How independent is the OBR, and why does it matter?

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The Office for Budget Responsibility is much less independent of the Treasury than most people believe.

The OBR’s mandate is prescribed by the Treasury, orienting its rules-of-engagement in fiscal debate toward Treasury goals. Furthermore, the OBR’s macro-economic model is still being co-created with the Treasury, its staffing supplemented by the Treasury, and its operations co-managed by jointly-appointed working groups. We should bear this in mind whenever we read the phrase “the independent OBR.”

Launched in 2010, The OBR was always intended to be a very public guarantor of the UK Government's fiscal behaviour. Its Parliamentary Charter - written by the Treasury - states that “the OBR is designed to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy.” The Office’s very existence is a strategic attempt to provide economic forecasts that MPs, civil servants, journalists, citizens, and financiers believe is free from political interference by the sitting government. Because the appearance of OBR independence as expressed in public discourse has always been central to its mandate, it is a claim worth scrutinizing further.

The OBR bases much of its claim to independence on transparency of its methods and assumptions in forecasting and assessment, and its willingness to share its conclusions widely. The OBR undertakes economic and fiscal forecasting, evaluates performance against targets, assesses "long-term stability" of the public finances and evaluates future "fiscal risk." It also scrutinises the costing of tax and welfare measures at each parliamentary Budget. As a public body, it provides evidence to parliamentary committees, primarily the Treasury Select Committee on the occasions of budget and spending reviews. It also shares figures with MPs and civil servants, responds to specific Freedom-of-Information requests, and releases reports for the press. Its website offers an impressive archive of documents and analyses.

It is the Treasury that prescribes what the OBR will examine and what it will routinely publish. The Budget Responsibility and National Audit Act 2011, the OBR’s founding Act of Parliament, opens by declaring the ground-rules for the relationship between the Treasury and the OBR:

The Treasury must prepare a document, to be known as the Charter for Budget Responsibility, relating to the formulation and implementation of fiscal policy and policy for the management of the National Debt.

This Charter describes the Treasury’s own fiscal objectives, the measures against which the Treasury believes it should be judged by the OBR as meetings those objectives, and when the OBR should report publicly on these measures. The OBR is left to decide its own analysis methods with which to judge fiscal performance, and its adjudications are its own. But the criteria for “fiscal responsibility” are set by the Treasury and the OBR cannot change them. In addition, the Treasury may add to the Charter at any time whatever it seems
appropriate, to then be laid before Parliament for approval (the latest update being October 2021). In its latest incarnation, fiscal responsibility means Treasury-set targets for falling Public Sector Net Debt, for balanced current budgets, and for public sector net investment, as well as welfare spending kept below a Treasury-determined cap. OBR independence is about independently answering a strict set of questions that the Treasury has pre-determined to have answered, about itself, in public.

Beyond its dependency as a legal, chartered entity, the OBR’s working relationship with the Treasury is also close. Internally, the OBR is funded through the budget of the Treasury as its sponsor department, and so must request its annual funding from the Chancellor of the Exchequer. With a permanent staff of only a few dozen, the OBR is reliant on information and analysis provided by other departments, most notably HM Revenue and Customs, the Department of Work and Pensions, and, again, HM Treasury. When the OBR does recruit new staff, they most often come from these same departments, with the Treasury having provided most of its initial staffing in 2010.

This relationship between the OBR and the Treasury is further described in the Memorandum of Understanding. The 2017 MoU outlines principles for the sharing of information and staff, as well as a collection of special working groups for forecasting (chaired by the OBR) and policy, and welfare costings (both chaired by the Treasury). In addition, an “indirect effects process” is coordinated by the Treasury and OBR immediately before “fiscal events,” like the annual Budget, in order to “consider the potential effects of policy decisions on the economic and fiscal forecast, beyond those reflected in the direct costings.” A scan of the (very transparent) Log of Contact between the OBR and government ministers illustrates the level of coordination between the Office and the Treasury.

Another key matter on which the OBR and the Treasury meet is its macro-economic model. Day-to-day the OBR undertakes broad, technical analysis of the government’s finances and fiscal management by estimating tax and welfare costs and creating economic forecasts. It must also interpret the consequences of government fiscal management against targets, all over defined time-horizons, in order to produce judgments about its numbers. The current version of this macro-economic model is the main tool for the OBR’s forecasting process. The model itself was inherited from the Treasury in 2011, but the Treasury has remained very much involved in its subsequent development at the OBR. The model is maintained and developed jointly between the Treasury and the OBR by way of their Model Development Steering Group. Should the OBR and the Treasury disagree on this model, their MoU for the Macroeconomic Model states that they would be reconciled by each maintaining their own exclusive versions. Insofar as this has not yet happened, one presumes they remain in accord.

The matter of the OBR’s independence is sufficiently contentious and important that its most recent (unnamed) reviewers at the OECD sought to explicitly defend the OBR as politically independent, based on four criteria. They defend the OBR as having day-to-day operational independence, in so far as civil-service staff can be hired, fired, and directed to conduct analysis as the directors see fit. They judge the OBR to have established a culture of independence under what they see as impeccable leadership. They argue that the OBR’s information sources, assumptions, and methods are available for scrutiny, and that the OBR maintains strict procedures where staff from other government departments have pre-report input. Finally, they argue that there exists a clear understanding of the limits of OBR responsibilities, specifically that these stop short of policy making, rather it is “providing the
independent economic and fiscal analysis that can inform policy making.” Yet in the same report even the OECD implicitly recognize the limited nature of the OBR’s independence from the Treasury, suggesting that if the OBR more independent of the Treasury than it is, then the Treasury would be less inclined to trust it. The OBR’s response to the OECD’s examiners’ report was to issue a press release subtitled, “OECD review hails OBR’s outputs and independence.”

The OBR’s dual-accountability to both the Treasury and Parliament was described by its first external reviewer as an existential challenge for the OBR. After a decade of operations, the challenge remains because the ideological and material ties that bind the OBR to the Treasury have not weakened. From mandate to staffing and from models to steering groups the ties remain strong. Even where the OBR has sovereignty, the Treasury remains the stronger of the two entities.

Much of what the OBR does was done by the Treasury before its invention in 2010. This is why it inherited the Treasury’s macro-economic model and was initially staffed by so many Treasury people. The appearance of independence is fundamental to the OBR’s raison d’etre, which is why it is the adjective that the OBR uses to describe itself in every introduction. Fifteen percent of the time a British newspaper article cites the OBR it will automatically describe it as “independent,” too, so this is a self-characterization that has penetrated public discourse such that it is rarely questioned. At every budget the OBR is cited as an apolitical and impartial fact-checker of fiscal policy. But the OBR is checking a very narrow set of questions, questions which have been constructed by the Treasury to support its own political direction, and that the Treasury helps answer, too. This makes the answers more political and less independent than we are led to believe.