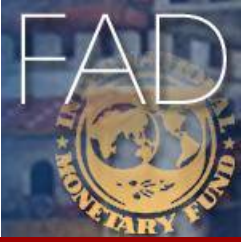


Governance: case study of the UK's Office for Budget Responsibility

Tom Josephs





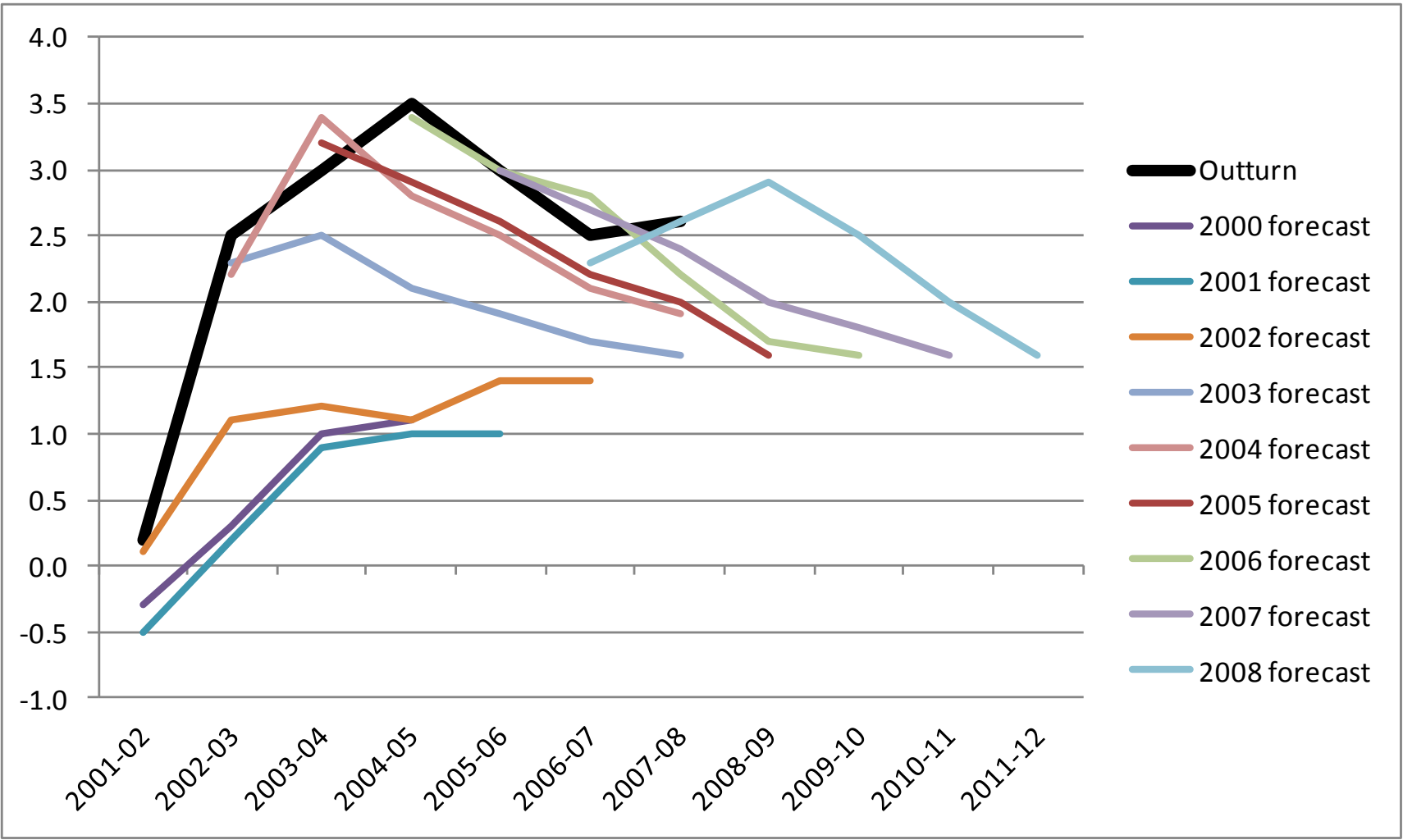
Outline of the presentation

- 1) Background and context**
- 2) Establishing independence and credibility**
- 3) Conclusions: some findings of the 5-year review**

Background and context

Series of optimistic UK deficit forecasts...

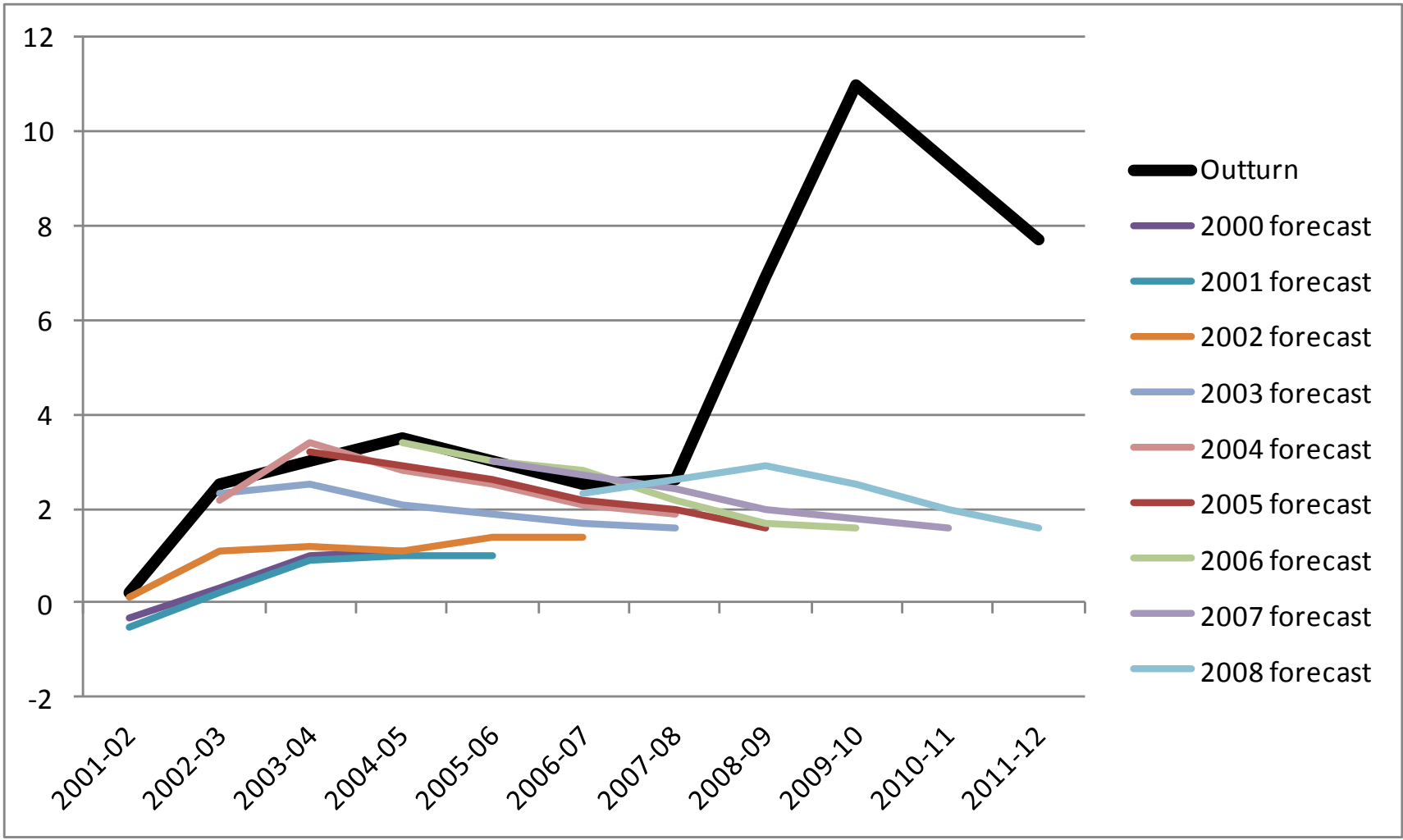
A. Public sector net borrowing outturn and forecasts (positive = deficit)

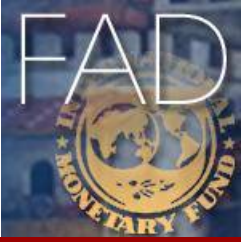


Background and context

...followed by a fiscal crisis

A. Public sector net borrowing outturn and forecasts

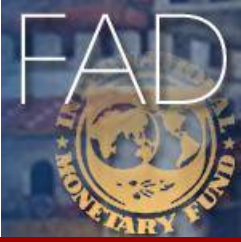




Background and context

The birth of the OBR

- **Established on temporary basis by new Government in May 2010**
- **Permanent staff appointed in October 2010**
- **Established in legislation from April 2011**
- **Design reflected UK-specific factors:**
 - serially over-optimistic fiscal forecasts and Government ‘marking its own fiscal scorecard’
 - Concentration of fiscal power in the Executive and the Treasury
 - Strong external analysis of the public finances



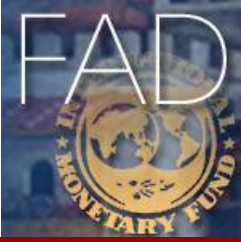
Background and context

Responsibilities of the OBR

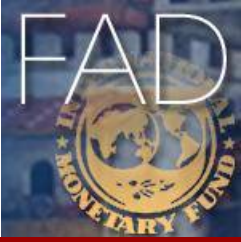
- **Produce the official economic and fiscal forecasts**
- **Assess Government's chances of meeting its fiscal targets**
- **Certify cost of all tax and welfare policies**
- **Analyze long-term fiscal sustainability**

Background and context

OBR compared to other fiscal watchdogs



- Unusual in producing the official forecast for the Government
- No normative analysis: cannot comment on merits of Government policy or analyze alternative policies
- Independent office of the Executive
- Three-person committee and 20 staff
- Can direct government officials working on fiscal forecasting

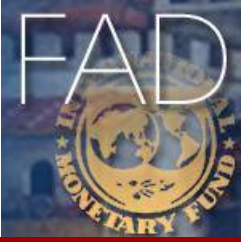


Establishing independence and credibility

Overcoming initial teething problems.....

An independent, transparent and credible budget watchdog? On all three counts, the OBR has failed miserably

The Guardian, July 2010

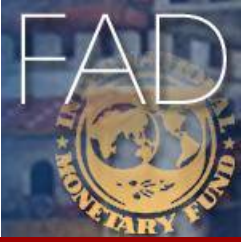


Establishing independence and credibility

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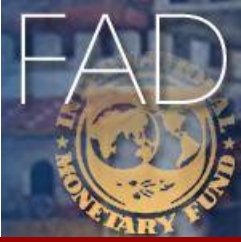
Located in the Treasury, producing forecasts that fitted the new government's political narrative, staffed by Treasury officials and appearing to allow its publication schedule to be influenced by the prime minister... the OBR has struggled to develop respect and authority. Financial Times, July 2010



Establishing independence and credibility

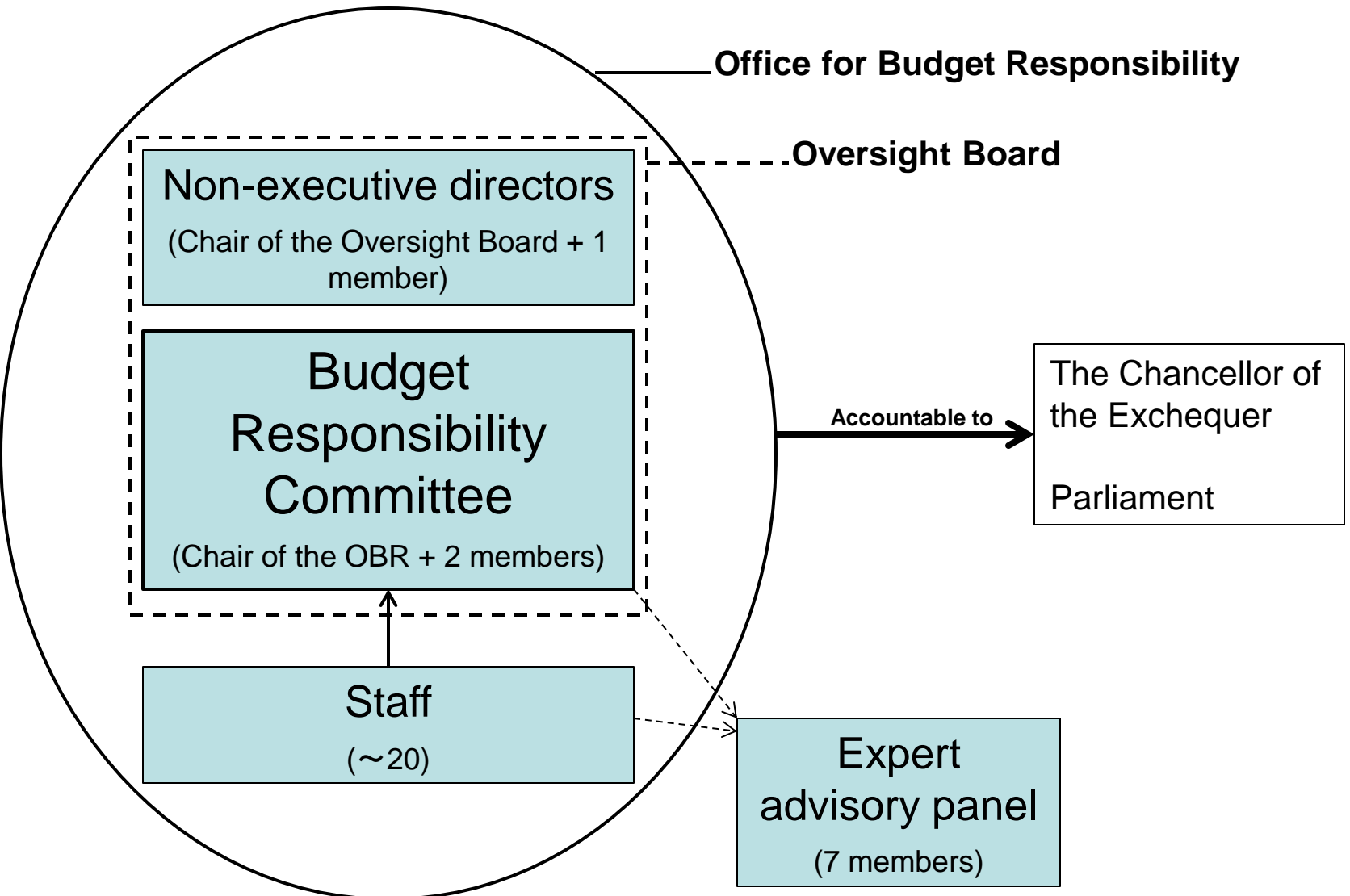
Formal safeguards: legal and governance

- **Independence enshrined in legislation**
- **Legislative veto over appointments to the committee**
- **Permanent staff reporting to the committee**
- **Fixed multi-year budget**
- **Statutory right of access to Government information**
- **Independent internal governance structure**
- **External review after five years**



Establishing independence and credibility

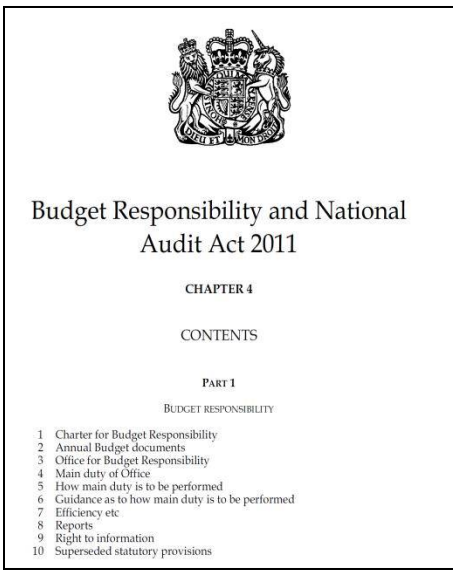
Governance and management structure



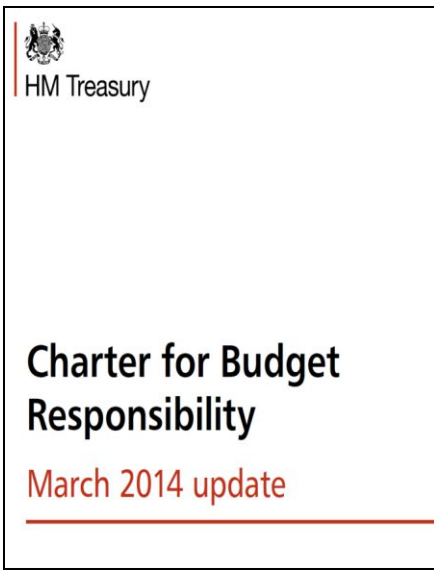


Establishing independence and credibility

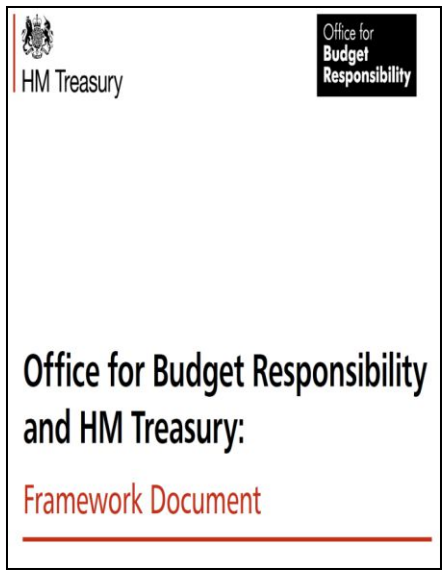
Constructing the governance structure



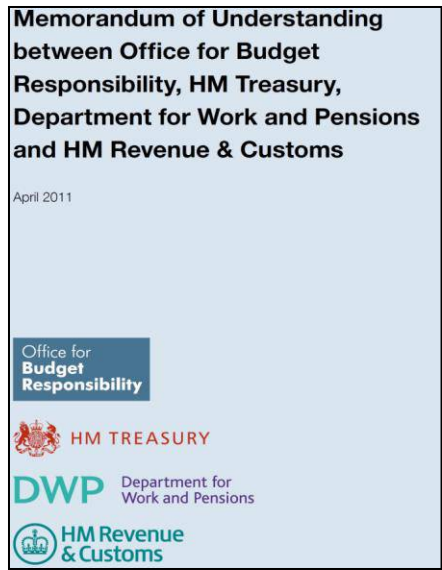
Primary legislation



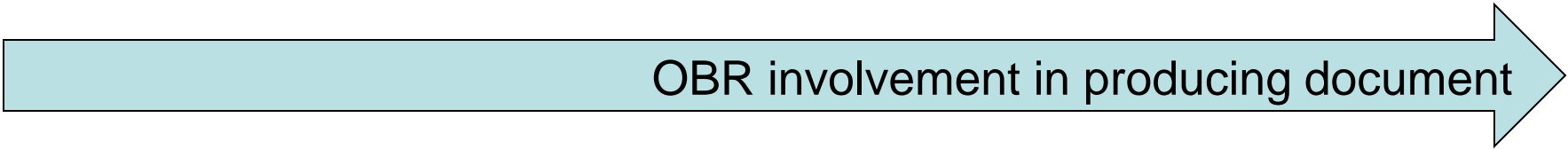
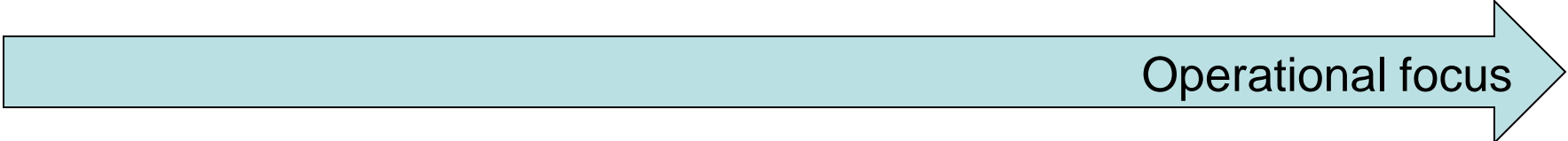
Secondary legislation

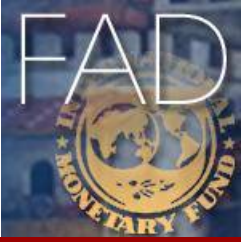


Non-legal but required for agencies and given to Parliament



Non-legal and optional but published

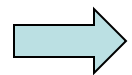




Establishing independence and credibility

Other (more important?) factors

- **Strong appointments to the Committee, and staff with technical expertise and budget experience**
- **Separate physical location and distinct branding**
- **Transparency around terms of engagement with Government**
- **Relentless focus on analytical transparency (more tomorrow...)**

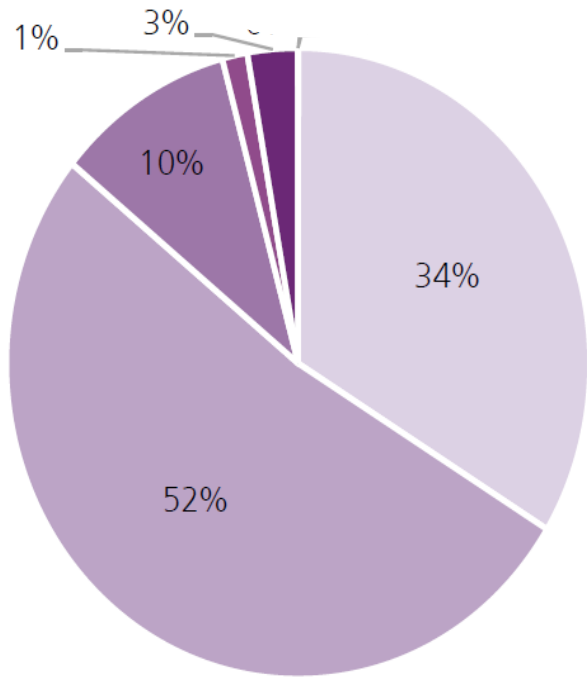


Most importantly: built a track-record of high-quality, non-partisan analysis

Conclusions: findings of the 5-year review

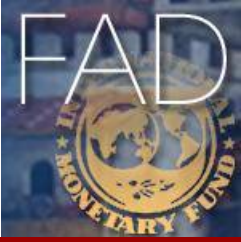
Stakeholders now see OBR as independent

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



■ Strongly agree ■ Agree ■ Somewhat agree ■ Neither agree nor disagree ■ Somewhat disagree

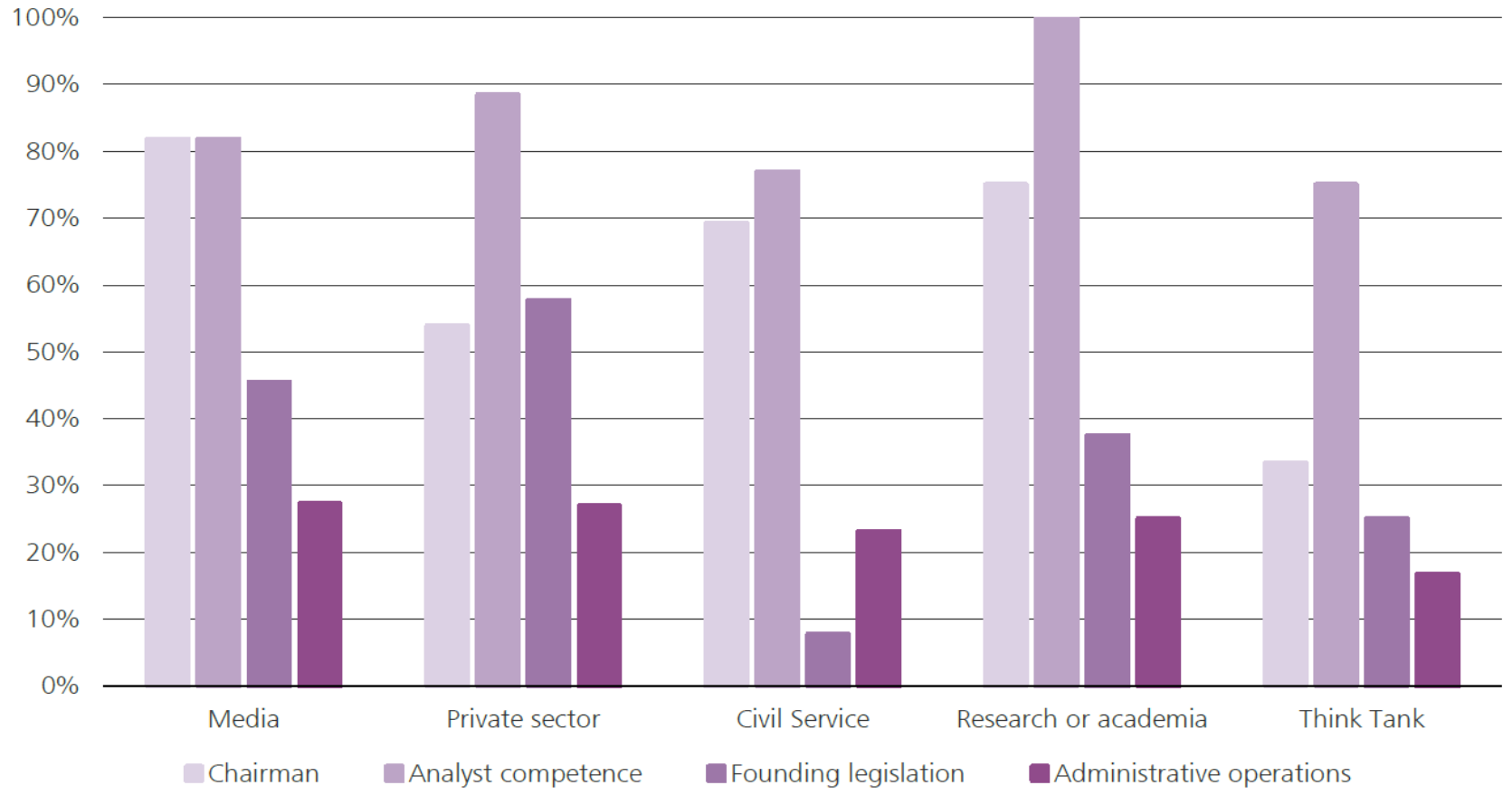
Source: Review stakeholder survey results.



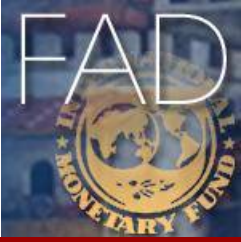
Conclusions: findings of the 5-year review

Analyst competence is main driver of confidence

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.



Conclusions

OBR compared to OECD principles

OECD principle	Application in OBR
1. Local ownership	Established on initiative of UK government. Structure addressed UK specific forecasting issue.
2. Independence and non-partisanship	Independence mandated in legislation. Committee appointed after open competition and with legislative agreement. Staff appointed by and report to Committee.
3. Mandate	Mandate set in legislation. Detailed requirements in secondary legislation and MoU. Scope to produce reports within remit on own initiative.
4. Resources	Multi-year budget published.
5. Relationship with legislature	Required to provide Parliament with all reports and appear before Treasury Committee. Treasury Committee approves appointments and monitors budget.
6. Access to information	Right of access set in legislation with practical implications in MoU.
7. Transparency	Principle of transparency set out in primary legislation with requirements in secondary legislation.
8. Communications	OBR has established direct communication channels with all stakeholders (more tomorrow).
9. External evaluation	Requirement for external five-year review in legislation.