likely to be achieved. | The FSR helps the OBR fulfil this legislative mandate by preparing annual long-term fiscal projections in order to assess the sustainability of public finances through an assessment of the inter-temporal budget balance and summary fiscal indicators, such as the fiscal gap. | The FER helps the OBR satisfy its legislative mandate by providing an annual evaluation of the OBR's economic and fiscal forecasts against outturn data and the performance of other forecasters. |
| How the methods used in the report compare to international standards | The methods used by the OBR compare well to international standards. To begin, the OBR uses data from official sources (such as the Office of National Statistics), supported by other non-official data from well-recognised sources. In using this data, the OBR thoroughly explains how the data have been revised over history and what the impact is on the outlook. In doing its analysis, the OBR uses generally accepted modelling and econometric methods. Specific examples include its calculation of the cyclically-adjusted current budget (CACB), the output gap and error-correction models in macroeconomic modelling. The OBR also uses internationally accepted concepts for the calculation of unobserved variables, such as potential GDP and the CACB. | The methods used by the OBR compare well against international standards. Specifically, the approach used by the OBR to assess the sustainability of public finances closely follows the recommendations outlined by Anderson and Sheppard's 2009 OECD paper <i>Fiscal Futures, Institutional Budget Reforms, and Their Effects: What Can Be Learned</i> , both conceptually and methodologically. | The OBR's analysis of its forecast errors surpasses all expectations for frequency, detail of the evaluation and implementation of the outcomes of the evaluation. |
| How the methods used in the report compare to those of peer institutions | The methods used by the OBR compare well with those of peer institutions. The depth of the work produced by the OBR is generally more substantial than those of its peers (e.g. Australia, Canada, United States) for documents comparable to the EFO. This is in part a function of the OBR's clear mandate and its ability to draw on expert resources within government. | The methods used by the OBR compare well with peer institutions. Specifically, as many of these institutions closely follow the principles outlined in Anderson and Sheppard (2009), their methods tend to be very similar (with the exception of Australia, which does not undertake a long-term economic and fiscal forecast). | The methods used by the OBR, as well as the frequency of the evaluation, surpass similar work conducted by its peers (e.g. Australia, Canada, and the United States). |

Source: Review team analysis of selected reports.

Economic and Fiscal Outlook

5.4 The OBR provides independent economic and fiscal projections, as per the *Budget Responsibility and National Audit Act 2011 s 4(3)* (the Act), which states that ‘The Office must, on at least two occasions for each financial year, prepare – (a) fiscal and economic forecasts, and (b) an assessment of the extent to which the fiscal mandate has been, or is likely to be achieved’. Additionally, in Budget 2010 the government set itself two medium-term fiscal targets for the current Parliament: the fiscal mandate and a supplementary target. These were further elaborated upon in the Charter.

5.5 The OBR produces its EFO on a bi-annual basis. The EFO provides five-year economic and fiscal projections, including projections of net debt and the cyclically-adjusted current balance (CACB) i.e. the components of the government’s mandate for fiscal policy. The analysis provided by the OBR in the EFO is very thorough, including: detailed analysis of reasons for revisions to its projections, such as those related to revisions to outturn data; differences between projections and outturn data for economic variables that have been recently released; and changes to projections relating to changes in assumptions, model coefficients and equations. The OBR provides a log of all substantive contact between the OBR and individuals associated with HM Treasury in preparation of the document.

5.6 Additionally, the analysis contained in the EFO is supplemented by regularly published briefing papers, working papers, occasional papers and discussion papers. Clearly written with high-quality analysis, these documents provide a substantial amount of detail that could not otherwise be provided within the confines of the EFO.

Potential GDP

5.7 Potential GDP forms the reference level against which the medium-term real GDP projection converges and ultimately forms the basis for the long-term projection of real GDP in the FSR. If the level of GDP is below potential, there is said to be excess capacity in the economy and a negative output gap. Alternatively, if the level of GDP is above potential, there is said to be excess supply in the economy and a positive output gap. As the level of potential GDP is unobserved over history and projection, it is possible to derive different values using different approaches. Furthermore, as the output gap is also unobserved (as a result of potential being unobserved), it can therefore also be determined using different approaches.

5.8 In the EFO, the OBR uses several methods to determine the level of capacity of the UK economy over the medium-term.¹ The OBR begins its analysis of potential output over the medium-term with its calculation of the output gap based on indirect methods, such as aggregate composite and principal components analysis. In the FSR, the OBR uses a model-based estimate and projection of potential GDP. Given its importance, the OBR has clearly struggled internally with its approach to the output gap estimate. In its published working papers and EFO documents it has gone to great lengths to demonstrate the range of estimates provided by different approaches and organisations. It has demonstrated the significant impact that data revisions alone can have on output gap estimates. Given the uncertainty, the OBR has determined that the widest evidence possible in full transparency is the best approach when making a judgement about spare capacity and the structural budget balances. This approach appears to be both relatively unique and, potentially, a best practice in transparency among peer organisations.

¹ For the OBR’s approach to projecting the output gap, see OBR (2011) *Briefing paper No. 2: Estimating the output gap*, and OBR (2014) *Working paper No. 5: Output gap measurement: judgement and uncertainty*.

5.9 The level of disclosure and comparison of the output gap helps to address the credibility of fiscal and economic forecasting. However, the limited accessibility of the EFO reports for non-technical readers may not enable all stakeholders, particularly Parliamentary, to recognise critical links between such estimates and the government's fiscal policy and ultimately, public policy decisions.

Economic projections

5.10 The OBR is very thorough in the details it provides around its economic projections. In particular, it provides detailed information surrounding assumptions for monetary policy, fiscal policy and budget measures (including the economic effects of policy measures), credit conditions, the price of credit, flow of credit, house prices, world economy, world trade and other conditioning assumptions. Furthermore, the OBR highlights risks and uncertainties to the forecast, including around global monetary policy, euro area economies and banking sectors, geopolitical events, productivity and real wages, and household consumption and disposable income. Around its projection of real GDP growth specifically, the OBR provides fan charts based on past official forecast errors, including those of HM Treasury prior to 2010, for the relevant base periods. The OBR also provides a comparison with external researchers including the IMF, OECD, European Commission, National Institute for Economic and Social Research, Bank of England, and Oxford Economics. Finally, the OBR provides a detailed summary of current forecast and changes from the previous forecast.²

5.11 Beyond the content of the forecasts themselves, the fact that the OBR publishes its macroeconomic model, complete with coefficient values, measures of model fit, and explanatory notes (where it feels they are needed) is an extraordinary effort which surpasses international standards.³

Fiscal projections

5.12 In 2011, the OBR published a briefing paper detailing its approach to undertaking a fiscal forecast.⁴ The methods discussed all appear to be reasonable, with the model details provided in the OBR's *Briefing paper No. 5: The macroeconomic model*. Unlike the economic projection, the OBR's medium-term fiscal projection is an iterative process between the OBR and relevant departments, including the policy costing certification process. All substantive interactions between the OBR and the government are documented⁵ and the OBR released a briefing paper on the policy costings process in March 2014 to further explain the nature and governance of this relationship.⁶

5.13 More specifically, the OBR begins its fiscal forecast by setting out the key economic and market determinants that drive the fiscal forecast. It then explains the effects of new policies announced since either the Budget or Autumn Statement, and reclassifications on the fiscal forecast. The OBR goes on to describe the outlook for public sector receipts, including a tax-by-tax analysis, explaining how and why the forecasts have changed.

5.14 On the opposite side of the ledger, the OBR describes the outlook for public sector expenditure, focusing on departmental expenditure limits and the components of annually managed expenditure. In response to its new responsibility to assess the government's

² OBR (2011) *Briefing paper No. 3 Forecasting the economy*.

³ OBR (2013) *Briefing paper No. 5: The macroeconomic model*.

⁴ OBR (2011) *Briefing paper No. 1: Forecasting the public finances*.

⁵ Most recently, see OBR (2014) *Log of substantive contact between the Office for Budget Responsibility and Treasury Ministers, Shadow Ministers, Special Advisers and their private office staff between 6 December 2013 and 18 March 2014*.

⁶ OBR (2014) *Briefing paper No. 6: Policy costings and our forecast*.

performance against its welfare spending cap, the Office now also presents spending subject to this cap and looks at some of the recent trends in welfare spending. In addition, the forecast incorporates new government policy measures. The costing for each new measure is scrutinised and certified by the OBR as 'central and reasonable', and then included in the final fiscal forecast. The OBR also describes the outlook for government lending to the private sector and other financial transactions.

5.15 Based on this analysis, the OBR describes the outlook for the key fiscal aggregates: public sector net borrowing, the current budget, public sector net debt, and the CACB (discussed in more detail below). Much like its economic projections, the OBR compares its fiscal forecasts with those of other organisations. It also references its fiscal forecast against fan charts generated using historic official forecast errors.

5.16 In all, the OBR provides extensive analysis and significant supplementary explanatory material around its fiscal forecast. While it has not disagreed with a policy costing provided by the government to date, the extent to which and the transparency with which the OBR evaluates the proposed policy costings suggests that this result is reasonable. It must also be noted that there have been instances where the OBR did not certify government costings because they arrived too late for sufficient scrutiny.

Evaluating performance in achieving fiscal targets

5.17 The Charter defines the government's fiscal mandate as 'a forward-looking target to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period'.⁷ This means that total public sector receipts need to at least equal total public sector spending (minus spending on net investment) in five years' time, after adjusting for the impact of any remaining spare capacity in the economy. The published analysis of the CACB by the OBR is extensive and the OBR's calculation of the CACB reflects the most recent information available on the topic from the IMF, OECD, and beyond.⁸ The Charter also states that the supplementary target requires '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'.⁹

5.18 The OBR satisfies its obligations surrounding the assessment of both the fiscal mandate and supplementary target. Additionally, the OBR satisfies its requirement to judge whether the government has a greater than 50% probability of hitting these targets under existing policy. Furthermore, the OBR 'assesses how robust this judgement is to the uncertainties inherent in any fiscal forecast, by looking at past forecast errors, sensitivity to key parameters of the forecast and alternative economic scenarios'.¹⁰ For instance, in the March 2014 EFO, the OBR provided stress-tests around its judgement that the government is on course to meet the fiscal mandate in 2018-19, but not on course to meet the supplementary target in 2015-16.

Fiscal Sustainability Report

5.19 As part of the OBR's role in providing independent and authoritative analysis of the UK's public finances, the Act requires the OBR to produce 'an analysis of the sustainability of the public finances' once a year.¹¹ In order to meet this requirement, the OBR publishes its annual

⁷ HM Treasury (2014) *Charter for Budget Responsibility*, ch.3.2.

⁸ For example, see OBR (2012) *Working Paper No. 3: Cyclically adjusting the public finances*.

⁹ HM Treasury (2014) *Charter for Budget Responsibility*, ch.3.3. The target refers to public sector net debt (PSND) excluding the temporary effects of financial interventions.

¹⁰ OBR (2014), *Economic and Fiscal Outlook*, p.165.

¹¹ Budget Responsibility and National Audit Act 2011.

Fiscal Sustainability Report (FSR). According to the OBR, the FSR specifically asks ‘whether the UK’s public finances are likely to be sustainable over the longer term’.¹²

5.20 For this purpose, the OBR defines a fiscal position as being unsustainable ‘if the public sector is on course to absorb an ever-growing share of national income simply to pay the interest on its debts’.¹³ According to the OBR, ‘[f]iscal sustainability analysis is designed to identify whether and when changes in government policy may be necessary to move the public finances from an unsustainable to a sustainable path’.¹⁴

5.21 In evaluating the success of the OBR in fulfilling this legislative requirement, best practices for long-term fiscal projections are outlined in the 2009 OECD report *Fiscal Futures, Institutional Budget Reforms, and Their Effects: What Can Be Learned*, by Barry Anderson and James Sheppard. According to Anderson and Sheppard (2009), ‘[g]iven the difficulties posed by the multidimensional nature of fiscal sustainability, attention has focused on the stability of government liabilities under the assumptions of current policies and a constant tax-to-GDP ratio’.¹⁵ This is the approach taken by the OBR.

5.22 Anderson and Sheppard (2009) go on to say that:

‘[t]wo main approaches have emerged both in economic literature and in practice: baseline projections and synthetic indicators. Baseline projections extrapolate the impact of different assumptions on fiscal aggregates (e.g. the primary balance and debt) over an extended period [...] Synthetic indicators are an extension of unconstrained baseline projections. They measure the size of an immediate and permanent increase in tax and/or reduction in noninterest expenditure required to set the present value of all future primary spending surpluses (i.e. revenues less non-interest expenditures) equal to a specific level of debt’.¹⁵

5.23 In undertaking its fiscal sustainability analysis, the OBR looks ‘at the fiscal impact of past government activity, as reflected in the assets and liabilities on the public sector’s balance sheet’ and, subsequently, ‘the potential fiscal impact of future government activity, by making 50-year projections of all public spending, revenues and significant financial transactions’.¹⁶ Building on this, according to the OBR:

‘[m]ost definitions of fiscal sustainability are built on the concept of solvency – the ability of the government to meet its future obligations. In formal terms, the government’s ‘inter-temporal budget constraint’ requires it to raise enough revenue in future to cover all its non-interest spending and also to service and eventually pay off its outstanding debt over an infinite time horizon [...] The inter-temporal budget constraint has the attraction of theoretical rigour, but it also has several practical limitations. For this reason, sustainability is more often quantified by asking how big a permanent spending cut or tax increase would be necessary to move public sector net debt to a particular target level at a particular target date. This is referred to as the ‘fiscal gap’’.¹⁷

¹² OBR (2013) *Fiscal Sustainability Report*, p.3.

¹³ OBR (2013) *Fiscal Sustainability Report*, p.1.

¹⁴ OBR (2013) *Fiscal Sustainability Report*, p.7.

¹⁵ Anderson and Sheppard (2009) *Fiscal Futures, Institutional Budget Reforms, and Their Effects: What Can Be Learned?* OECD Journal on Budgeting, Volume 2009/3, p.13.

¹⁶ OBR (2013) *Fiscal Sustainability Report*, p.3.

¹⁷ OBR (2013) *Fiscal Sustainability Report*, p.12.

5.24 The fiscal gap, based on the work of Blanchard et al (1990) and Auerbach (1994), is a broadly accepted indicator of fiscal sustainability and is used around the world by a wide variety of economic institutions and is endorsed by Anderson and Sheppard (2009).

5.25 Having identified that the OBR uses internationally accepted approaches in constructing long-term fiscal projections and conducting fiscal sustainability analysis, Anderson and Sheppard (2009) outline several recommendations for long-term fiscal projections. These recommendations are presented below along with an analysis of the OBR's implementation of these best practices.

- 1 Fiscal projections should be prepared on an annual basis to draw attention to the long-term fiscal consequences of current policies and to eliminate discretion over when projections are produced.

The OBR has prepared the FSR annually from 2011 through 2014, in July of each of those years.¹⁸

- 2 Fiscal projections should incorporate comparisons with past government assessments to highlight whether the government's fiscal position has improved or deteriorated.

In addition to providing fiscal sustainability analysis for the current set of government revenue and spending policies, the OBR also compares its current central projections with those of previous FSR publications. More specifically, the OBR lists and quantifies economic and policy related reasons for changes in long-term fiscal projections and details how these have affected the level of fiscal sustainability. For example, in FSR 2013, the OBR writes:

'Under our central projections, the government would need to increase taxes and/or cut spending permanently by around 1.9% of GDP (£29 billion in today's terms) from 2018-19 onwards to satisfy the inter-temporal budget constraint. This is down from 2.6% of GDP in last year's FSR, reflecting a number of offsetting factors, the largest of which stems from the additional spending cuts the Government has pencilled in for 2017-18, the final year of our medium-term forecast.'¹⁹

- 3 Fiscal projections should include sensitivity analysis (or 'alternative scenarios') for changes in demographic, macro- and microeconomic, and other assumptions to illustrate the exposure, and general direction of the impact of this exposure, to fiscal risks.

The OBR illustrates the uncertainty around the long-term projections through sensitivity analysis – by varying key assumptions regarding demographic trends, whole economy and health sector productivity growth, and the position of the public finances at the end of the medium-term forecast horizon.

Sensitivity analysis is performed by the OBR around 50-year revenue and expenditure projections. This includes analysis of the implications of alternative levels of the primary balance in 2017-18, interest rates scenarios, demographic scenarios ('old age structure' vs 'young age structure'), productivity growth (2.2% +/- 0.5 percentage points), and health spending scenarios. Additional scenarios around 50-year revenue projections include alternative oil price and production

¹⁸ OBR (2014) *Fiscal Sustainability Report* was released during the preparation of this evaluation.

¹⁹ OBR (2013) *Fiscal Sustainability Report*, p.12.

scenarios and alternative labour market scenarios, including changes in the structure of employment, income distribution, fiscal drag and, most specifically to FSR 2013, changes in the participation rates among those aged 65 and over.

The OBR also performs sensitivity and scenario analysis around the estimates of the fiscal gap. For instance, in FSR 2013 the OBR examined how much permanent fiscal adjustment would be necessary in 2018-19, according to the fiscal gap, in order to meet a variety of target debt levels in the context of weaker productivity growth in the health sector leading to higher per capita spending. The OBR also looks at a variety of outcomes around immediate versus gradual fiscal tightening.

- 4 Fiscal projections should clearly present changes in the methodology, key assumptions, and data sources to provide an assurance of their credibility and quality.

The OBR is very clear in outlining its methodology, key assumptions and data sources, as well as providing detailed explanations of any changes in methodology, assumptions and data.

Additionally, it should be highlighted that '[w]here policy is not clearly defined over the long term, the *Charter for Budget Responsibility* allows us [the OBR] to make appropriate assumptions [...] Consistent with the *Charter*, we [the OBR] only include[s] the impact of policy announcements in our [the OBR's] central projections when they can be quantified with *reasonable accuracy* [emphasis added].'²⁰ The OBR also provides detailed explanations of when and how this freedom has been exercised.

- 5 Countries should use fiscal projections to illustrate the fiscal consequences of past reforms or general policy options.

The OBR closely examines the fiscal sustainability of the no policy change scenario, as it can best define it, while outlining the changes in policy over the last year and the consequences of these changes on the fiscal sustainability of government finances. Primarily in the context of the ageing population, the OBR identifies the main underlying drivers of spending growth as health spending, state pension, and social care. Further the OBR assumes 'that most tax thresholds and benefits are uprated in line with earnings rather than inflation beyond the medium-term, which provides a more neutral baseline for long-term projections. An inflation-based assumption would, other things equal, imply an ever-rising ratio of tax to national income and an ever-falling ratio of benefits to earnings in the rest of the economy'.²⁰

- 6 Finally, although fiscal projections should be directly tied to the annual budget process, they also should be linked to other budget practices and procedures to ensure that adequate attention is given to the fiscal consequences of current policies.

Consistent with the Charter, the OBR's 'projections reflect the potential impact of government announcements, where the policy is firm and detailed enough to estimate its long-term impact on the public finances'.²¹ For instance, beginning on page 70 of FSR 2013, the OBR lists the policy announcements that have been made since the previous year's FSR. Furthermore, 'firm' policy announcements are already included in the EFO, the medium-term projections of which form the basis for the

²⁰ OBR (2013) *Fiscal Sustainability Report*, p.8.

²¹ OBR (2013) *Fiscal Sustainability Report*, p.70.

Treasury's projections for fiscal planning and FSR's long-term projections.²² This is in addition to the provision of the OBR's long-term policy assumptions based on unchanged government policy in the FSR.

5.26 From a broader perspective, the OBR has shown continued interest in improving the breadth and depth of the FSR. With each successive iteration, the OBR looks at a variety of trends that could be affecting revenues and expenses over time. For instance, in FSR 2013 the OBR noted that, in previous FSRs, it had looked 'at technological change, resource depletion, behavioural change and the effect of globalisation on corporation tax and VAT revenues'.²³ On expenses, the OBR for instance looked at different morbidity rates in one year (FSR 2012) and different health sector productivity growth rates in another (FSR 2013). Just as with other reports, the OBR also provides a log of all substantive contact between the OBR and individuals associated with the Treasury for the FSR.²⁴

Forecast Evaluation Report

5.27 Once a year, the OBR publishes the Forecast Evaluation Report (FER) in order to 'compare the latest data on the evolution of the economy and the public finances to our earlier forecasts and try to explain the inevitable differences'.²⁵ The most recent version of this report, FER 2013, extended its evaluation to include the March 2012 forecast, as well as an additional year for each of the previous forecasts.

5.28 In the context of evaluating historical forecast errors, the literature on how this should best be undertaken by an IFI is limited. However, there are other organisations, such as the Congressional Budget Office (CBO) in the United States that have a record of producing this type of analysis and suggest some key insights into guiding principles for evaluating past forecasts. These include an examination of the accuracy of the forecasts and any ongoing bias in the forecasts (repeated over- or under-estimates), with attempts made to understand the underlying causes of these inaccuracies. In this case, it helps to compare past forecasts against both outturn data and the projections of other forecasters. Furthermore, the identification of forecast errors and their underlying causes should lead to changes in the construction of forecasts within the organisation.²⁶

5.29 The OBR satisfies all of these guiding principles through a continual process of examination and evaluation, a record of which is published annually in the FER. In an effort to pursue the continued examination and evaluation, the OBR regularly reviews its 'forecasting techniques and judgments in the light of experience. And even where forecasts appear to perform reasonably well, there is often scope for further development'.²⁷

Economic forecasts

5.30 To begin, the OBR provides detailed analysis on how the outturn data has changed and evolved with subsequent historic revisions by the Office for National Statistics (ONS). These revisions are important as they cannot only call into question the accuracy of past projections but they can also impact future projections through changes in the starting points for projections and in the relationships between variables in economic models. In this context, the

²² For more information see: OBR (2014) *Log of substantive contact between the Office for Budget Responsibility and Treasury Ministers, Shadow Ministers, Special Advisers and their private office staff between 6 December 2013 and 18 March 2014*; and OBR (2014) 'Foreword', in *Economic and Fiscal Outlook*.

²³ OBR (2013) *Fiscal Sustainability report*, p.105.

²⁴ For example, see OBR (2013) *Log of substantive contact between the Office for Budget Responsibility and Treasury Ministers, Shadow Ministers, Special Advisers and their private office staff between 21 March 2013 and 17 July 2013*.

²⁵ OBR (2013) *Forecast Evaluation Report*, p.3.

²⁶ CBO (2013) *CBO's Economic Forecasting Record: 2013 Update*.

²⁷ OBR (2013) *Forecast Evaluation Report*, p.93.

OBR also places emphasis on technical issues that affect its economic projections, such as government real expenditure not being quality adjusted and, therefore, not exhibiting the impact of cuts in the outturn data and actually leading to a positive, as opposed to the expected negative, contribution to real GDP growth.

5.31 The OBR also compares economic forecasts with other forecasters.²⁸ For instance, in FER 2013 the OBR acknowledges that it was 'not alone in projecting a large permanent, or long-lasting, loss of output relative to a pre-crisis trend'.²⁹ According to the OBR, the March 2013 EFO indicated that their 'forecasts of potential output at the forecast horizon lie close to those of the IMF, the European Commission and the OECD, and towards the centre of a wide range of outside estimates'.²⁹

5.32 One variable that has plagued the OBR, in terms of notable and one-sided errors, has been the projection of real GDP, and in particular productivity (as measured by output per labour hour). While the OBR has left its level of potential output broadly unchanged since November 2011, real output has failed to close the output gap in line with expectations as productivity growth has lagged. Notably, in response to this, the OBR stated that it is continuing to do research in the area while keeping abreast of external research.

5.33 In trying to explain its under-projection of real GDP growth, the OBR goes further to examine the possibility that the overall impact of contractionary fiscal policy on real output may have been proportionately greater than it had assumed given the fiscal multipliers it had estimated in June 2010. While the OBR acknowledges that this is possible, it does not find evidence for this to be the obvious explanation. It additionally explores the possibility that potential GDP grew by less in recent years than was earlier assumed, 'reflecting a number of factors including that the ongoing effects of the financial crisis and associated banking sector impairment appear to have interrupted the flow of capital to its most productive uses'.³⁰ The OBR suggests this would help explain the shortfall in productivity growth against expectations while employment growth surpassed expectations.

Fiscal forecasts

5.34 In the FER 2013, the OBR continued to examine the ongoing question pertaining to the narrowing of the budget deficit in line with expectations for 2011-12 in the context of real GDP growth coming in much weaker than expected. The OBR also investigated why its borrowing forecast has continued to be off-track. Additionally, the OBR went on to outline the detailed decomposition of its fiscal forecast errors.

5.35 More broadly, the OBR has recognised that it has had a general tendency to over-estimate revenues, particularly from compensation of employees and gross operating surplus, which has led to forecast errors around the size of the deficit. The OBR now attributes part of this to weak real GDP which has been significantly revised both in terms of strength and composition over the history by the ONS. The forecast errors for spending have generally been more mixed, depending on the fiscal year and expenditure category. That said, while the budget deficit was larger in 2012-13, as the OBR has not changed its relative estimate of the output gap for the 2012-13 fiscal year, it is the OBR's view that much of this increase in the budget deficit is structural as opposed to cyclical.

5.36 Looking to net debt, the OBR attributes its marked forecast errors as being the result of revisions and reclassifications, such as the reclassification of the Royal Mail pension fund. In

²⁸ Forecast errors are presented as percentage point differences, used to create fan charts based on historical errors of official projections.

²⁹ OBR (2013) *Forecast Evaluation Report*, p.45.

³⁰ OBR (2013) *Forecast Evaluation Report*, p.59.

summary, borrowing has come in broadly in line with expectations after the forecasts and outturn data are examined on a comparable basis.

5.37 Finally, the OBR compared the size of the forecast errors against past official forecast errors. According to the OBR:

‘This exercise has obvious limitations as a guide to relative forecast performance. Most fundamentally, we are not comparing like with like. And, as the OBR has only produced 7 forecasts so far, the sample is still very small. For what it is worth, given the limitations of such comparisons, the errors in our real GDP and borrowing forecasts have, more often than not, been smaller than the average errors in official forecasts over the past 20 years’.³¹

OBR self-evaluation

5.38 This section is very closely tied to the ‘Lessons to learn’ section of the FER. In it, the OBR outlines lessons that it has learned through its process of conducting consecutive economic and fiscal forecasts and discusses how it has amended its forecasting processes to address these considerations. For instance, in the October 2012 FER, the OBR identified and instituted the following considerations in undertaking subsequent forecasts (to the best of its ability): ‘the importance of the size of the nominal economy for the public finances; the relationship between the nominal spending and measured output of public services; and, the need to understand better the spending behaviour of central government departments and local authorities.’³²

5.39 Additionally, the OBR identified that some of the reasons for its errors relative to current outturn data is the result of ‘an economy subject to significant post-crisis challenges that, while correctly identified, have proved difficult to calibrate with precision, reflecting the lack of historical precedent’. For instance, one reason for error is that the OBR continues ‘to over-estimate the degree to which cutting public services spending would subtract directly from real GDP. Determining whether we [the OBR] have gone far enough in adjusting for these factors, or indeed whether they might reverse, will remain a key challenge in our [the OBR’s] economic forecast over the coming year and beyond’.³²

5.40 On the fiscal side, the OBR has recognised ‘the need to understand better the spending behaviour of central government departments and local authorities remains.’ As a result, the OBR states that it has ‘changed our [the OBR’s] approach and we [the OBR] now forecast significant underspends by departments against their plans in future years as well as the current year and we [the OBR] have stepped up our [the OBR’s] engagement with local government finance experts to understand better their response to coming budget pressures and uncertainties.’³²

5.41 Finally, the OBR cites other areas that it considered further given the forecast errors it analysed. These include continuing ‘to monitor our [the OBR’s] original policy costings after the event’ and improving its ‘methodology for forecasting National Accounts deflators, particularly in the government sector, where the interaction between the direct measurement of certain public sector outputs and slower growth of public spending has led to falls in implied prices’.³³

³¹ OBR (2013) *Forecast Evaluation Report*, p.7.

³² OBR (2013), *Forecast Evaluation Report*, p.6.

³³ OBR (2013), *Forecast Evaluation Report*, p.93.

Conclusion

5.42 In conclusion, the core products of the OBR – the Economic and Fiscal Outlook, Fiscal Sustainability Report, and Forecast Evaluation Report – meet the legislative requirements outlined in the Act and the Charter.

5.43 Additionally, these products generally meet, and often surpass, international standards. Furthermore, the OBR demonstrates a willingness to continually improve its core products while being self-critical and continuously working to increase the transparency of its core product development and communications. As a result, stakeholders that rely on the OBR's analysis should have confidence in its work.

6

Outputs: transparency assessment

6.1 An important element in assessing the quality of the OBR's reports and the governance of the OBR itself is to assess its four main products against an observable counter-factual. Costing certification has not been examined for this purpose. In addition to surveying and interviewing stakeholders, a demonstrated increase in transparency vis-à-vis prior practice of the Treasury would help to determine whether the OBR has in fact successfully reduced the perception of bias in economic and fiscal forecasting.

6.2 The OBR's reports have been assessed for specific transparency gains against the Treasury's analogous products prior to the implementation of the OBR. It should be noted that the structure and extent of detail contained within Treasury reports prior to 2010 varied with each publication, particularly with the onset of the financial crisis from 2007-8. The analysis below does not attempt to capture of all these variations but rather provides a snapshot comparison of the specific documents listed.

6.3 The examination of transparency gains included the following elements and comparators:

Economic and fiscal forecasts

- Comparison of OBR (2012) *Economic and Fiscal Outlook* and HM Treasury (2008) *Budget 2008 Stability and opportunity: building a strong, sustainable future*
- Economic forecast: process, outlook, changes to outlook, analysis
- Fiscal forecast: economic determinants, new policy, outlook, external forecasts, fiscal targets

Fiscal sustainability

- Comparison of OBR (2014) *Fiscal Sustainability Report* and HM Treasury (2009) *Long-term public finance report: an analysis of fiscal sustainability*
- Process, scope and approach, analysis

Forecast evaluation

- Comparison of OBR (2013) *Forecast Evaluation Report* and HM Treasury (2009) *Budget 2009 Building Britain's future*
- Process, the economy, public finances, lessons learned

Economic and fiscal forecast

6.4 For comparative purposes Table 6.A provides a transparency checklist for the economic and fiscal forecasts produced by the OBR in 2012 and the Treasury in 2008. While both documents

meet the basic requirements for transparency highlighted by the OECD, it is clear that significant transparency gains have been made available through the OBR.¹

6.5 The OBR delivers revenue and spending details behind the outlook for the full medium-term, not just the short-term. This provides greater understanding on what is behind the fiscal planning aggregates not just in the first few years ahead but in the outer years as well, which is essential for Members of Parliament scrutinising the spending plans of various government departments.

6.6 The OBR specifies with greater detail the economic determinants of the fiscal forecast and the changes from one forecast to another. This provides greater transparency on the analysis and various judgements that are driving the evolution of the outlook.

6.7 The OBR's EFO also contains more comparisons with forecasts from other independent forecasters. It provides a range of tools to help assess risks and uncertainty around the central forecast and the key fiscal targets. In addition to raising understanding, the greater breadth of this analysis can increase confidence and trust that the assumptions and judgements underlying the outlook reflect best efforts from a non-partisan vantage point.

Transparency checklist

Table 6.A: Economic and fiscal forecast comparison of OBR (2012) and HM Treasury (2008)

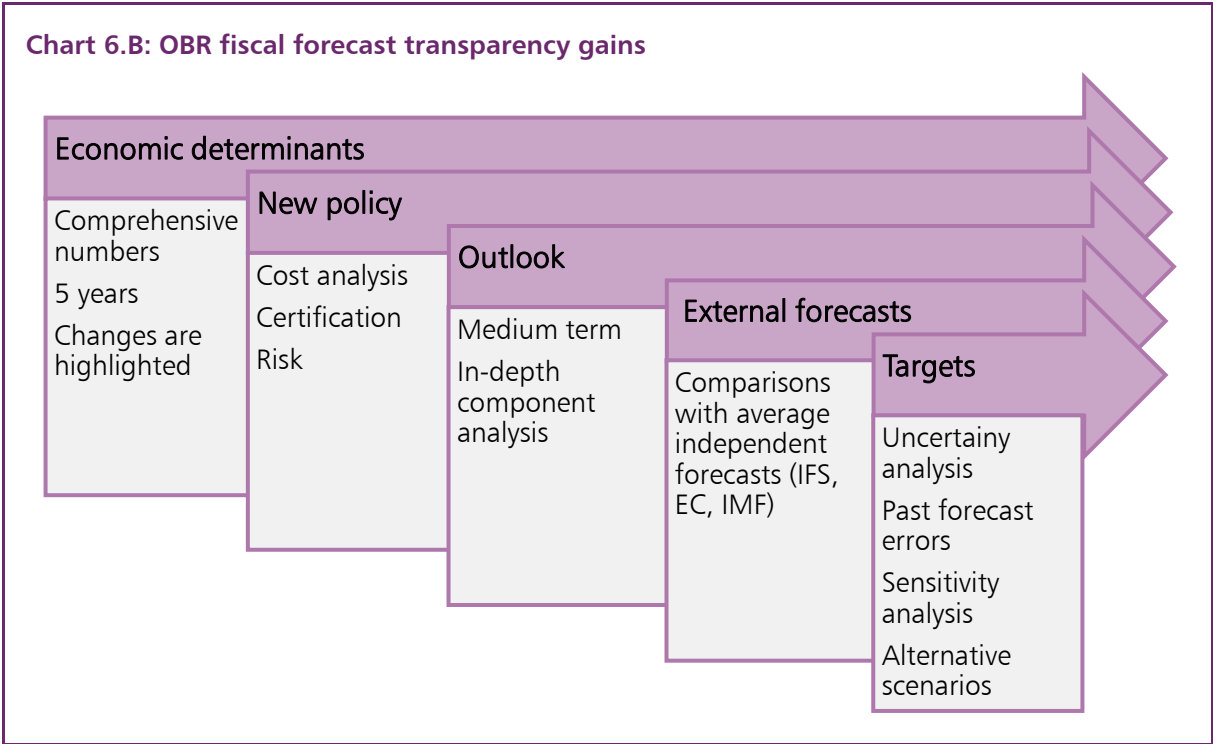
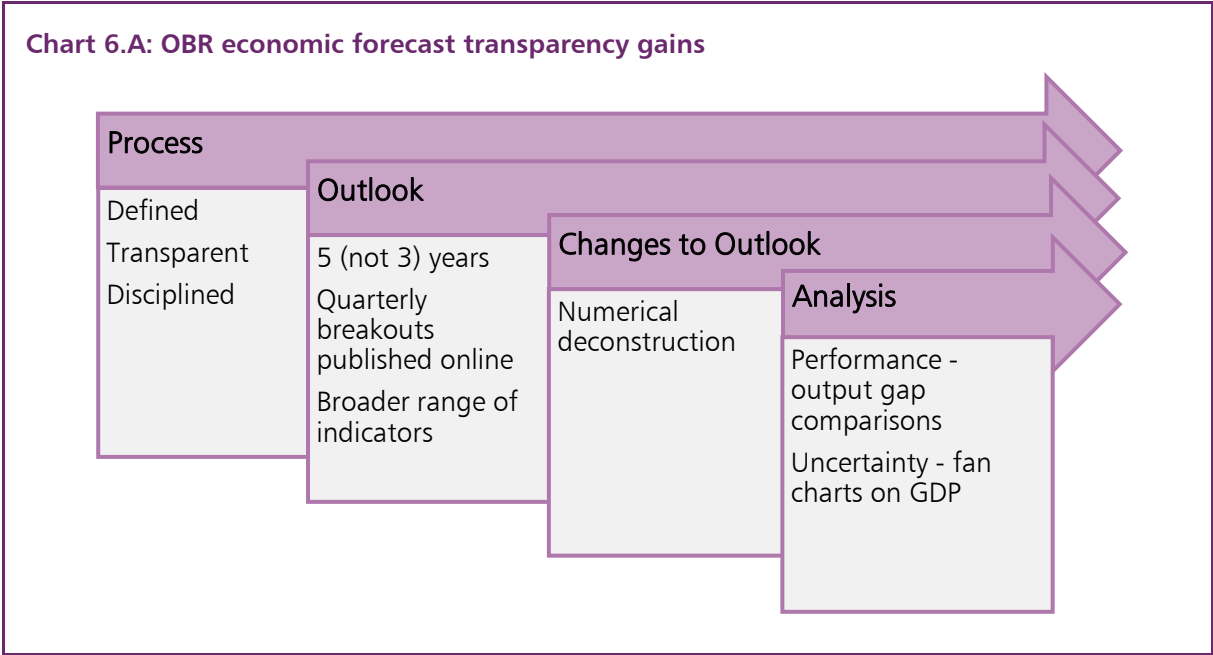
| Element | OBR (2012) | HM Treasury (2008) |
|-------------------------------------|---|--|
| Process | Details provided in Foreword. Log of substantive contact on website. Presented to Parliament by the Economic Secretary to the Treasury. | Presented to the House of Commons by the Chancellor of the Exchequer when opening the Budget. |
| Economic forecast | | |
| Time period and periodicity | 5 years. Quarterly profile of most indicators published in supplementary spreadsheets online. | 3 years. Half year breakdown provided after first year. |
| Range of forecasted indicators | GDP and components and headline macro indicators on inflation and current account; outlook for the world economy and key components (euro area). Plus headline indicators for: labour market, household sector and others (terms of trade, non-oil corporate profits). Analytical assessment plus numerical changes to all forecasted indicators. | GDP and components and headline macro indicators on inflation and current account; outlook for the world economy and key components (euro area). Analytical assessment. |
| Changes to forecast | Current plus 5-year GDP, CPI and output gap comparisons – IMF, OECD, EC, NIESR and Bank of England. Contributions to growth. | Current plus next-year - average and range of independent forecasts including private sector for GDP, inflation and current account. Contributions to growth. |
| Comparisons with external forecasts | Assessment and projection of output gap. Comparison of output gap estimates in current year. | Assessment and projection of output gap. |

¹ See OECD (2002) *OECD Best Practices for Budget Transparency*.

| Element | OBR (2012) | HM Treasury (2008) |
|--|--|---|
| Use of analytical constructs | Fan charts for GDP to highlight uncertainty based on official forecast errors since 1987. | Average current-year and year-ahead forecast errors published for GDP and main expenditure components. |
| Fiscal forecast | | |
| Economic determinants | Key assumptions summarised with 5-year projections for major variables and changes since previous forecast documented. | Key assumptions summarised and audited by NAO. |
| Impact of new policy announcements and risks | Fiscal impact of new policy announcements highlighted in overview tables and discussed in outlook for receipts (tax by tax) and expenditures. Policy costing projections analysed and described via a certification process. Risks to Treasury are highlighted. | Fiscal impact of new policy announcements highlighted in overview tables and discussed in outlook for receipts (tax by tax) and expenditures. |
| Outlook for receipts and expenditures | Receipts – current plus 5-year outlook for details and changes since previous forecast (£, % of GDP); in depth analysis of projection on a component basis (VAT, corporate tax, etc.) including diagnostic breakdown of changes since previous forecast. Spending – current plus 5-year outlook for spending aggregates (current, capital, departmental expenditure limits, etc.) and components, and changes since previous forecast; in depth analysis of projection on a component by component basis (social security, pensions, etc.) including diagnostic breakdown of changes since previous forecast. | Receipts – current plus 1-year outlook for details and changes since previous forecast; current plus 5-year projection for aggregates (% of GDP); high level descriptive analysis on a component by component basis. Spending – current plus 3-year projection on spending aggregates (current, capital, departmental expenditure limits, etc.) and components and changes since previous forecast; high-level descriptive analysis on a component by component basis. |
| Key fiscal aggregates | Current plus 5-year projections (£, % of GDP) for major aggregates (e.g. net borrowing (PSNB), net debt, current budget with and without cyclical adjustment, etc.) and changes from previous forecast. Fan charts to assess uncertainty (PSNB) reflecting past forecast errors. | Current plus 5-year projections (£, % of GDP) for major aggregates (e.g. net borrowing, net debt, current budget with and without cyclical adjustment, etc.) and changes from previous forecast. |
| Comparisons with external forecasts | Comparisons with external forecasts (e.g. IFS, average of independent forecasters) of key fiscal aggregates for the UK as well as with European Commission and IMF forecasts on consistent definitions to facilitate comparison. | |
| Performance against targets | Assessment of probability that government will meet its medium-term fiscal mandate and supplementary debt target. Analysis of upside and downside risks to forecast. | Outline of fiscal objectives and rules. Analysis demonstrating the government is meeting fiscal rules (golden and sustainable investment). Use of an ex-ante cautious adjustment to trend output, audited by NAO, to take into account uncertainty. |

| Element | OBR (2012) | HM Treasury (2008) |
|---|---|--------------------|
| Performance against targets (continued) | <p>Fan charts to assess uncertainty (cyclically adjusted current budget balance).</p> <p>Sensitivity analysis on output gap estimates, interest rates and cyclical adjustment.</p> <p>Scenario analysis (alternative economic projections) on e.g. tightening credit, temporary oil spike, etc.</p> | |

Source: Review team analysis of selected documents.



Fiscal sustainability

6.8 For comparative purposes Table 6.B provides a transparency checklist for the fiscal sustainability analysis produced by the OBR in 2014 and the Treasury in 2009. While the Treasury should be commended for its release of longer-term fiscal sustainability analysis in the middle of a global financial crisis where the political focus around the world was on short-term stability goals, it should also be recognised that the OBR has strengthened this analysis for the UK in the years that have followed.

6.9 The OBR examines fiscal sustainability issues from two perspectives – the fiscal impact of future government activity largely resulting from changing demographics (which is common across many countries), but also detailed analysis on fiscal sustainability issues from past activity (which is less common). Quite separately, but in the same spirit, the OBR highlights and analyses the policy announcements made from the previous report. This is rarely done in many countries and helps to ensure that Parliamentarians and citizens have access to a systematic and timely examination of new policy decisions from a fiscal sustainability perspective.

6.10 Much like the approach to the medium-term economic and fiscal outlook, the OBR provides fiscal projections from an unconstrained bottom up analysis. This ensures that key components of spending (e.g. social security) and revenue (e.g. tax on income and wealth) that are sensitive to demographic movements help drive the movement in fiscal aggregates. The level of detail goes far beyond earlier published work by the Treasury. Similarly, the OBR’s analysis makes use of sensitivity analysis and deeper analysis on specific issues (e.g. oil and gas) to enrich understanding of the challenges of sustainability in a changing and uncertain environment.

Transparency checklist

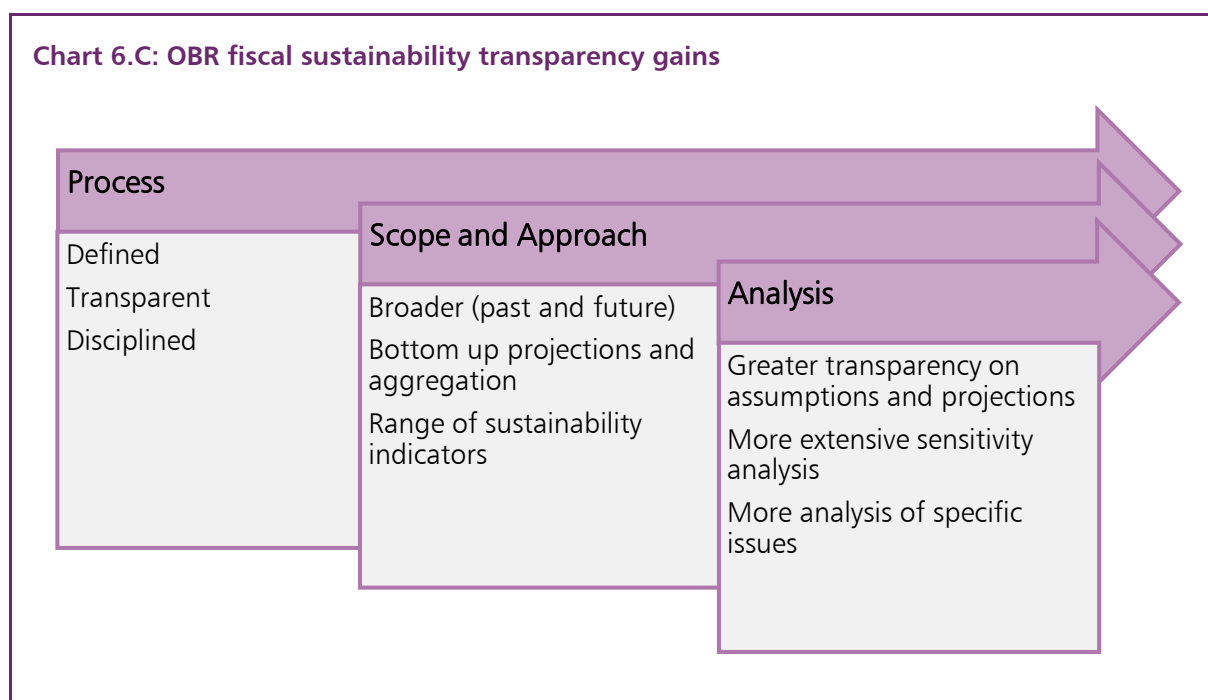
Table 6.B: Fiscal sustainability comparison of OBR (2014) and HM Treasury (2009)

| Element | OBR (2014) | HM Treasury (2009) |
|--------------------|---|--|
| Process | Presented to Parliament pursuant to the Budget Responsibility and National Audit Act 2011. | Presented to House of Commons by the Chancellor of the Exchequer when opening the Pre-Budget Report. A supplementary document published alongside the Pre-Budget Report. |
| | An annual report. Process outlined in Foreword including accountabilities for ‘judgements’ and contacts with Advisory Panel and government officials. Log of substantive contact on website. | One of a series of reports related to long-term public finance that started in 2002. |
| Scope and approach | Two fold – fiscal impact of past and future government activity. Analysis of past government activity through alternative measures of the balance sheet (national accounts – net debt (PSND) and net worth (PSNW) – and whole of government accounts (WGA)). | Focus on fiscal impact of future government activity. |

| Element | OBR (2014) | HM Treasury (2009) |
|---|--|--|
| Scope and approach (continued) | <p>Top down and bottom up (aggregated by component) 50-year projections of revenues and expenditures, primary balance and PSND.</p> <p>Range of indicators of sustainability including inter-temporal budget constraints and fiscal gaps.</p> | <p>Top down 50-year economic (e.g. GDP) and fiscal projections (e.g. PSND). Bottom up fiscal projections (e.g. health) not aggregated.</p> <p>Limited range of indicators of sustainability (e.g. projected path of PSND).</p> |
| Analysis | | |
| Fiscal impact of past government activity | <p>Examination of recent developments in PSND and PSNW including forecast adjustments and international comparisons.</p> <p>Examination of WGA net liabilities produced by the Treasury since 2009-10 including changes, reconciliations with national accounts and additional information on future liabilities (student loans, pensions, private finance, contingent liabilities, provisions).</p> | <p>WGA has been produced by the Treasury for accounting periods since 2009-10 (published in July 2011) under international commercial accounting standards and the information is published.</p> |
| Fiscal impact of future government activity | | |
| Assumptions | <p>Policy assumptions are articulated (taxes, spending, benefits, loans, pensions).</p> <p>Policy announcements since previous report are assessed for longer-term impacts.</p> <p>Demographic assumptions are presented and analysed (size and structure) including evolution of population projections.</p> <p>Long-term economic determinants articulated for central projection (productivity, earnings, prices rates, employment). Changes from previous projection are highlighted.</p> <p>Fiscal projections based on unconstrained bottom up analysis (output gap closed over medium-term). Representative profiles for taxes and spending provided. Social security and public service pensions are modelled outside of long-term projection model using OBR assumptions.</p> | <p>Summary statement that projections for net debt take into account plans and projections of Pre-Budget Report.</p> <p>Demographic assumptions are presented and analysed (size and structure).</p> <p>Economic growth rates presented under a range of productivity and population variants.</p> <p>Fiscal projections (top down) limited due to large output gap problem. Assumption that further consolidation would follow medium-term. Bottom up projections for public expenditure and revenue provided where deemed most relevant (health, long-term care, education, pensions; taxes on income and wealth, consumption and production).</p> |

| Element | OBR (2014) | HM Treasury (2009) |
|--|--|--|
| <i>(Central) projections</i> | 50-year projections (% of GDP) for major fiscal aggregates (primary revenue and spending; net interest; net borrowing and net debt). Projections for all major components. Decomposition of changes in primary balance and net debt. | 50-year projections (% of GDP) for PSND, health, long-term care, education and skills, pensions, taxes on income and wealth. |
| <i>Sensitivity analysis</i> | Sensitivity of central projections (primary balance, net debt, spending components and receipts) and to medium-term position and to key demographic and economic assumptions. | Sensitivity of long-term projection for PSND for different growth and interest rate relationships. Sensitivity of major components of spending and revenues to demographic and economic assumptions. |
| <i>Analysis of broader and specific issues</i> | Analysis of broader challenges related to demographic and labour market trends and a range of more specific issues (student loans, oil and gas receipts etc.). A wide range of issues have been covered in previous reports. | Analysis of broader challenges related to demographic change, environmental change, globalisation, technology and global uncertainty. |

Source: Review team analysis of selected documents.



Forecast evaluation

6.11 For comparative purposes, Table 6.C provides a transparency checklist for the forecast evaluation analysis produced by the OBR in 2013 and the Treasury in 2009.

6.12 The OBR's forecast errors are examined from multiple perspectives – level, growth rate, contribution to growth and past probabilistic estimates. Changes over a medium-term horizon are analysed on an annual basis due to a range of factors – economic, fiscal, policy and classification. This new level of transparency encourages accountability and also promotes best

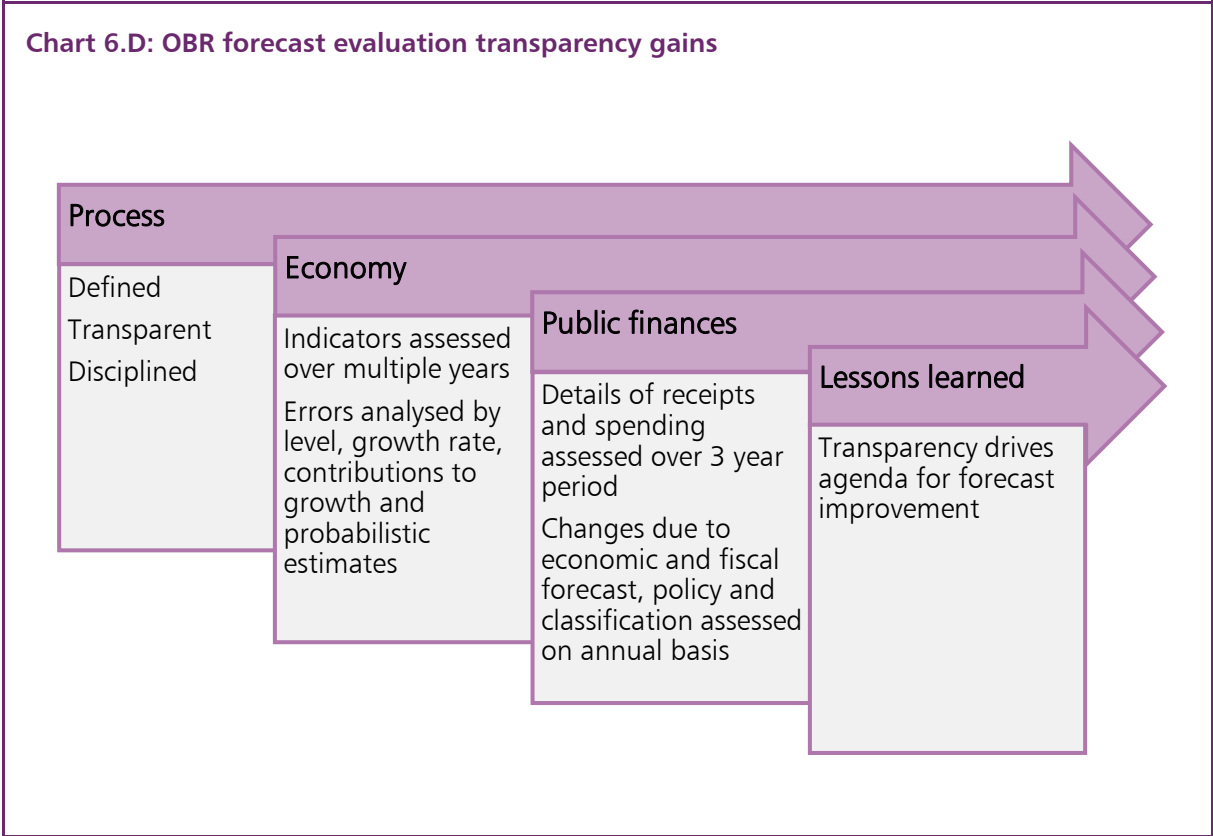
efforts at judgments because the commitment to analysis of errors is firmly established. All of this is reflective of the commitment to a philosophy of improvement within the OBR, which promotes trust among Parliamentarians and citizens.

Transparency checklist

Table 6.C: Forecast evaluation comparison of OBR (2013) and HM Treasury (2009)

| Element | OBR (2013) | HM Treasury (2009) |
|---------------------|---|--|
| Process | Presented to Parliament pursuant to Budget Responsibility and National Audit Act 2011. An annual report. Process outlined in Foreword, including accountabilities. | Presented to House of Commons by the Chancellor of the Exchequer when opening the Budget. Part of the Budget documents. |
| The economy | | |
| Approach | Examines how real and nominal GDP and components evolved since June 2010 forecast (first medium-term forecast) and prior Budget forecast (March 2012). Comparisons with other independent forecasts (range and average) and outturns. | No detailed and systematic evaluation published. Comparison of forecast changes for independent forecasters (real GDP). Comparison of current forecast with 'average errors' from past forecasts – average errors for current year ahead forecasts made in spring forecast over past ten years – for real/nominal GDP, current account and inflation indicators. |
| Range of indicators | Real and nominal GDP and all major components (output, income) and sectors (households, corporations, etc.). Potential output. Indicators of monetary and fiscal policy stance. | |
| Analysis | Forecast errors examined by level and growth rate; contributions to growth; relative to previous probabilistic estimates. Key issues are examined (e.g. weakness in business investment, uncertainty in labour market – productivity trends, estimates of output gap, impact of monetary and fiscal policy and historical data revisions). | |

| Element | OBR (2013) | HM Treasury (2009) |
|--|--|---|
| Public Finances | | |
| Approach | Examines evolution of forecasts for public sector net borrowing (and other indicators) against outturns (3-years) since June 2010 forecast (first medium-term forecast) and year-ahead prior budget forecast (March 2012). | Compares evolution of previous Budget and Pre-Budget forecast for public sector net borrowing (and other indicators) against outturn (1-year) and current Budget forecast. |
| Range of indicators | Public sector net borrowing, receipts and spending (current, net investment) and components. Cyclically adjusted net borrowing. Public sector net debt. | Public sector net borrowing, current budget balance. Cyclically adjusted net borrowing and current budget. Public sector net debt. |
| Analysis | Evolution of fiscal situation. Changes due to economic factors, fiscal forecasts, policy and classification. | Evolution of fiscal situation. Changes due to forecast and discretionary measures. Breakouts of changes since Pre-Budget forecast for changes due to automatic stabilisers and tax and expenditure change. |
| Lessons Learned | Transparency promotes need for greater understanding and forecasting adjustments – tracking policy costing, departmental underspends, estimates of government deflators in national accounts. | |
| <i>Source: Review team analysis of selected documents.</i> | | |



Conclusion

6.13 Chapter 5 examined the OBR reports against practices in peer organisations and international standards. Generally, the assessment found that the OBR's work could be fairly viewed as 'best in class' relative to peers in terms of approach, rigour and transparency.

6.14 This section examined the quality of OBR's products in a different manner, where the comparison was made relative to prior practice. In particular, it was found that the gains in transparency, for the four major report types, were both observable and marked. The gains in transparency have been such that they should have provided stakeholders with greater confidence in a decision-making context whether it is one of budget making (i.e. resource allocation and policy formulation) or scrutiny of the government's economic and fiscal policy, such as might be required in a Parliamentary context.

7

Outcomes

7.1 To assess outcomes, the perceived confidence of stakeholders in the OBR's products and the organisation itself were evaluated, given their relevance to its long-term sustainability. The OBR's success was measured in three ways:

- 1 A survey of 130 of the OBR's non-Parliamentary stakeholders was undertaken. A statistically valid response rate informs the observations and findings with respect to outcomes. A separate survey of Parliamentarians (MPs and Peers) was organised and released. However, exceptionally low response rates made the survey unusable for this report.¹
- 2 Media tracking analysis to quantify the OBR's presence was undertaken using the *Factiva* database.²
- 3 A series of expert interviews was carried out between May and July 2014 to assess perceptions of the OBR and its products.³

7.2 Based on the OBR's context, most notably its legislation and the scope of its mandate, Parliamentarians, the media, think tanks, civil servants, academics and civil society were the focus of the outcomes analysis. The review's key question, established in the context section, is: has the OBR succeeded in significantly reducing or eliminating perceptions of bias in economic and fiscal forecasting, imbuing it with a sense of transparency, and if so, is this outcome sustainable?

7.3 Overall, the analysis of outcomes indicates that the OBR has been successful in eliminating perceptions of bias in forecasting from the perspective of its stakeholders. However, there are other factors derived from the OBR's context that must be considered in relation to the sustainability of the Office.

7.4 This chapter provides analytic summaries of the three evaluation methods listed above, followed by key conclusions. It draws upon the fundamental determinants of the context section and evaluates the OBR's outcomes domestically in relation to its stakeholders and mandate. There are three key considerations relevant to the OBR's context that are worth reiterating before proceeding with the analysis:

- 1 The OBR was created for a specific purpose: to 'provide independent and authoritative analysis of the UK public finances' and thereby significantly reduce or eliminate perceptions of bias in fiscal and economic forecasting. The OBR was established to correct a problem of perception.
- 2 As such, the OBR was structured in a way that makes it interdependent on other government agencies and accountable primarily to the executive branch (although it also has a legally defined accountability to Parliament).

¹ Please see Annex E and Annex F for the Stakeholder Survey and the Survey of Parliamentarians and their respective methodologies.

² Please see Annex G for a methodology of the media tracking analysis.

³ Please see Annex H for the list of interviewees.

- 3 The OBR is unique among its IFI peers as the only office with two legally defined sources of accountability that are in tension. Nowhere else in the international community is an IFI legally accountable to two branches of a Parliamentary system. This begs the question, why would it work in the UK? If it is functionally successful now, can it continue to be as the OBR mediates a possible change from its founding government and its current leadership?

Stakeholder survey

7.5 As part of the review, an invitation was issued by email to 130 non-Parliamentary stakeholders to complete an online survey about the OBR and its products. The purpose of the 18 question survey was to test their awareness of the OBR (including its functions, leadership and accountabilities), use of its work and confidence in the organisation.⁴ The survey received 71 responses (55%), broken down by profession as shown in Table 7.A. The greatest response rate came from those stakeholders that identified themselves as members of the private sector. Only a single respondent identified themselves as a member of civil society.

Table 7.A: Breakdown of survey respondents by profession

| Media | | Private Sector | | Civil Service | | Researcher or Academic | | Think Tank | | Civil Society | |
|-------|-----|----------------|-----|---------------|-----|------------------------|-----|------------|-----|---------------|----|
| 11 | 15% | 26 | 37% | 13 | 18% | 8 | 11% | 12 | 17% | 1 | 1% |

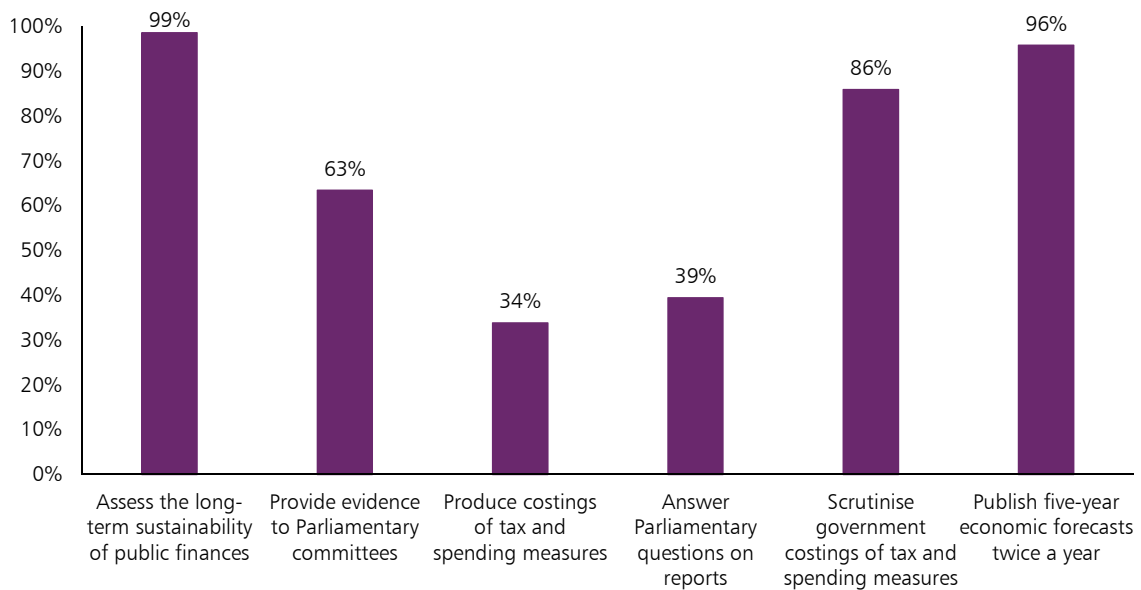
Source: Review team analysis of aggregate stakeholder survey results.

7.6 Analysis of the results showed that stakeholders are generally correctly aware of the OBR's leadership and mandate. For instance, 94% of respondents correctly identified Robert Chote as the Chair of the OBR. A majority of respondents correctly identified the OBR's legislatively mandated roles, but an understanding of its duties in relation to Parliament and policy costings was mixed.⁵ The OBR does not itself produce policy costings but rather scrutinises and certifies the costings produced by government.

⁴ See Annex E for the survey methodology and questions.

⁵ The OBR's legislatively mandated duties include: assessing the long-term sustainability of public finances, scrutinising the government's costing of tax and spending measures, and publishing 5-year economic forecasts twice a year. The OBR does not produce independent costings and is not legally mandated to provide evidence to Parliamentary committees.

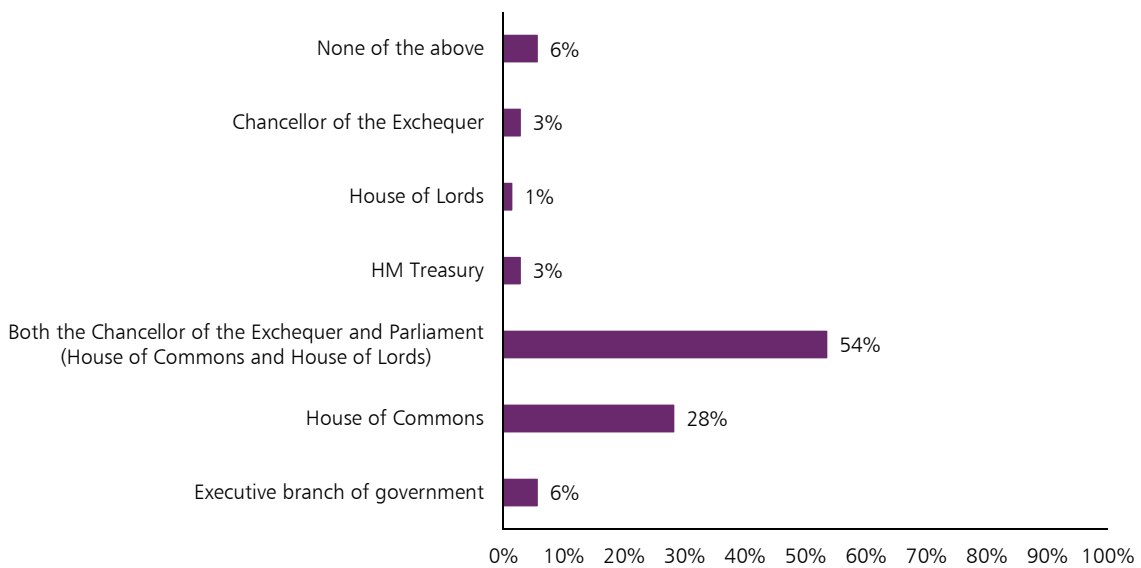
Chart 7.A: Stakeholder perceptions of OBR legislatively mandated roles



Source: Review stakeholder survey results.

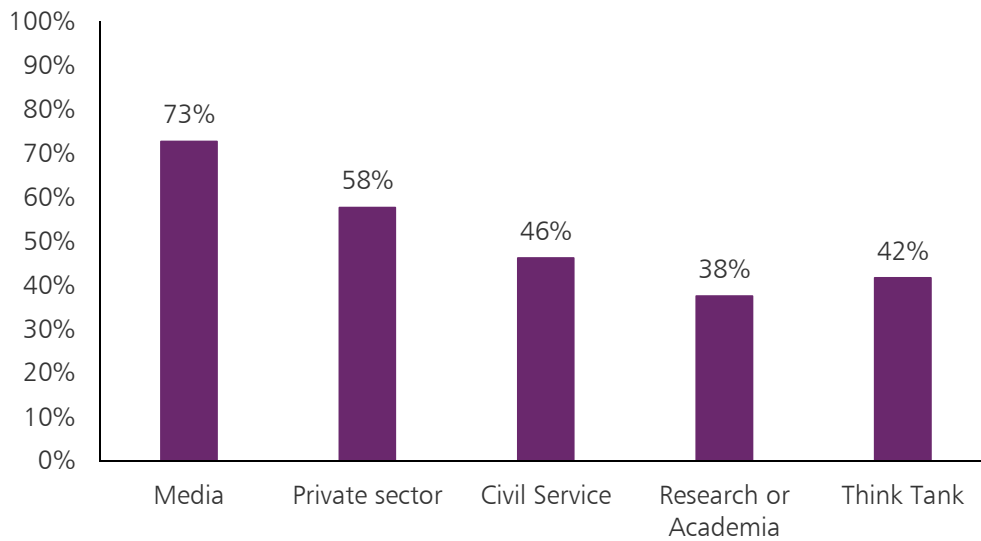
7.7 On the issue of accountability, 54% of respondents correctly identified that the OBR is accountable to both the Chancellor and to Parliament, but there was a range of incorrect answers as shown in Chart 7.B. Respondents from the media sector were most aware of the sources of accountability as shown in Chart 7.C.

Chart 7.B: Stakeholder responses to survey question 'To whom is the OBR accountable?'



Source: Review stakeholder survey results.

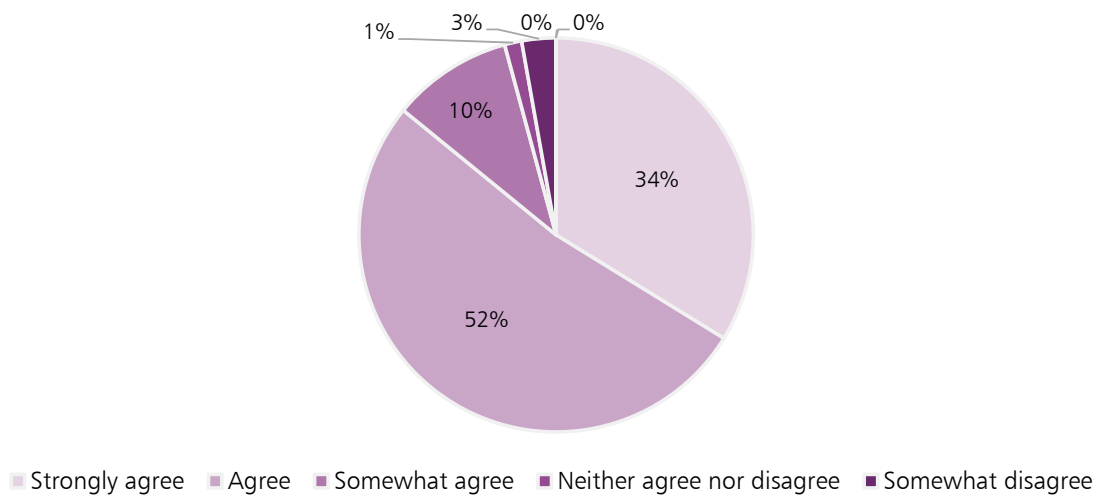
Chart 7.C: Percentage of survey respondents by profession that correctly identified the OBR's dual accountabilities to the Chancellor and Parliament



Source: Review stakeholder survey results.

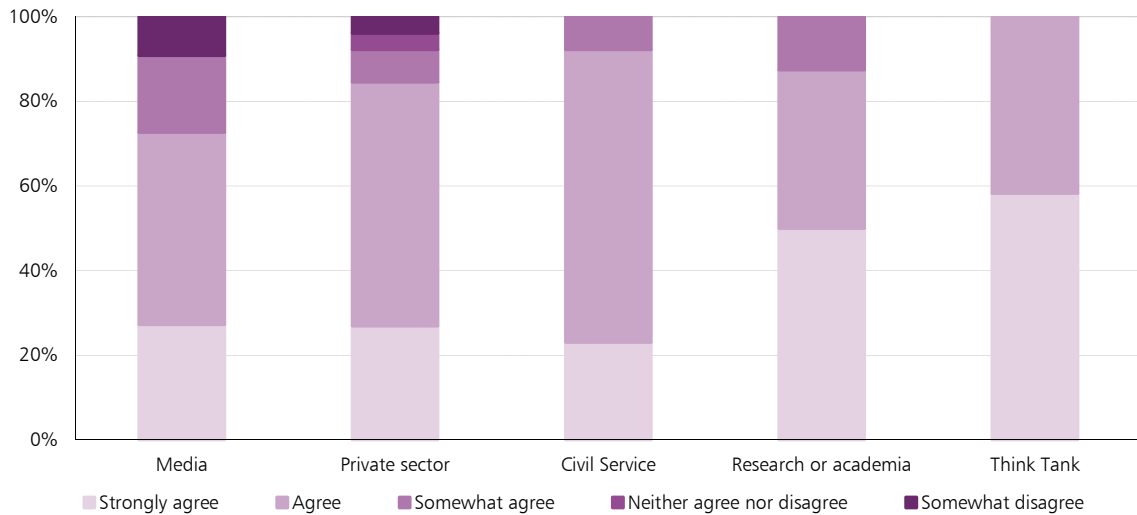
7.8 On the crucial question of stakeholder confidence in the organisation and its work, the OBR fared well. A large majority of respondents either 'strongly agreed' or 'agreed' that the OBR was free from political interference (86%). The stakeholder groups most in support of this statement were think tanks, followed by civil servants and academics. Respondents from the media and private sectors were the only stakeholders to 'somewhat disagree' with this statement but this constituted a minor proportion of overall responses (3%).

Chart 7.D: Stakeholder responses to 'The work produced by the OBR is free from political interference'



Source: Review stakeholder survey results.

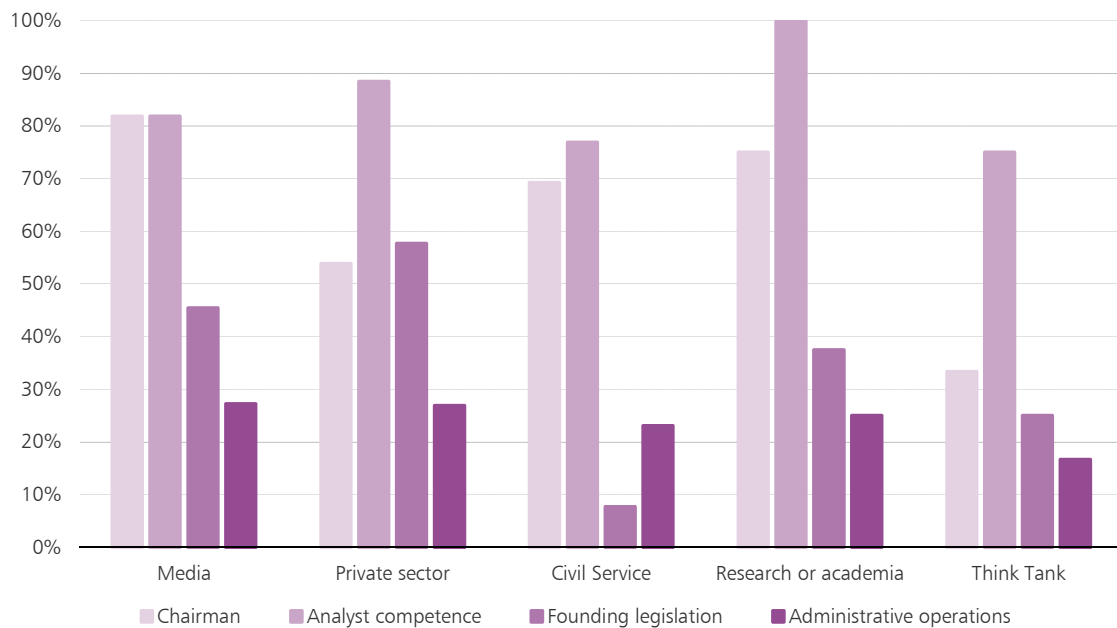
Chart 7.E: Survey responses by profession to 'The work produced by the OBR is free from political interference'



Source: Review stakeholder survey results.

7.9 It is principally the competence of the OBR's analysts, followed by the Chairman, Robert Chote, that drives stakeholder confidence in the OBR. Chart 7.F depicts how each profession distributed their confidence across the OBR's analysts, Chairman, founding legislation and administrative operations.

Chart 7.F: Respondents who 'agreed' or 'strongly agreed' that their confidence in the OBR is related to the listed features



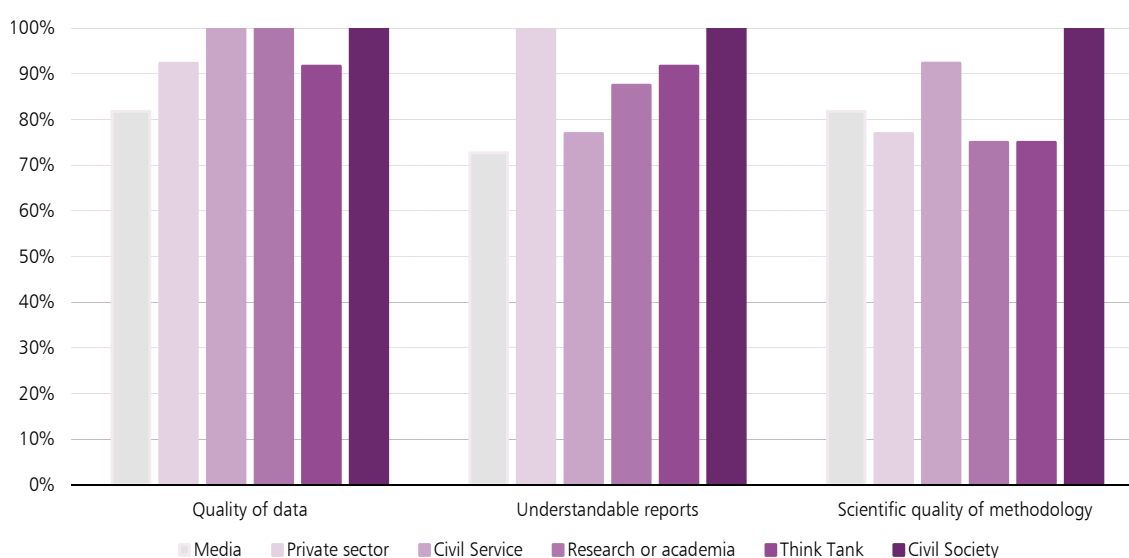
Source: Review stakeholder survey results.

Lessons learned

There is a broad perception among stakeholders that confidence in the OBR is tied more strongly to its people (i.e. leadership and staff) than to its legal and administrative structures. Such a dependency highlights the risks associated with the succession of OBR leadership and staff. Furthermore, it is interesting to note that while a majority of stakeholders (54%) recognise the dual accountabilities of the OBR, relatively few ascribe confidence to the Office’s legislative underpinnings. This may suggest that there is an important distinction to be made between the perceived independence with which the OBR’s reports are produced and the legal independence of the organisation.

7.10 Also contributing to stakeholder confidence in the OBR is the perceived soundness of its data and methodologies. Combining the ‘strongly agree’ and ‘agree’ categories, 93% of respondents consider the quality of the OBR’s data to be reliable and 80% consider the OBR’s selected methodologies to be scientifically sound. As well as endorsing its data and methodologies, stakeholders perceive the OBR’s reports to be understandable. The breakdown of these responses by profession can be found in Chart 7.G below.

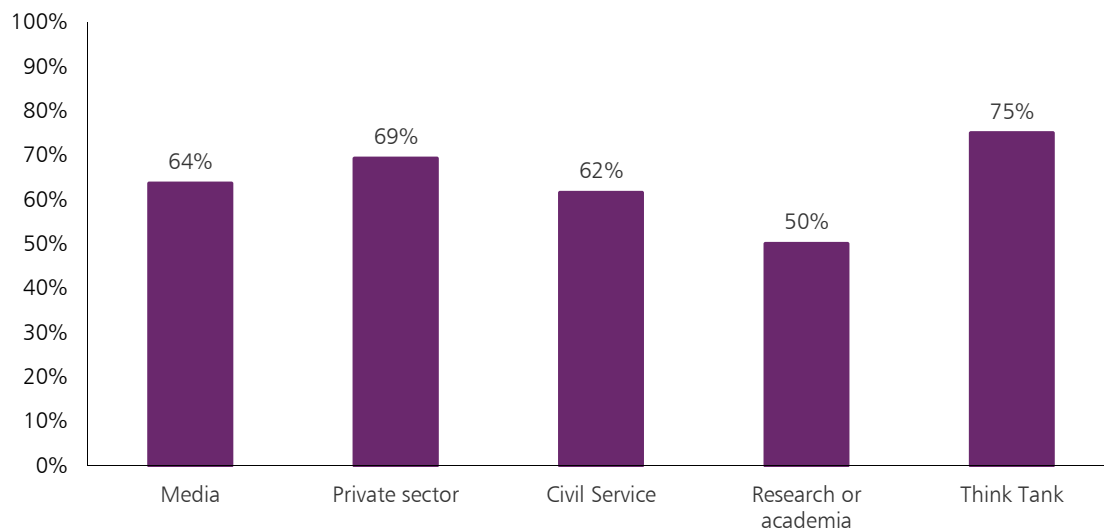
Chart 7.G: Percentage of respondents by profession who described OBR work as ‘reliable/understandable’ or ‘very reliable/understandable’



Source: Review stakeholder survey results.

7.11 The OBR’s work appears to be used frequently by its main stakeholders: 39% of all respondents said they use the OBR’s reports in their professional work ‘very often’ with an additional 25% using it ‘often’. However use of the OBR’s work across sectors is variable. 50% of respondents within the think tank community use OBR reports ‘very often’, whereas only 25% of respondents in research or academia do so as frequently.

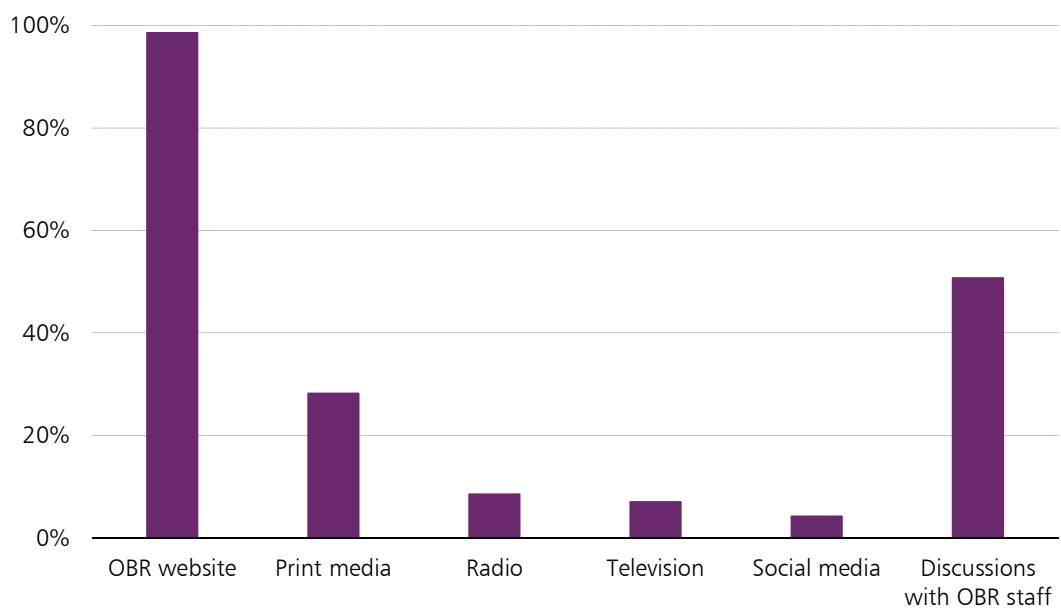
Chart 7.H: Survey respondents who said they utilise OBR reports 'often' or 'very often' in their professional work



Source: Review stakeholder survey results.

7.12 No matter how often stakeholders use the reports, 99% access them from the OBR’s website. This medium for dissemination is followed by discussions with analysts (51%) and print media (28%). Discussions with analysts tend to be more common among civil servants (85%) and think tanks (75%) than respondents in research or academia (25%) and the private sector (23%). Only a small percentage of all respondents, coming mainly from think tanks and the private sector, claimed to access the reports through social media (i.e. Twitter), television or radio. We can deduce that the majority of stakeholders interested in the OBR’s work, or who use their products regularly, tend to access the reports directly.

Chart 7.I: Stakeholder responses to survey question 'How do you access OBR reports? Please select all that apply'



Source: Review stakeholder survey results.

Lessons learned

Based on the results of the stakeholder survey, we can confirm that the OBR has succeeded in imbuing its work with a perception of independence and transparency, the primary source of which appears to be individuals in the leadership and staff of the OBR, as well as the soundness of its data and methodologies. Stakeholders are generally confident in the OBR's outputs and use them regularly in their work. It is interesting to note that the OBR's individuals, tools and transparency are greater sources of confidence than the Office's organisational underpinnings.

Media tracking analysis

7.13 The media is one of the most often-cited means of assessing stakeholder confidence in an IFI.⁶ With a role in making known information and fostering public awareness and debate, the media can play an important part in publicising and disseminating the OBR's work. Media attention can attract the interest of power brokers such as Parliamentarians, who may not otherwise make reference to the OBR's reports. The impetus for media analysis is derived from the OECD *Principles for Independent Fiscal Institutions* (the OECD Principles) as well as an IMF endorsed 'good practice' for fiscal councils. Both sources point to the importance of engaging with the media as a tool for fostering informed consent among citizens and even decision makers.⁷

7.14 To assess media coverage of the OBR's reports and activities, time-based analysis using the online news database and research tool *Factiva* was undertaken. The number of references to 'Office for Budget Responsibility' or 'OBR' were tracked from October 2010 to June 2014.⁸ The purpose of the exercise was to determine if and how the media reacted to major findings or events related to the OBR, and thereby test media confidence in the authoritativeness of the OBR's work.

7.15 The analysis revealed that the majority of the OBR's media attention is focused on the release of its key reports with its Economic and Fiscal Outlooks (EFO) in March and November/December attracting the greatest coverage. Given that the OBR's EFOs are linked to and inform the Chancellor's Budgets and Autumn Statements, average monthly volumes of coverage also align with the UK's fiscal event schedule. The OBR's Fiscal Sustainability Report is published each July which explains the higher than average media coverage in that month.

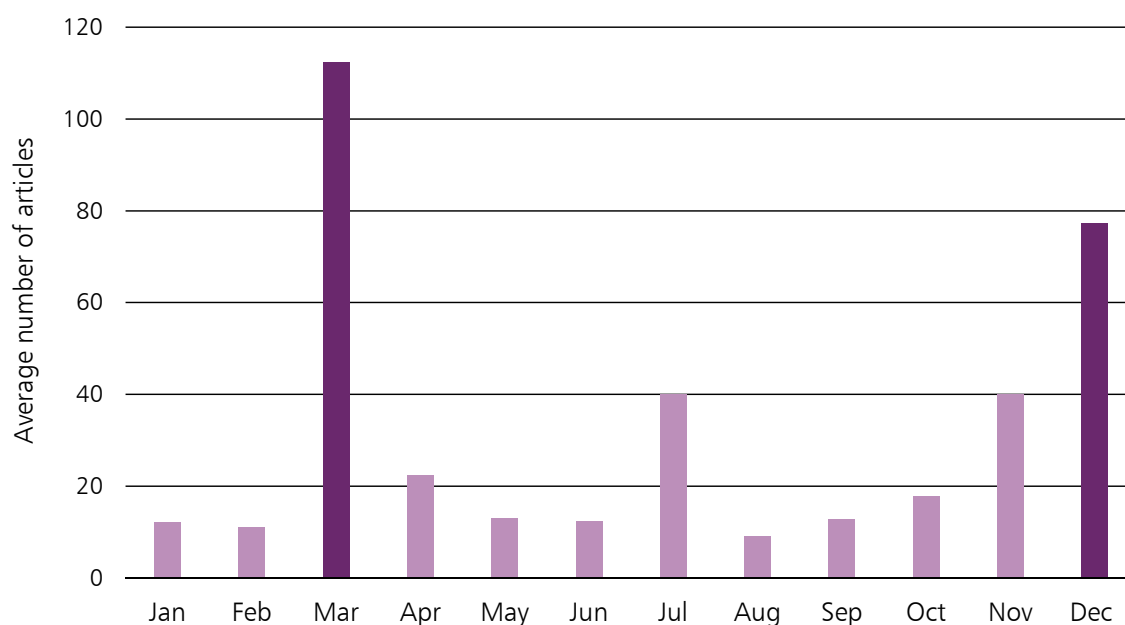
⁶ See for instance, Kopits, G. (2013) *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*; International Monetary Fund (2013) *The Functions and Impact of Fiscal Councils*; OECD (2014) *Recommendation of the Council on Principles for Independent Fiscal Institutions* (specifically, #8).

⁷ OECD Principle #8 (OECD (2014) *Recommendation of the Council on Principles for Independent Fiscal Institutions*): 'IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that the influence of IFIs in fiscal policy making is persuasive [...] media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters'.

IMF 'good practice' (IMF (2013) *The Functions and Impact of Fiscal Councils*, p. 37): 'For fiscal councils to influence the policy debate it is important to have a strong media presence to communicate their assessment of government's fiscal policy to the public. This is particularly important when fiscal councils need to raise the alarm as when proposed budgets are not in line with stated objectives [...] or when the fiscal outturns are coming out significantly worse than projected. By identifying such episodes, and mapping them against the volume of media reporting of the findings of the council, it is possible to get a sense of the effectiveness of the council's communication with the public'.

⁸ See Annex G for greater detail of the methodology used for the media tracking analysis.

Chart 7.J: Average number of articles each month featuring 'Office for Budget Responsibility' or 'OBR' (October 2010 to June 2014)



Source: Review team analysis of Factiva.

Note: given the parameters of the search, these results are indicative of a broad trend rather than a definitive measure of all articles and whether they were positive, neutral or negative in tone.

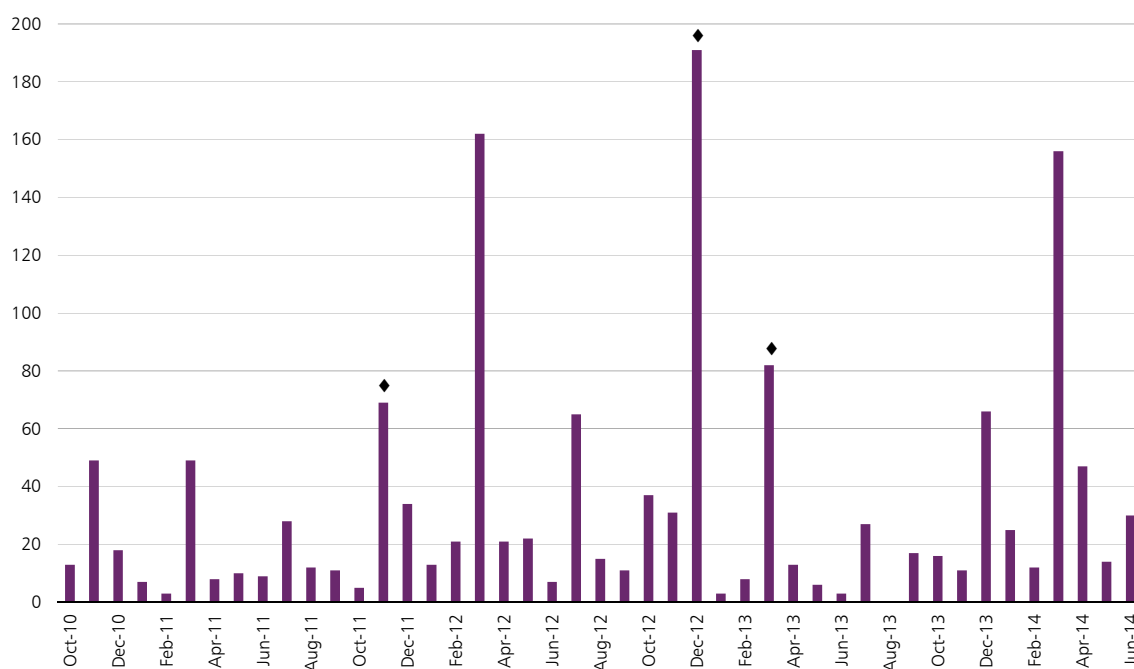
7.16 Some of the high-coverage months over the selected period also aligned with specific points when the OBR reported that it expected the government to miss its fiscal targets. Two notable occasions are indicated in Chart 7.K: the first was in November 2011 when the OBR reported that the government would likely miss its deficit reduction target and the second was in December 2012 when the OBR reported that the government would likely miss its debt target. The spike in coverage in March 2013 can be partly attributed to the Chairman of the OBR who wrote a public letter to the Prime Minister in that month clarifying the meaning of some OBR analysis that was used by him in a speech.

7.17 The OBR does not have a full-time press officer but to manage its media relations one of its analysts serves as liaison between the OBR and the press, and is responsible for organising press releases and press conferences. The OBR typically gives 3 to 4 months advance notice of its main publications (with the schedule for the EFO being set by the Chancellor), but typically just 24 hours for non-legislatively mandated work such as briefing and working papers. Overall this is in keeping with the OECD Principles and IMF good practice.

7.18 To promote these reports and releases, the OBR communicates principally through its regularly updated website, used by 99% of the stakeholders surveyed during the review.⁹ The OBR also disseminates its work through press conferences (invariably held after each publication of its main reports), analyst briefings and presentations. The only social media tool the OBR uses is its Twitter account: as of 30 July 2014 the account had 3,368 followers and the Office had made 83 tweets. Over the selected period, the OBR Chairman, Robert Chote, has also been interviewed on TV and radio to defend the Office's reports publicly, including on widely-accessed news and current affairs programmes.

⁹ www.budgetresponsibility.org.uk

Chart 7.K: Number of articles featuring 'Office for Budget Responsibility' or 'OBR'



Source: Review team analysis of Factiva.

Key: ♦ represent the events described in paragraph 7.16.

Note: given the parameters of the search, these results are indicative of a broad trend rather than a definitive measure of all articles and whether they were positive, neutral or negative in tone.

7.19 In disseminating and seeking external challenge on its work, the OBR communicates with a range of stakeholder groups through a variety of channels, including research groups, think tanks, academics, media, civil servants, financial institutions, private sector consultants, international institutions and MPs (both through formal hearings at Parliamentary select committees and bilateral meetings between the Chairman and Treasury Select Committee members).¹⁰

7.20 Other than civil servants, the OBR's greatest engagement tends to be with external analysts, including independent forecasters and experts on its Advisory Panel. Given the focus of the OBR's outward communication, the Office appears to have engaged less extensively with non-expert stakeholders such as Members of Parliament (particularly those who do not sit on the relevant select committees), Members of the House of Lords and the public at large. Focusing outreach and communications with an expert community which already understands the value and content of the OBR's work could have implications for the Office's long-term sustainability.

Expert interviews

7.21 A series of interviews was undertaken between May and July 2014 with experts and stakeholders to test the effectiveness of the OBR and identify how its products and organisation are perceived. These stakeholders came from a range of sectors and included Parliamentarians, both members of the coalition government and the main Opposition party.

7.22 Data collected from the interviews is used throughout the report. In this chapter on outcomes, we produce an analytic summary of the findings and highlight particular issues of concern raised by interviewees on the future of the OBR. Despite the focus on issues of concern,

¹⁰ The OBR lists in each of its *Annual report and accounts* publications the stakeholders with whom it has met that year. This has included: the IFS, NIESR, the Bank of England, Financial Standards Authority, National Audit Office, Office for National Statistics, Members of Parliament, the IMF, OECD, European Commission, country-specific delegations and academics at Oxford University, York University, UCL and the London Business School.

there were multiple and consistent sources of praise for the Office, its leadership and staff throughout the interviews.

7.23 The OBR appears to be positively perceived by its stakeholders in government, the media, civil society and academia. The Office is considered to be independent, transparent, accountable and credible. Its authority is derived principally from its transparency, the quality of its reports and its highly-regarded leadership team.

7.24 Although interviewees were supportive of the OBR and its work, these experts with linkages as founders, observers, stakeholders or all three in relation to the OBR, raised issues of concern. Chief among them was the sustainability of the OBR's success, which focussed on three key questions:

- 1 Is the initial success of the organisation bound up in its leadership?
- 2 What happens when that leadership changes?
- 3 Does the organisation have the institutional memory necessary to carry its work forward?

7.25 Some stakeholders also raised concerns about the organisational structure of the OBR, given that its joint accountability to the Chancellor and to Parliament has not yet been fully tested. Since the OBR has so far only existed under the government that created it, stakeholders questioned how the tension presented by this dual accountability might be mediated in the future and, in particular, what might happen with a change of government.

7.26 According to a number of stakeholders, as a relatively new organisation the OBR faces risks related to its sustainability. Overall they considered that the OBR has succeeded in reducing or eliminating the perception of bias in forecasting, and that the Office has demonstrated its willingness to speak out on issues that are unfavourable to the government, bolstering its independence. However, there was a widely-held view that the OBR must secure and expand the political space it has carved out for itself over the last four years in order to ensure its survival. Building on its initial successes, the OBR will have to leverage its leadership and the competencies of its staff to continue to demonstrate its relevance to a wider audience beyond the expert fiscal community.

7.27 As one stakeholder sharply questioned: 'is the OBR an institution or a collection of people?' This question is an important one to ask. Some of the interviewees highlighted the lack of assurance that the OBR's initial successes are sustainable. This is particularly relevant as the OBR will, at some point in the future and possibly in the coming year, need to mediate a change in leadership and a change in government, requiring it to address leadership succession and the potential repercussions of any change in political will.

7.28 Another theme that came up in the majority of interviews was the issue of the OBR's mandate. Interviewees were generally mixed in their views of expanding the OBR's remit to include, for example, the certification of policy costings in political party manifestos. Some felt that it was a natural extension of its work on costing certification and well within its capabilities. Others were concerned about the observed habit of 'burdening a successful organisation with additional functions without due consideration for the risks of doing so'. In particular, given the interdependence of the OBR with government departments, a couple of interviewees considered the conflict-of-interest risk that might burden civil servants who would be asked to work on costings for opposition parties. There was a consensual view that the challenges could be mediated but not without putting the OBR at some risk, the level of which is unknown.

7.29 Overall, the interviewees were uniformly enthusiastic in their praise for the OBR having succeeded in fulfilling its mandate over the last four years. But this enthusiasm for past results

was tempered somewhat by the apparent fragility of the OBR's organisational foundations (legal and operational), particularly in light of demands from some quarters to further expand the OBR's remit.

Lessons learned

The OBR's legislative and operating model are potential sources of risk for the long-term sustainability of the organisation. It has a dual accountability to the Chancellor and to Parliament, which requires the OBR to effectively communicate to two distinct stakeholders who may have different incentives underlying their political decisions.

8

Conclusions and recommendations

8.1 The terms of reference for this first external review of the OBR required an evaluation of the quality of the OBR's publications, the effectiveness of its methodology and governance, and the capability of its staff to fulfil its mandate. Using the generally recognised framework of context, inputs, outputs, outcomes developed by the University of Ottawa's Jean-Luc Pepin Research Chair, with the supporting sponsorship of the OECD, this report fulfils the OBR's legislated requirement for an evaluation at five-year intervals.

8.2 Approaching the five-year mark of its founding in 2010, the OBR has laudably achieved the core duties of its mandate. This evaluation report has found that the OBR has succeeded in reducing perceptions of bias in fiscal and economic forecasting and increased the transparency of its products. Confidence in the OBR's work is consistent across stakeholder groups, though it is principally ascribed to the OBR's staff and senior leadership team.

8.3 It is anticipated that the OBR will face two inflection points within the year: a possible change in government and a possible change in the Office's senior leadership. The potential impact of both of these changes to the organisation and its sustainability must be considered, and the successful mediation of such would represent an important milestone in the development of the OBR as an organisation, as distinct from a collection of skilled individuals.

8.4 A specific set of lessons learned is derived from the analysis in the evaluation framework and are defined below. These lessons highlight key issues for consideration by the OBR's Non-executive members as the Office advances beyond its successful first five-year term.

Inputs

- 1 The OBR's funding is linked to the Treasury, which means that the political will of the party or parties that make-up the government of the day can potentially influence the OBR's budget.
- 2 The OBR's structure is not free from dependencies on the executive branch and Civil Service, primarily because the OBR was designed to address a particular political problem of perceptions of bias in forecasting. However, there may be concerns on the part of Parliamentarians that its requirements as a legal stakeholder are not fully reflected in the governance of the organisation.
- 3 The OBR is interdependent with a range of government departments and agencies and draws on resources far beyond its organisation in order to fulfil its mandate.
- 4 The OBR's credibility, which largely stems from its transparency, and its ability to effectively communicate and defend its reports, is linked to its leadership.
- 5 The renewal of OBR leadership and staff must be actively considered and managed, as the pool of qualified and eligible candidates is limited.

Outputs

- 6 The OBR's independence is clearly demonstrated via the transparency of its analysis. The OBR must continue to clarify misinterpretations of its work by government.
- 7 The OBR has succeeded in significantly reducing perceptions of bias in economic and fiscal forecasting.
- 8 The OBR's products satisfy its legislative mandate and are methodologically sound. The quality of analysis and commitment to transparency often surpass those of its international peer group and the work done previously by HM Treasury, and improve with each successive publication.
- 9 The OBR's products demonstrate high levels of transparency regarding disclosure, risks and sensitivities, to the extent that they lend themselves to additional analysis by third parties. However, the same documents could be seen to be inaccessible to non-technical readers.

Outcomes

- 10 The OBR has succeeded in imbuing its work with a perception of independence and transparency.
- 11 Stakeholder confidence in the OBR is tied more strongly to its people (i.e. leadership and staff), methodological approaches and transparency than to its legal underpinnings and operational structure.
- 12 The OBR's legislative and operating structures are potential sources of risk for the long-term sustainability of the organisation.

Recommendations

8.5 In the context of this evaluation, recommendations are being made with reference to the particular remit and organisational construct of the OBR, the bounds of the remit of the evaluation itself and the feasibility of implementation with respect to financial resources, risks and time. These recommendations are suggestions for consideration by the Non-executives of the OBR.

8.6 The recommendations principally address issues of sustainability of outcomes for the OBR as an organisation. They also address to a lesser extent, issues concerning the quality of documents, particularly as they relate to the nature and extent of transparency, which lies at the heart of the value of its products.

Recommendations

- 1 As per the OBR's enabling legislation and interconnected Charter for Budget Responsibility, the UK Parliament is a legal stakeholder of the OBR. As part of this evaluation, an unsuccessful effort was made to broadly survey MPs and Peers vis-à-vis their perceptions and interactions with the OBR and its products. The long-term sustainability of the OBR will depend on ensuring relevance to key stakeholders, particularly those in Parliament. In an effort to address the gap in understanding of MP and Peer perceptions, **it is recommended that the survey of Parliamentarians be reissued before the end of this session of Parliament.** The survey and suggested guidelines for reissuing can be found in Annex F.
- 2 Stakeholder confidence in and the initial successes of the OBR are inextricably linked to its senior leadership (i.e. the Budget Responsibility Committee). With such importance placed on human resources, **it is recommended that long-term succession planning be undertaken to mitigate risks related to the eventual transition of the OBR's senior leadership** to ensure the continuity of the organisation and the development of *institutional* confidence. Such a plan would need to go further than merely staggering the contracts of senior leaders. Long-term planning should strive to foster institutional memory and organisational sustainability over many years.
- 3 When compared to peer IFIs, this evaluation found the OBR's staff to have the necessary competencies for the execution of its mandate. Its human resources practices also appeared consistent with the relevant OECD Principles. The OBR's on-going success depends on the retention and renewal of the expertise and competencies of its staff, many of which are drawn from various departments in the Civil Service. This operating feature is reinforced by the OBR's interdependency with government officials for the discharge of its mandate. **It is, therefore, recommended that a formal fiscal community-wide staff development and rotation programme be established to maximise the talent pool upon which the OBR can draw.** While such a programme should aim to increase the availability of expertise necessary for the OBR, it should also be mindful of not depleting scarce Civil Service human resources in this field.
- 4 Given that the organisational underpinnings of the OBR are in their institutional infancy and are interdependent with a host of government departments and agencies, **it is recommended that caution be exercised in considering the expansion of the OBR's mandate (e.g. costing certification of opposition manifestos).** The OBR may not have the organisational capacity to expand its remit without further drawing on the resources of other government departments. In addition, the particularly narrow legal framework of the OBR and its interdependencies with the executive branch may risk creating perceptions of conflicts-of-interest.
- 5 The nature of the fiscal community in the UK is relatively closed, as it is in other OECD jurisdictions. The OBR, together with HM Treasury and other government departments, have made significant strides in transparency in economic and fiscal forecasting to support the democratisation of access. However, additional measures are recommended to further enhance the OBR's efforts. **It is recommended that additional backgrounders be included with the publication of major reports to aid the accessibility of the documents for non-technical**

readers. This includes briefing material and associated outreach documents that promote a broader understanding for Members of Parliament, Members of the House of Lords, civil society and citizens of the approach and analytical tools used by the OBR to prepare its Economic and Fiscal Outlooks and Fiscal Sustainability Reports (such as OBR (2014) *A brief guide to the public finances*).



Review team biographies

Kevin Page

Chair, Jean-Luc Pepin Research Chair, University of Ottawa

Kevin Page was appointed Canada's first Parliamentary Budget Officer on March 25, 2008 where he served a five-year term providing Canadian Parliamentarians and taxpayers with independent analysis on trends in the national economy, the state of nation's finances and the estimates of the government. Mr Page led a small but talented team that built the first legislative budget office in Canada and one that was viewed as a leading practice among peer nations by such organisations as the IMF and OECD.

The Parliamentary Budget Office (PBO) provided the Senate and the House of Commons with objective and non-partisan analysis on such matters as: estimate of the cost of the Afghanistan engagement; cost estimate of the F-35 Joint Strike Fighter; fiscal and economic forecasts; the costs of key elements of the 'Tough on Crime' agenda; federal and provincial fiscal sustainability in light of aging demographics; sustainability of Old Age Security; the Integrated Monitoring Database ('Democracy's database' according to the Globe and Mail); and a sustained and impassioned defence of fiscal transparency and Parliament's critical role in exercising 'power of the purse', leading to a Federal Court of Canada reference in 2013.

Mr Page has 27 years of experience in the federal public service. Many of these years were in the central agencies – Finance Canada, the Privy Council Office and the Treasury Board Secretariat – where he held positions responsible for the provision of advice and analysis on economic, fiscal and expenditure management issues to Prime Ministers, Finance Ministers and Presidents of the Treasury Board. Mr Page has also held different positions in other departments including Employment and Social Development Canada (formerly Human Resources and Social Development Canada), Agriculture and Agri-foods Canada and the Department of Fisheries and Oceans.

Mr Page studied at both Lakehead University (Ontario) and Simon Fraser University (British-Columbia) for his undergraduate education and he has a Master of Arts in Economics from Queen's University at Kingston.

Sahir Khan

Senior Visiting Fellow, Jean-Luc Pepin Research Chair, University of Ottawa

Sahir Khan comes to the JLP Chair as a Senior Visiting Fellow, from the Office of the Parliamentary Budget Officer where he was Assistant PBO, Expenditure and Revenue Analysis. He was responsible for leading the analysis of proposed government expenditures, including budget and off-cycle. Specifically, he led a team responsible for providing Parliamentarians with business decision support analysis; financial due diligence on major policy and operational initiatives; and, assessment of the performance of government expenditures.

Mr Khan went to the PBO from the Privy Council Office (PCO) where he provided the Prime Minister and the Clerk of the Privy Council with analysis and advice on budget, economic, tax and expenditure management issues. Prior to PCO, he was a director at the Treasury Board

Secretariat where he led an analytical team engaged in the due diligence and oversight of major projects and fiscal pressures. Professionally, Mr Khan is a turnaround and restructuring specialist having joined the public sector in 2004 from New York-based RKG Osnos Partners LLC (c.k.a. Deloitte LLP), where he was a Managing Director. He also worked with Deloitte Consulting's New York office and has led turnarounds in manufacturing, technology, real estate and consumer products.

Mr Khan has a B.Comm from Queen's University at Kingston and an MBA (finance) from Columbia University (New York).

Helaina Gaspard

Senior Research Associate, Jean-Luc Pepin Research Chair, University of Ottawa

Helaina Gaspard is a Senior Research Associate at the JLP Chair. An analyst of Canadian politics and public management, Dr Gaspard's research focuses on institutions, their foundations, stakeholder environments and sustainability. For the JLP Chair she has led research projects for the OECD (Paris), the World Bank (Washington DC) and managed projects focused on democratic governance, in partnership with Canadian Parliamentarians, national and international NGOs and industry associations, as well as students at the graduate and undergraduate levels. Her doctoral thesis analysed the implementation of official languages policy in the Canadian federal public service since 1969, examining issues of institutional genesis and structure for transformative change.

Dr Gaspard has a BA (Hons) University of Western Ontario, an MA from Queen's University at Kingston and a PhD from the University of Ottawa's School of Political Studies.

Randall Bartlett

Senior Economist with TD Bank Group

Randall Bartlett is a Senior Economist with TD Bank Group, focusing on the analysis and forecasting of the Canadian economy. Prior to joining TD, Mr Bartlett worked as an Economic Advisor-Analyst with the Office of the Parliamentary Budget Officer in Canada, with a focus on macroeconomic analysis and forecasting, and Senior Economist with the federal Department of Finance Canada.

Mr Bartlett holds an Honours Bachelor of Arts degree in Mathematical Economics from the University of Guelph, a Master of Arts degree in Economics from the University of Toronto, and is a Chartered Financial Analyst (CFA) charter holder.

B

External review terms of reference

B.1 The Budget Responsibility and National Audit Act 2011 requires the Non-executive members of the OBR to '*appoint a person or body to review and report on such of the Office's reports*' as they determine. The first such report must be carried out no later than 1 October 2015 and consider OBR reports from 1 October 2010 to the review date. The OBR's Non-executive members, Lord Burns and Dame Kate Barker, have asked Kevin Page, former Parliamentary Budget Officer for Canada, to carry out such a review to report by September 2014.

B.2 The review will examine:

- The quality of the OBR's four main annual publications – two *Economic and Fiscal Outlooks*, the *Fiscal Sustainability Report* and the *Forecast Evaluation Report* – published since October 2010, and supporting working papers, briefing papers and discussion papers;
- The effectiveness of the methodology and governance by which the OBR produces its forecasts, assessments and analyses presented in these reports; and
- The capability of OBR staff to support the Budget Responsibility Committee in meeting the objectives they have been set by government.

B.3 The review will assess these issues against the OBR's remit, as set out in the Charter for Budget Responsibility, including its main duty '*to examine and report on the sustainability of the public finances*' and the responsibility to carry out that duty '*objectively, transparently and impartially*'.

B.4 The conclusions of the review will be used to inform decisions by the OBR board and management about the OBR's future work programme and publications.



Selection of IFI evaluation framework paper for OECD

C.1 This is a selection of the evaluation framework by the Jean-Luc Pepin Research Chair (University of Ottawa) commissioned by the OECD for the evaluation of independent fiscal institutions (IFIs). The draft framework was presented to members of the OECD's Network of Parliamentary Budget Officials at their meeting in Jerusalem, March 2014. While generally accepted by members in concept, no endorsement by the OECD or its member countries is implied.

C.2 To cite this framework, please reference: Jean-Luc Pepin Research Chair (University of Ottawa), for the Organisation for Economic Cooperation and Development (OECD), *Evaluating the Performance of Independent Fiscal Institutions: Toward a Common Evaluation Framework (Draft)*, 2014.

Developing a framework for evaluation through four commonalities

C.3 IFIs exist in different environments, are subject to different mandates, have access to diverse resources and are accountable to a variety of stakeholders. However, as is evident from the unified set of OECD Principles, there are several fundamental aspects of IFI operations that are held in common. For example, regardless of mandate, resources, products or stakeholders, all IFIs have a specific context, have a defined set of inputs, produce outputs and must consider the outcomes of their work through the perceived confidence of their stakeholders. Thus, in constructing an evaluation framework for IFIs, we must balance their unique attributes with their common modalities.

C.4 The impetus for evaluating an IFI comes from the informational role it plays in democratic debate. To maximise an IFI's potential, it must be held to the highest possible contextually relevant standard. Developing an evaluation framework that drives contextually relevant excellence requires consideration of 4 key elements of IFIs:

- 1 **Context:** The unique political and institutional environment housing the IFI as well as its legally defined mandate.
- 2 **Inputs:** Quantification and quality of the IFI's resources (both financial and human). It is necessary to consider organisational inputs as a factor for comparison and possible influencer of institutional capacity, productivity and relevance.
- 3 **Outputs:** The products developed and released by the IFI based on the functions defined in its mandate (i.e. costing, economic and fiscal forecasting, macro-fiscal sustainability, budgetary advisory).
- 4 **Outcomes:** Stakeholders' perceived confidence in the IFI's work.

Context

C.5 The IFI's specific institutional context will frame the direction of evaluation. Context reflects the importance of locality by referring to the mandate and unique political and institutional environment in which the IFI finds itself. There is strong agreement across jurisdictions about the importance of accounting for context in the evaluation of IFIs. This is reflected in the first Principle of the OECD's Principles for IFIs through its emphasis on 'local ownership' of the institution. The IFI like any other institution does not exist in a vacuum – its context informs its design, its operation and its sustainability. Accounting for this uniqueness in the evaluation is crucial.

C.6 The importance of context is recognised in the proposed evaluation framework by first assessing the IFI's mandate and its corresponding sources of responsibility and accountability. There are various motivations to establish an IFI. For instance, some, as in the case of Canada, are born out of a crisis of fiscal and legislative accountability. Others, as was the case for Australia, were established by the legislature to foster transparency. In other situations, the IFI is created as a condition for support from a supranational organisation (e.g. the World Bank, the IMF). Or as was the case for Ireland and Portugal, the IFI acts as a surveillance mechanism to monitor adherence to bailout conditions for a supranational body such as the European Union. The impetus for creating the institution informs its mandate and ultimately influences its stakeholder universe.

C.7 Despite best intentions in establishing an IFI, context is dynamic and can change. Even though a government may initially be welcoming of the IFI upon its establishment (e.g. Ireland), that context can shift and the relationship can become combative (e.g. Canada) if the government perceives the IFI to be a threat or nuisance to its work. Changes in context can also result from an institution's lifecycle. For instance, the preoccupations of a newly established IFI will be different than one in existence for decades. The institution's age and preoccupations must be considered in its assessment. Therefore, when it comes to evaluating IFIs, an assessment of context should include its mandate, its political environment as well as its maturity. Only then can its legislatively defined functions be compared to its actual capacity for operation.

Lesson 1

An IFI's context frames its inputs and outputs and is directly linked to its outcomes. To understand the impacts of context on the IFI, mandate and nature of accountability must be identified and assessed by asking: what is the legislative mandate of the IFI? What is the nature of its accountability?

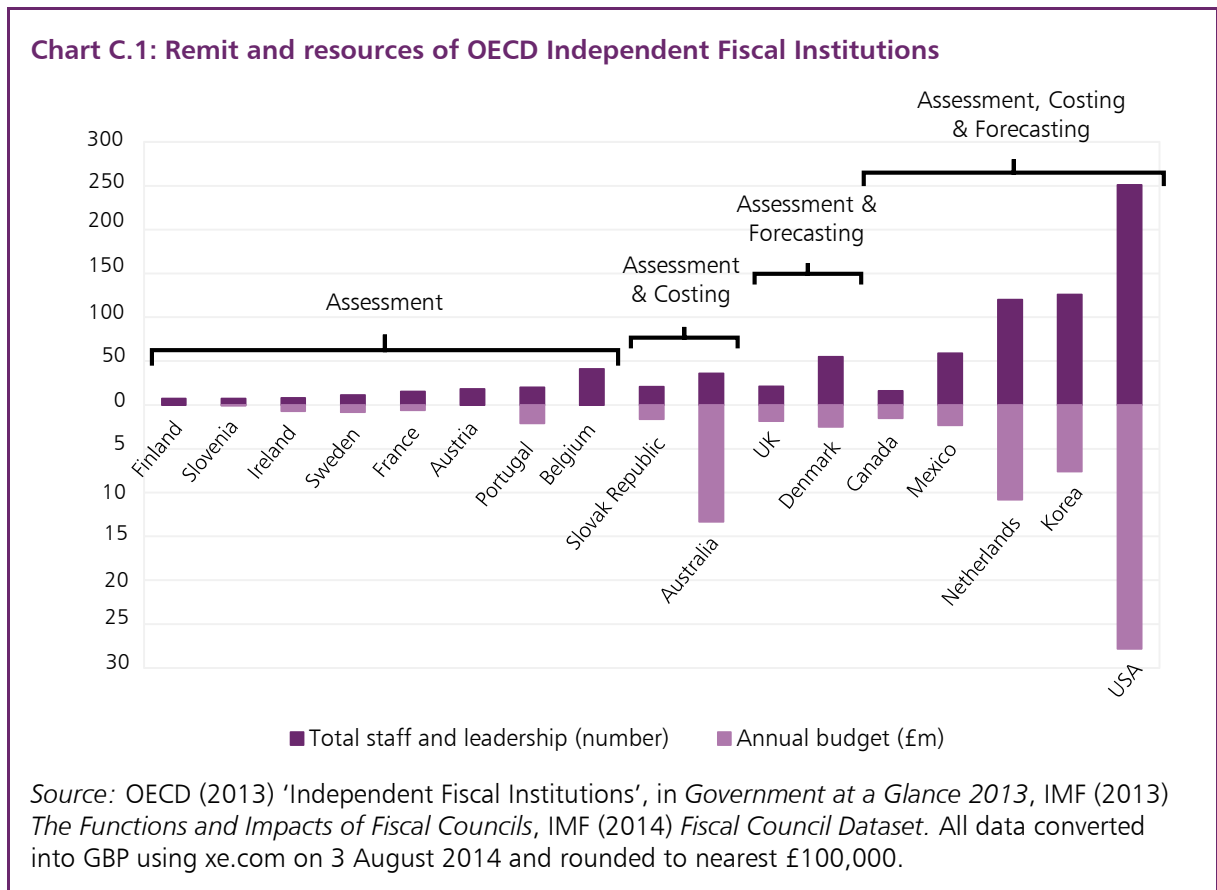
- Legislation? Convention?
- Accountable to the legislature or to the executive?
- What are the manifestations of its accountability in terms of function and stakeholders?

C.8 Linked to the IFI's context are its inputs and outputs. Defining and evaluating the content of these categories allows us to empirically assess the operation and functions of the IFI.

Inputs

C.9 The resources allocated to an IFI influences its capacity to fulfil its mandate - and should, according to OECD Principles, be commensurate with its mandate (OECD Principles on IFIs, #4). As the IMF's 2013 report on Fiscal Councils indicated, there are key features in the design of an institution that can help to ensure its success. Kopits (2011) for instance, identifies the technical competencies of staff as one of four key characteristics of a successful IFI (the others being independence, non-partisanship and accountability to the legislature).

C.10 Reflecting this emphasis on expertise and competencies, the IMF identifies ranges of required full-time professionals to fulfil various functions of the fiscal council (IMF, 2013: p. 35). Table C.1, using data from the IMF, the OECD and the University of Ottawa's review of the OBR (2014), depicts the principle functions of IFIs across jurisdictions, their staff numbers and budgets. The chart indicates that an IFI's number of staff is typically commensurate with the scope of its mandate whereas this is not always the case with their budgets.



C.11 Policy costing and forecasting on the other hand are the most expensive functions to undertake. As the IMF's study highlights, with a significant staff of 240 people and operating budget of 45 million USD to fulfil its functions, the CBO is required to deliver a broad mandate that includes costing, fiscal policy analysis, forecasts and long-term sustainability assessments (IMF, 2013: p. 35).

C.12 Beyond the allocated financial and human resources, the culture and consciousness of staff within the institution also matter. Chiefly, the IFI's culture must be one of political

independence (IMF, 2013; Kopits, 2011; Hagemann, 2011). The community agreed to independence and non-partisanship of the IFI as important elements for effective operation (OECD Principles for Independent Fiscal Institutions, #2).

C.13 For instance, the CBO refers to a ‘culture of consciousness’ relative to non-partisanship and independence (Interview by Authors with the CBO, March 2014). This type of culture is engrained in staff and is defended by the highest-levels of management in the institution to support and protect the institution’s work and mandate. Developing and sustaining this type of culture is a function of leadership and institutional set-up, a question directly related to inputs. Alice Rivlin for instance, the first Congressional Budget Officer, played a central role in defining the mandate and role of the CBO. Her leadership was a first step in establishing a culture committed to independence and transparency (see Joyce, 2011 and CBO Interview, 2014).

C.14 By providing the IFI with adequate resources and protection to fulfil its functions, the state can send a message about its commitment to fiscal transparency and tacitly to democracy, by fostering informed choice in fiscal matters. Put simply, the resources inputted to the IFI impact its ability to fulfil its functions and roles. Quantifying resources is an important step in the evaluation process. If for instance, an IFI has its funding or its access to information adjusted, these developments can be expected to importantly impact its capacity to fulfil the full breadth of its mandate. See Table C.1 for a summary of inputs across jurisdictions with data from the OECD and IMF.

Lesson 2

To understand the capacity the IFI has based on its inputs to fulfil its mandate, an evaluation should seek to quantify the financial and human resources of the IFI through an assessment of:

- Funding
- Personnel (number and qualifications)
- Access to government data and information (OECD Principles for IFIs, #6)
- Political independence (OECD Principles for IFIs, #2)
- Stability of the organisation’s inputs (can they be changed or eliminated?)

Table C.1: Summary of inputs across Independent Fiscal Institutions

| Country | Independent Fiscal Institution | Annual budget (in GBP) | Senior management (number) | Other staff (FTE) management | Can non-citizens be management | Who appoints senior management | Who dismisses senior management |
|-----------|------------------------------------|------------------------|----------------------------|------------------------------|--------------------------------|--------------------------------|---------------------------------|
| Australia | Parliamentary Budget Office | £13.3m (2012) | 1 | 35 in recruitment | Yes | Legislature | Legislature |
| Austria | Fiscal Advisory Council | - | 15 | 3 | No | Government & Other | - |
| Belgium | High Council of Finance | - | 27 | 14 | No | Government & Other | Other |
| Canada | Parliamentary Budget Office | £1.5m (unknown) | 1 | 15 | No | Government | Government |
| Croatia | Fiscal Policy Council | - | 7 | 0 | No | Government | Government |
| Denmark | Danish Economic Council | £2.5m (2010) | 25 | 30 | Yes | Government | - |
| France | High Council of Public Finance | £600,000 (2013) | 10 | 5 | - | Government & Legislature | - |
| Georgia | Parliamentary Budget Office | - | 10 | 1 | No | Legislature | Legislature |
| Germany | German Council of Economic Experts | - | 5 | 20 | Yes | Other | - |
| Hungary | Fiscal Council | - | 3 | 4 | No | Other | - |
| Ireland | Irish Fiscal Advisory Council | £700,000 (2013) | 5 | 3 | Yes | Government | Government & Legislature |
| Italy | Parliamentary Budget Office | £4.8m (unknown) | 5 | - | - | Legislature & Other | Legislature & Other |
| Korea | National Assembly Budget Office | £7.6m (2010) | 1 | 125 | Yes | Legislature | Legislature |

| Country | Independent Fiscal Institution | Annual budget (in GBP) | Senior management (number) | Other staff (FTE) | Can management be non-citizens | Who appoints senior management | Who dismisses senior management |
|-----------------|---|------------------------|----------------------------|-------------------|--------------------------------|--------------------------------|---------------------------------|
| Mexico | Center for Public Finance Studies | £2.3m (2009) | 0 | 59 | No | Legislature | Legislature |
| Netherlands | Netherlands Bureau for Economic Policy Analysis | £10.8m (2011) | 3 | 117 | Yes | Government | Government |
| Portugal | Portuguese Public Finance Council | £2.1m (2013) | 5 | 15 | Yes | Government & Other | Other |
| Romania | Fiscal Council | - | 5 | 6 | No | Legislature & Other | Legislature |
| Serbia | Fiscal Council | - | 3 | 4 | No | Legislature | Legislature |
| Slovak Republic | Council for Budget Responsibility | £1.6m (2013) | 3 | 17.5 | Yes | Government & Other | Other |
| Slovenia | Fiscal Council | £80,000 (2012) | 7 | 0 | Yes | Government | Government |
| Sweden | Swedish Fiscal Policy Council | £800,000 (2012) | 6 | 5 | Yes | Government | Government |
| United Kingdom | Office for Budget Responsibility | £1.75m (2013) | 3 | 18 | Yes | Government & Legislature | Government & Legislature |
| United States | Congressional Budget Office | £27.8m (2011) | 1 | 250 | No | Legislature | Legislature |

Source: OECD (2013) 'Independent Fiscal Institutions', in *Government at a Glance 2013*; IMF (2014) *Fiscal Councils Dataset*; various IFI founding legislation. All data converted into GBP using xe.com on 3 August 2014 and rounded to nearest £100,000.

Outputs

C.15 Utilising available inputs, the IFI is responsible for producing a variety of reports to fulfil functions in four principal categories: costing, forecasting, macro-fiscal sustainability, budgetary/advisory. Evaluating the content and quality of these products is an important element of evaluation.

C.16 Peer-review is the most common and easily accessible mechanism to evaluate an IFI's products. The scientific review process is undertaken by a group of independent referees with expertise in the field, such as academics or practitioners. In undertaking the review, the peer-reviewers assess the project's terms of reference, its methodology and the quality of the data to evaluate the overall quality of the final product. Many IFIs, including Australia, Canada, the Netherlands and Finland rely on peer-review to test methodological rigour and unbiased application of the approach to promote high-quality analytic reports. The OBR has a panel of seven economic and fiscal experts that scrutinise the methodological quality and content of its outputs. Finland plans to launch a Scientific Council in 2014 for the evaluation of its methodologies by experts (Interview by Authors, Finland's Fiscal Policy Audit and Executive Office). This is motivated by a desire to gain institutional credibility.

C.17 Evaluating the outputs of IFIs means going beyond counting the number of reports or assessments released annually also means evaluating the outputs by inquiring into how the IFI is fulfilling its mandate by producing in its areas of responsibility and assessing the content and quality of those products relative to their peers (see Table C.2 for a summary of jurisdictions and their external review mechanisms). Such evaluation could be regularised by incorporating a peer-review process in its output functions.

Table C.2: Mechanisms for external evaluation used by various IFIs

| Country and Institution | Review of selected work | Annual evaluation | Permanent advisory panel | Independent or peer review |
|--|-------------------------|-------------------|--------------------------|----------------------------|
| Australia (Parliamentary Budget Office) | ○ | ○ | ○ | ● |
| Austria (Fiscal Advisory Council) | ○ | ○ | ○ | ○ |
| Belgium (High Council of Finance) | ○ | ○ | ○ | ○ |
| Canada (Parliamentary Budget Officer) | ● | ○ | ○ | ○ |
| Denmark (Economic Council) | ○ | ○ | ○ | ○ |
| Ireland (Fiscal Advisory Council) | ○ | ○ | ○ | ● |
| Korea (National Assembly Budget Office) | ○ | ○ | ● | ○ |
| Mexico (Centro de Estudios de las Finanzas Públicas) | ○ | ○ | ○ | ○ |
| Netherlands (Bureau for Economic Policy Analysis) | ○ | ○ | ● | ● |
| Portugal (Conselho das Finanças Públicas) | ○ | ○ | ○ | ○ |

| Country and Institution | Review of selected work | Annual evaluation | Permanent advisory panel | Independent or peer review |
|---|-------------------------|-------------------|--------------------------|----------------------------|
| Slovak Republic (Council for Budget Responsibility) | ○ | ○ | ○ | ○ |
| Slovenia (Fiscal Council) | ○ | ○ | ○ | ○ |
| Sweden (Fiscal Policy Council) | ○ | ○ | ○ | ○ |
| UK (Office for Budget Responsibility) | ○ | ○ | ● | ● |
| USA (Congressional Budget Office) | ○ | ○ | ● | ○ |

Source: OECD (2014, forthcoming) Principles for Independent Fiscal Institutions and Country Notes (OECD Publishing) and IFI websites (where available in English).

Lesson 3

Once the IFI's core functions have been defined based on its mandate, we must look to outputs in these areas asking: What are the products the IFI develops and releases to fulfil its mandate? How does the content of these products compare to those of their peers and to international standards of evaluation?

- Compare number of outputs to those in peer group
- Compare content quality against those of peers and international scientific standards
- In addition, where possible compare outputs and gains in transparency for stakeholders over time and/or against an observable counterfactual

C.18 With an evaluation of inputs and outputs, we gain a sense of the resources and production capacities of the institution. Once we understand what the institution does and how it achieves it, we can turn to evaluating outcomes.

Outcomes

C.19 An outcome is the end result of the IFI's work – it is not an output (product) or an input (resource) but rather the combined impact (or lack thereof) of these components. Since IFIs are accountable to particular stakeholders based on their mandate, in order to assess outcomes, we must assess the perceived confidence of stakeholders in that work. Relevant stakeholders can be identified relative to the IFI's mandate and the nature of its accountability. Beyond legislatively defined mandates and accountability, it is also useful to assess the practices of the IFI to confirm its primary stakeholders. In the case of Ireland for instance, although its official title is that of 'advisory council', it in fact acts as an oversight body (Interview by Authors, 2014, Irish Fiscal Advisory Council). As a watchdog, the council not only advises government but scrutinises its budgets. Drawing out this distinction is useful by helping to better define stakeholders in order to evaluate outcomes.

C.20 Why does the evaluation of outcomes matter? It matters for the quality of democracy and debate as well as for government accountability to the legislature. If we accept that democracy is best served by the informed consent of decision makers (see Joyce, 2011), then institutions like IFIs that provide independent information and

analysis should be welcomed. The outcomes of the IFI however, must have the confidence of its stakeholders in order to be relevant. Unless stakeholders are confident in the content of its work, the IFI risks limiting its impact and its relevance in public debate. In the long run an IFI that is not perceived as relevant by its stakeholders, legislated or otherwise, may well face existential pressures.

C.21 In analysing the IFI community, despite differences in legislatively defined accountability, common stakeholders can be identified. Such stakeholders include legislatures, the media (often including the public), supranational organisations (such as the European Commission), the executive as well as the scientific community and researchers.

C.22 With its complex mandate and potential for impact, an IFI can have a variety of substantive stakeholders – but not all stakeholders are created equal. Some stakeholders may have more direct connections to the IFI while others may have less substantive connections. With multiple stakeholders and differing connections, how can we measure the IFI's outcomes? Undertaking an actual survey of stakeholder perceptions can be a useful tool.

C.23 Within the IFI community, the Netherlands and South Korea already survey stakeholders about their knowledge of and confidence in their IFI. In the Netherlands where the IFI is one of the oldest in the world, public opinion research was recently undertaken on the institution. When the public was polled about the IFI, 95% of respondents in the general population could recognise the institution by name and approximately 55% could identify main aspects of its mandate and responsibilities (Interview by Authors, 2014, Netherlands Bureau for Economic Planning Analysis). This popular knowledge of the IFI and its role is reflected in the legislature where a greater majority is familiar with the institution and its functions. It must be noted that the Netherlands' IFI calculates electoral mandate fulfilment (along with its forecasting and policy analysis functions) which makes it a well-known entity among legislators.

C.24 Since 2004, Korea has undertaken an annual satisfaction survey of Members of Parliament and their secretarial staffs (Interview by Authors, 2014, Korea's National Assembly Budget Office). Satisfaction rates with the institution have gradually increased in the last three years. Incorporating a survey into the evaluation of the IFI's outcomes offers a quasi-independent and partially objective means for evaluating perceived confidence of stakeholders in the institution. The idea of measuring the awareness of legislators of the IFI was largely welcomed during interviews as a potential practice by jurisdictions not already actively surveying the stakeholders.

C.25 In other jurisdictions such as Australia and Hungary, although surveying Parliamentarians is not the norm, the IFIs do offer information sessions to legislators about the mandate, accountability and function of the IFI. The educational approach to informing legislators about the IFI and its connection to their role as scrutinisers could be a useful first step in sensitising Parliamentarians to the IFI and its role in promoting democracy.

C.26 Legislators, as guardians of the public purse through scrutiny of government spending, have a unique connection to the IFI through its informational role (OECD Principles on IFIs, #5). Determining whether or not they have an understanding of the function and role of the IFI in Parliament is important in framing their perceived confidence in the institution.

Lesson 4

As primary stakeholders, a comprehensive evaluation of IFIs should include a survey of legislators' knowledge of and perceived confidence in the IFI.

Other stakeholders of the IFI can also be surveyed regarding perceptions of confidence.

C.27 Beyond legislators, the media is one of the most often-cited means of assessing perceived confidence through the appropriation, discussion and dissemination of the IFI's work (see Kopits, 2011; IMF, 2013; OECD Principles for IFIs, #8). As a facilitator of public information and debate, the media can play an important role in publicising and rendering an IFI's work relevant and digestible. According to Hagemann (2011: p. 94), '[...] active and unfettered dissemination of the agency's analyses and reports' is crucial because dissemination and discussion in the media impact the debate of policy issues.

C.28 The media can be considered an important tool for the IFI to channel information and enhance the debate through increased information. Further, positive media attention and reference of the IFI's work can attract the attention of politicians. Thus, as both a disseminator and interpreter, the media can play a significant role in providing perceived confidence in the role of the IFI by citing the content of its outputs and referencing its reports. In the case of Korea for instance, the media has increasingly publicised the National Assembly Budget Office's (NABO) reports and events. From 563 in 2005, coverage of NABO's activities through press releases swelled to a total of 3,764 press releases in 2013 (Interview by Authors, 2014, Korea's National Assembly Budget Office). Regular media coverage and use of IFI outputs can be interpreted as a measure of confidence in its work – especially since annual confidence surveys among legislators in the work of the IFI have increased regularly in the last 3 years.

C.29 By assessing and disseminating the work of the institution, the media comments on its perceived confidence in the IFI, making it an important evaluator of its work. If an IFI's reports are regularly appropriated and discussed by the media as a source of information and authority, the IFI gains legitimacy. The reverse would also be true. If the media did not engage with the IFI or its outputs, there may be reason to be concerned about the quality of the institution's work and its sustainability.

Lesson 5

Given the media's public role as a conduit of information and participant in public debate, its perceived confidence in an IFI is an important indicator of outcomes. Therefore, an evaluation of an IFI must consider the media's appropriation and trust of its work through references and willingness to engage with its outputs.

C.30 Evaluating the outcomes of IFIs can extend beyond national borders and be of interest to supranational bodies. In the case of various European IFIs, the European Commission was identified as a variant of a stakeholder. Although domestic institutions like the IFI are not legally accountable to the European Commission, there are perceptions that the organisation may take interest in its outputs for evaluations of the domestic fiscal situation. In evaluating the outcomes of IFIs, the perceptions of confidence of a supranational body like the European Commission would be interesting

to survey. However, given the delicate nature of matters related to national sovereignty, lending credence to the interpretations and evaluations of supranational organisations like the European Commission may prove to be a difficult sell to state governments.

C.31 Outcomes are the culmination of an IFI's inputs and outputs framed by a unique context and mandate. In order to assess the impact of its outcomes, the perceived confidence of stakeholders in the IFI must be evaluated. Having confidence in the outputs of the institution means understanding its information and analyses, accepting the material as authoritative and using it in the public space to foster debate and dialogue. Contributing to deliberation in as democracy is the IFI's broader role as a forward-looking and information-based institution.

Conclusion

C.32 The IFI community is acknowledged to be heterogeneous, reflecting the specific political, economic and public finance contexts of each jurisdiction. However, IFIs share important commonalities that enable peer comparisons that support the development of relevant benchmarks. Through the *OECD Principles for Independent Fiscal Institutions*, IFIs also share a set of operating principles that enable the development of practice standards. An effective evaluation framework must mediate between the unique context of each IFI while making useful comparisons that support excellence and enable stakeholders to discharge obligations, statutory, fiduciary and otherwise.

C.33 The proposed approach for an evaluation framework includes four distinct elements (i.e. context, inputs, outputs and outcomes), follows a performance framework approach used by governments around the world and leverages conventional evaluation tools such as peer-review, assessment against observable counterfactuals (e.g. pre and post IFI), stakeholder interviews and detailed surveys of stakeholders – elements that should provide evaluators of IFIs with a flexible but robust evaluation framework.

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D Letter from OBR Chairman confirming access to data

D.1 Please see overleaf.

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7 August 2014

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Dear Kevin,

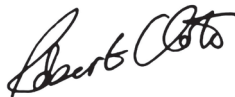
RE: Request from OBR external review to confirm access to government data

As Chairman of the Office for Budget Responsibility and for the purposes of your external review, you have asked me to confirm on behalf of the Budget Responsibility Committee that the OBR has received all of the data and analysis required from Government departments and agencies in order to fulfil our mandate.

I can confirm that we have been provided with all the information and analysis that we have requested from the UK Government, for each publication of the following reports since October 2010:

- *Economic and fiscal outlook* and the policy costings certified at the time of those reports
- *Fiscal sustainability report*
- *Forecast evaluation report*

Best regards,



Robert Chote
Chairman

E

Stakeholder survey and methodology

The following survey was issued to 130 stakeholders across a range of sectors that use or could use the OBR's work. The sectors included the media, think tanks, researchers and academics, the Civil Service, the private sector and domestic and international financial institutions; the survey did not cover Parliamentarians. The selected sample was based on a stakeholder list used by the OBR for a survey it conducted in 2012 to inform its work and *Annual report and accounts 2012-13*.

The survey consisted of a series of 18 questions that aimed to assess stakeholder awareness of the OBR (including its functions, leadership and accountabilities), use of its work and confidence in the organisation. It was administered via *Survey Monkey* and all stakeholders were sent an email invitation on 19 June 2014 to complete the survey online. Due to an initially low response rate, email reminders were issued and all stakeholders were contacted by phone and encouraged to complete the survey. This resulted in a total response rate of 55% (71 responses out of 130 invitations).

All individual survey responses were anonymous. Data from the results were analysed at an aggregate level and by profession to inform the conclusions and recommendations in this report.

Survey questions

- 1 Which of the following are legislatively mandated roles of the Office for Budget Responsibility (OBR)? Please select all that apply.
 - a Assess the long-term sustainability of public finances
 - b Provide evidence to Parliamentary Committees
 - c Produce costings of tax and spending measures
 - d Answer Parliamentary questions on reports
 - e Scrutinise government costings of tax and spending measures
 - f Publish five-year economic forecasts twice a year
 - g None of the above
- 2 Who is the Chairman of the OBR?
 - a Lord Burns
 - b Graham Parker
 - c Steve Nickell
 - d Robert Chote
 - e Kate Barker
 - f Sir Alan Budd

- g None of the above
- 3 To whom is the OBR accountable?
- a Executive branch of government
 - b House of Commons
 - c Both the Chancellor of the Exchequer and Parliament (House of Commons and House of Lords)
 - d HM Treasury
 - e House of Lords
 - f Chancellor of the Exchequer
 - g None of the above
- 4 How do you access the OBR's products? Please select all that apply.
- a OBR website
 - b Print media
 - c Radio
 - d Television
 - e Social media
 - f Discussions with OBR staff
 - g None of the above
- 5 The work produced by the OBR is free from political interference.
- a Strongly agree
 - b Agree
 - c Somewhat agree
 - d Neither agree nor disagree
 - e Somewhat disagree
 - f Disagree
 - g Strongly disagree
- 6 Considering the reports that the OBR releases, would you consider the quality of the data in these reports to be:
- a Very reliable
 - b Reliable
 - c Somewhat reliable
 - d Neither reliable nor unreliable
 - e Somewhat unreliable

- f Unreliable
 - g Very unreliable
- 7 How understandable are the OBR's products?
- a Very understandable
 - b Understandable
 - c Somewhat understandable
 - d Neither understandable nor incomprehensible
 - e Somewhat incomprehensible
 - f Incomprehensible
 - g Very incomprehensible
- 8 Would you consider the scientific quality of the methodology (i.e. the approach used for analysis) used by the OBR in its reports as being:
- a Very reliable
 - b Reliable
 - c Somewhat reliable
 - d Neither reliable nor unreliable
 - e Somewhat unreliable
 - f Unreliable
 - g Very unreliable
- 9 To what degree do you utilise the OBR's reports in your professional work?
- a Very often
 - b Somewhat often
 - c Often
 - d Neither often nor rarely
 - e Somewhat rarely
 - f Rarely
 - g Very rarely
- 10 It is important for the government of the day to be perceived to support the OBR.
- a Strongly agree
 - b Agree
 - c Somewhat agree
 - d Neither agree nor disagree
 - e Somewhat disagree

- f Disagree
 - g Strongly disagree
- 11 Your confidence in the OBR is directly related to the Chairman.
- a Strongly agree
 - b Agree
 - c Somewhat agree
 - d Neither agree nor disagree
 - e Somewhat disagree
 - f Disagree
 - g Strongly disagree
- 12 Your confidence in the OBR is directly related to the competency of its analysts.
- a Strongly agree
 - b Agree
 - c Somewhat agree
 - d Neither agree nor disagree
 - e Somewhat disagree
 - f Disagree
 - g Strongly disagree
- 13 Your confidence in the OBR is directly related to its founding legislation.
- a Strongly agree
 - b Agree
 - c Somewhat agree
 - d Neither agree nor disagree
 - e Somewhat disagree
 - f Disagree
 - g Strongly disagree
- 14 Your confidence in the OBR is directly related to its administrative operations.
- a Strongly agree
 - b Agree
 - c Somewhat agree
 - d Neither agree nor disagree
 - e Somewhat disagree

- f Disagree
- g Strongly disagree

15 How can the OBR improve its products and communications strategies to meet stakeholder needs? [Free Text Box]

Please answer the following questions for the purposes of data aggregation and sorting:

16 What is your gender?

- a Male
- b Female

17 What is your professional sector?

- a Media
- b Private sector
- c Civil Service
- d University researcher or academic
- e Think tank
- f Civil society

18 What is your age?

- a 16-26
- b 27-37
- c 38-48
- d 49-59
- e 60-70
- f 70-80
- g 81-101

F

Survey of Parliamentarians and guidelines for reissuing

As part of this review, an unsuccessful effort was made to broadly survey Members of Parliament and Members of the House of Lords, vis-à-vis their perceptions and interactions with the OBR and its products. The long-term sustainability of the OBR will depend on ensuring relevance to key stakeholders, particularly those in Parliament. In an effort to address the gap in understanding of MP and Peer perceptions, as per the first recommendation of this report, the survey of Parliamentarians should be reissued before the end of this session of Parliament.

In even the best of circumstances it can be a challenge to obtain statistically valid response rates for surveys, particularly those directed at busy Parliamentarians. Below is a list of suggestions to support the execution and completion of this recommended task:

- The 21-question survey included in this Annex can serve as a model for a survey of Parliamentarians;
- An external (i.e. non-governmental) party such as a professional polling firm, university research group or think tank should administer the survey in order to reduce any potential perceptions of bias in the process;
- Written notice of the survey, details of the issuing agency and an explanation of the rationale for the survey should be provided to every Parliamentarian;
- The administering organisation should phone the office of every Parliamentarian directly to follow-up about the survey and the issued letter. The Parliamentarian or their designated representative should have the option of completing the survey at that time or should be able to schedule an appointment for completion at a later time;
- Three means of completing the survey should be offered to participants: over the phone; through a password protected online survey; or by paper (returned by fax or post).
- To maximise the participation of Parliamentarians, the survey should be issued while Parliament is sitting;
- The support of the Speaker, party whips or other relevant parties should be sought to encourage and remind Parliamentarians to complete the survey.

Original methodology

The following survey was issued to every Member of Parliament (650) and Member of the House of Lords (777) at the start of July 2014. It consisted of 21 questions that aimed to test awareness and use of the OBR's work among Parliamentarians and canvass views on the quality, accessibility and relevance of its publications.

The survey was administered via email (through *Survey Monkey*) and post (hard copies). All MPs and around 250 Members of the House of Lords with publicly available email addresses were contacted electronically and asked to complete the survey online. The remaining 550 Peers

without available email addresses were issued a hard copy of the survey by post and asked to send their responses to the London-based members of the Review team.

Despite issuing email reminders, the survey only received 52 responses: 5 responses came from MPs (all completed online) and 47 responses came from Peers (15 online and 32 by post). Due to the low response rate, the results could not be used in this report.

Survey questions

- 1 Parliamentarians carry out many important roles on behalf of British citizens. The list below describes some of these roles. For each one, please tell me how important you think that specific role is, using a scale of 1 to 7, where 1 means not important at all and 7 means very important.
 - a Advancing the party's official policies
 - b Representing constituency interests (MPs only)
 - c Vote on bills and/or motions
 - d Scrutinising how the government manages public finances
 - e Serving on committees
 - f Overseeing the government's activities
- 2 Parliament plays a crucial role in financial scrutiny and holding the government to account. In your view, how easy or difficult is it for Parliamentarians to perform this role effectively? Would you say this is:
 - a Extremely easy
 - b Easy
 - c Moderately easy
 - d Neither easy or challenging
 - e Moderately challenging
 - f Challenging
 - g Extremely challenging
- 3 Which of the following institutions are responsible for assisting Parliament and its Committees in scrutinising how the government manages public finances? Please select all that apply.
 - a HM Revenue and Customs (HMRC)
 - b National Audit Office (NAO)
 - c Office for Budget Responsibility (OBR)
 - d HM Treasury
 - e Scrutiny Unit
- 4 In your view, which of the following, if any, make it challenging for Parliamentarians to scrutinise how the government manages public finances?

- a Lack of information
 - b Lack of time
 - c Lack of resources
 - d Lack of expert advice
 - e Lack of interest
 - f Some other reason (please specify)
- 5 To what extent do you think Parliamentarians need technical assistance from subject matter experts (e.g. Scrutiny Unit, Office for Budget Responsibility, National Audit Office) to be able to scrutinise how the government manages public finances? Please select a single response.
- a To a very significant extent
 - b To a significant extent
 - c Neither a significant nor an insignificant extent
 - d To an insignificant extent
 - e To a very insignificant extent
 - f None at all
- 6 The Office for Budget Responsibility (OBR) was created in 2010 to examine and report on the sustainability of the public finances. How would you rate your overall level of familiarity with its legislatively mandated roles and responsibilities? Would you say you are:
- a Very familiar
 - b Moderately familiar
 - c Neither familiar nor unfamiliar
 - d Moderately unfamiliar
 - e Very unfamiliar
 - f Not at all familiar
- 7 If you selected 'not at all familiar' please go straight to Question 8. In your opinion, what are the OBR's most important legislatively mandated roles and responsibilities in terms of its engagement with Parliament? Please explain.
- 8 Since its inception the OBR has published a number of reports. Which of the following OBR reports were you previously familiar with? Please select all that apply.
- a Economic and Fiscal Outlooks
 - b Fiscal Sustainability Reports
 - c Forecast Evaluation Reports
 - d Briefing and working papers
 - e Other (please specify)

- 9 Of the reports with which you were familiar, to what degree do you think they assisted Parliamentarians in scrutinising how the government manages public finances? To do this, use a 7-point scale, where 1 means you think it was not helpful at all and 7 means very helpful. Please only rank reports that you are aware of.
- a Economic and Fiscal Outlooks
 - b Fiscal Sustainability Reports
 - c Forecast Evaluation Reports
 - d Briefing and working papers
 - e Other (please specify)
- 10 Have you personally ever referenced an OBR report during a speech, intervention or commentary in the House of Commons or House of Lords?
- a Yes
 - b No
 - c Cannot recall
- 11 If you answered 'yes' to Question 10, please skip to Question 12. If you answered 'no or cannot recall' to Question 10, which of the following responses best explain why you did not reference a report of the OBR (please select all that apply):
- a Unaware of the OBR's publications
 - b The OBR's reports are too difficult to understand
 - c There is no technical expert to explain the content of the reports
 - d No time to read the OBR's reports
 - e Information such as that from the OBR is obtained elsewhere
 - f Other (please specify)
- 12 If you answered Question 11, please skip to Question 13. As you can recall, how many times have you referenced an OBR report in the House of Commons or House of Lords?
- a Once
 - b 2-3 times
 - c 4-5 times
 - d 6-10 times
 - e More than 10 times
- 13 Have you ever referenced an OBR report during public commentary, public engagements or constituency activities (outside of Parliament)?
- a Yes
 - b No
 - c Cannot recall

- 14 If you answered yes to Question 13, how many times have you referenced an OBR report for any of these purposes?
- a Once
 - b 2-3 times
 - c 4-5 times
 - d 6-10 times
 - e More than 10 times
- 15 How do you usually obtain information about OBR reports? Please select all that apply.
- a OBR website
 - b Private briefings by OBR analysts
 - c Media
 - d Social media (e.g. Twitter)
 - e Parliamentary briefings
 - f Other (please specify)
- 16 How would you characterise the authoritativeness of the OBR's reports?
- a Very authoritative
 - b Authoritative
 - c Somewhat authoritative
 - d Neither authoritative nor unreliable
 - e Somewhat unreliable
 - f Unreliable
 - g Very unreliable
- 17 To what extent would you say the OBR has increased transparency in government through its work?
- a Very significantly
 - b Significantly
 - c Somewhat significantly
 - d Neither significantly nor insignificantly
 - e Somewhat insignificantly
 - f Insignificantly
 - g Very insignificantly
- 18 Thinking about the overall performance of the OBR, how would you rate each of the following indicators using a 7-point scale, where 1 means very poor and 7 means excellent?

- a The clarity and ease of understanding of its reports
- b The overall impact of the OBR in terms of helping Parliamentarians to scrutinise the government's management of the public finances
- c The accuracy of its analyses
- d The OBR's contribution to public debate on related issues

These last few questions are for analytical purposes only:

- 19 Please indicate whether you are a Member of Parliament or Member of the House of Lords:
 - a Member of Parliament
 - b Member of the House of Lords
- 20 How long have you been a Member of Parliament or Member of the House of Lords?
 - a Less than 2 years
 - b 2-5 years
 - c 6-10 years
 - d More than 10 years
- 21 Please list the Committees on which you currently sit or have sat during the past 5 years.

G

Media tracking methodology

G.1 To assess media coverage of the OBR, the online news database and research tool *Factiva* was used to analyse the volume of print and online media reports over the period covered by the review (October 2010 to June 2014). The purpose was (a) to test stakeholder confidence in the authoritativeness of the OBR's work, and (b) to determine the timing of high-coverage periods and explore possible linkages with the release of OBR reports and/or fiscal and budgetary events in the UK (such as the Budget).

G.2 The impetus for media analysis is derived from the OECD Principles on IFIs as well as an IMF endorsed 'good practice' for fiscal councils. Both sources point to the importance of engaging with the media as a tool for fostering informed consent among citizens and even decision-makers.

OECD Principle 8

'IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that the influence of IFIs in fiscal policy making is persuasive [...] media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters'.¹

IMF good practice

'For fiscal councils to influence the policy debate it is important to have a strong media presence to communicate their assessment of government's fiscal policy to the public. This is particularly important when fiscal councils need to raise the alarm as when proposed budgets are not in line with stated objectives [...] or when the fiscal outturns are coming out significantly worse than projected. By identifying such episodes, and mapping them against the volume of media reporting of the findings of the council, it is possible to get a sense of the effectiveness of the council's communication with the public'.²

G.3 The review used the following search terms and parameters for the *Factiva* search:

- Keyword search: 'Office for Budget Responsibility' or 'OBR'
- Restrictions: 'Headline and Lead paragraph' results only
- Time period: October 2010 to June 2014
- Other: all Authors, Companies, Subjects and Industries allowed
- Source: all sources in English in the UK (i.e. all print and online reports) except blogs and think tank websites

¹ OECD (2014) *Recommendation of the Council on Principles for Independent Fiscal Institutions: Principle 8*.

² IMF (2013) *The Functions and Impact of Fiscal Councils*: p. 37.

G.4 The *Factiva* results were reviewed and any articles erroneously captured were removed (e.g. where 'OBR' represented a different entity, and reports published on the government's GOV.UK website). The results were then arranged by date (year and month) and used to produce the charts in the Outcomes chapter of this report. Whilst the team identified occasions when the OBR Chairman was interviewed on television and radio, these were not included in the media tracking analysis as they did not provide a representative sample of the OBR's media coverage.



Acknowledgements

Kevin Page and the review team would like to thank all those who have contributed evidence and insights to the review.

We are grateful to the Office for Budget Responsibility and its staff for their cooperation during the review process.

Mr Page would like to thank the following individuals who met with the team between May and July 2014. Whilst all have made valuable contributions, the conclusions and recommendations set out in this report are those of Mr Page alone.

| | |
|------------------|---|
| Jonathan Athow | HM Revenue and Customs, Director of Knowledge Analysis and Information |
| Ed Balls MP | Shadow Chancellor of the Exchequer |
| Scott Bennett | Carleton University, Professor |
| James Bowler | HM Treasury, Director of Strategy Planning and Budget |
| Sir Alan Budd | Interim Chairman of the Office for Budget Responsibility |
| Shaun Butcher | Department for Work and Pensions, Head of Forecasting Division |
| Ben Chu | The Independent, Economics Editor |
| Spencer Dale | Bank of England, Executive Director, Financial Stability Strategy and Risk |
| Jonathan Dupont | Policy Exchange, Economic & Social Policy Research Fellow |
| Carl Emmerson | Institute for Fiscal Studies, Deputy Director |
| David Gauke MP | Financial Secretary to the Treasury |
| Chris Giles | Financial Times, Economics Editor |
| Joe Grice | Office for National Statistics, Director and Chief Economist |
| The Lord Hollick | House of Lords Economics Affairs Committee, Chairman |
| Larry Honeysett | House of Commons Scrutiny Unit, Head of Financial Scrutiny |
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| Kimberley Trewitt | Reform, Research Director |
| Andrew Tyrie MP | Treasury Select Committee, Chairman |
| Lisa von Trapp | OECD, Budgeting and Public Expenditures |
| Joachim Wehner | London School of Economics, Associate Professor in Public Policy |
| Simon Wren-Lewis | University of Oxford, Professor of Economics |
| James Zuccollo | Reform, Senior Economist |



Abbreviations and glossary

| | |
|-------|--|
| BRC | Budget Responsibility Committee |
| BRNAA | Budget Responsibility and National Audit Act (2011) |
| CACB | Cyclically-Adjusted Current Balance |
| CBO | Congressional Budget Office (United States of America) |
| DWP | Department for Work and Pensions |
| EC | European Commission |
| EFO | Economic and Fiscal Outlook |
| FSR | Fiscal Sustainability Report |
| FER | Forecast Evaluation Report |
| FTE | Full-Time Equivalent |
| HMRC | HM Revenue and Customs |
| HMT | HM Treasury |
| IFI | Independent Fiscal Institution |
| IFS | Institute for Fiscal Studies |
| IMF | International Monetary Fund |
| JLP | Jean-Luc Pepin Research Chair (University of Ottawa) |
| NIESR | National Institute of Economic and Social Research |
| OBR | Office for Budget Responsibility |
| OECD | Organisation for Economic Co-operation and Development |
| ONS | Office for National Statistics |
| PBO | Parliamentary Budget Office |
| TSC | Treasury Select Committee |

Budget Responsibility Committee

The OBR is led by the three members of the Budget Responsibility Committee. They have executive responsibility for carrying out the core functions of the OBR, including responsibility for the judgments reached in its forecasts. They are Robert Chote (Chairman), Steve Nickell CBE and Graham Parker CBE.

Department for Work and Pensions

The Department for Work and Pensions is responsible for welfare, pensions and child maintenance policy. As the UK's biggest public service department it also administers the State Pension and a range of working age, disability and ill health benefits to over 22 million claimants and customers.

HM Revenue and Customs

HM Revenue and Customs is the UK's tax authority. It is responsible for ensuring money is available to fund the UK's public services, by administering and ensuring compliance with the tax system, and for helping families and individuals with targeted financial support.

HM Treasury

HM Treasury is the UK economic and finance ministry, maintaining control over public spending and setting the direction of the UK's economic policy. The OBR is a non-departmental public body under the aegis of the Treasury and its duties feed directly into the Treasury's fiscal objective to deliver sound and sustainable public finances.

Office for National Statistics

The Office for National Statistics is the recognised national statistical institute of the UK. It is responsible for collecting and publishing statistics related to the economy, population and society at national, regional and local levels. It is also the executive office of the UK Statistics Authority.

Oversight Board

The OBR's Oversight Board ensures that effective arrangements are in place to provide assurance on risk management, governance and internal control. It consists of the three members of the BRC, plus two Non-executive members. They are Lord Burns and Dame Kate Barker.

Treasury Select Committee

The Treasury Select Committee is appointed by the House of Commons to examine the expenditure, administration and policy of HM Treasury, HM Revenue & Customs, and associated public bodies, including the Office for Budget Responsibility.

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