

BUDGET RESPONSIBILITY AND NATIONAL AUDIT ACT 2011

EXPLANATORY NOTES

COMMENTARY ON SECTIONS AND SCHEDULES

Part 1: Budget Responsibility

Section 1: Charter for Budget Responsibility

25. *Section 1* imposes a range of duties on the Treasury with regard to the operation of fiscal policy. The section effectively replaces section 155 of the FA 1998, which established the statutory Code for Fiscal Stability in the previous Government's fiscal framework.
26. *Subsection (1)* requires the Treasury to prepare and lay before Parliament a document to be known as the Charter for Budget Responsibility (the "Charter"). The Charter will explain the Government's approach to fiscal and debt management policy in a single statutory document.
27. *Subsection (2)* imposes obligations on the Treasury with regard to the contents of the Charter. The Charter must set out: (a) the Treasury's fiscal and debt management objectives; and (b) the fiscal mandate. The fiscal mandate comprises the means by which the Treasury's objectives in relation to fiscal policy will be attained. It consists of a set of targets set by the Treasury for the fiscal position. These are to be consistent with the Government's fiscal policy objectives, as described in the Charter. The mandate for fiscal policy was set by the Chancellor of the Exchequer in the June 2010 Budget. The mandate requires that the Treasury balance the cyclically-adjusted current budget deficit by the end of the rolling, five-year forecast period, which is part of the Government's plan for consolidating the public finances. In addition, the Charter must specify the minimum contents of the annual Budget document.
28. *Subsection (4)* requires the Treasury to lay the Charter before Parliament upon its publication. *Subsection (7)* sets out that the Charter does not come into force until it has been approved by an affirmative resolution of the House of Commons.
29. *Subsections (5), (6), and (8)* make provision for amending and publishing the Charter. The mechanism for amending the Charter will require the Treasury to lay a revised Charter before Parliament and again secure an affirmative resolution of the House of Commons.

Section 2: Annual Budget documents

30. *Section 2* sets requirements for the Treasury to produce annual budget documentation, specifically the Financial Statement and Budget Report (the "Budget"). The section replaces part of section 156 of the FA 1998 (repealed in [section 10](#)). The section removes the requirement on the Treasury (imposed by section 156) to prepare and publish a pre-Budget Report.

31. *Subsection (2)* requires the Budget to conform to the minimum requirements set out in the Charter as to what must be included in the Budget.
32. *Subsections (3) and (4)* place duties on the Treasury to lay each Budget before Parliament and publish each Budget.

Section 3: Office for Budget Responsibility

33. This section establishes the Office as a body corporate. This is in common with similar independent bodies that form part of the Crown but are not government departments. For administrative purposes the Office will be categorised as an executive non-departmental public body (NDPB).

Section 4: Main duty of Office

34. *Subsection (1)* establishes that the Office's main duty is to examine and report on the sustainability of the public finances.
35. *Subsection (2)* provides that the duty of the Office includes the matters set out in *subsections (3) and (4)*. The Office is not limited to these products and can also choose to report on other matters relating to the sustainability of the public finances in pursuance of its main duty.
36. *Subsections (3) and (4)* make provision for the Office's "core functions", which must be exercised by the Budget Responsibility Committee (see *paragraph 9* of *Schedule 1*).
37. *Subsection (3)* requires the Office to prepare fiscal and economic forecasts at least twice for every financial year. It is the Government's intention to adopt these forecasts as the "official" Government forecasts. Although the Chancellor does reserve the right to disagree with them, he has said that this will require an explanation to Parliament.¹ Alongside these forecasts, the Office is required to prepare an assessment of whether the fiscal mandate has been, or is likely to be, achieved (as specified in the Charter).
38. *Subsection (4)* requires the Office to prepare two further reports on an annual basis. The first is an assessment of the accuracy of the fiscal and economic forecasts previously prepared by it. This type of analysis was previously produced by the Treasury, in a document known as the *End of year fiscal report*. The duty to assess the accuracy of its own fiscal and economic forecasts does not preclude the Office from considering other forecasts, provided this analysis is consistent with its statutory duties. The second report is the analysis of the sustainability of the public finances (this will include long-term projections and an analysis of the public sector balance sheet). Again, this type of analysis was previously carried out by the Treasury in a document known as the *Long-term public finance report*.
39. *Subsection (5)* requires the Office to include any forecast, assessment or analysis produced under *subsection (3) or (4)* in some form of report.
40. *Subsection (6)* requires every report produced under section 4 to include an explanation of the factors which the Office took into account when preparing the report. In particular, each report must include an explanation of the main assumptions made by the Office and an explanation of the main risks which the Office considered to be relevant.

Section 5: How main duty is to be performed

41. *Subsection (1)* provides that the Office has complete discretion in the performance of its main duty, subject to *subsections (2) and (3)*, and *sections 6 and 7*. The Office is

¹ Letter from the Chancellor of the Exchequer to the Chair of the Treasury Select Committee. Published in House of Commons Treasury Committee fourth report of session 2010-11 'Office for Budget Responsibility', 16 September 2010. HC385. Page 86. Available at:

<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/385/385.pdf>

otherwise at liberty to prepare the forecasts, assessments or analysis set out in [section 4](#) using any methods considered appropriate.

42. *Subsection (2)* requires the Office to carry out its functions in a manner that is objective, transparent and impartial.
43. *Subsection (3)* provides that, where there are any Government policies that are relevant to the performance of the Office's duty, the Office must have regard to those policies. The Office may not consider what the effect of alternative policy scenarios would be. However, the Office is able to consider non-policy scenarios, such as considering the effect of demographic pressures.

Section 6: Guidance as to how main duty is to be performed

44. *Subsection (1)* provides that the Charter may include guidance for the Office. There will be guidance on when the forecasts, assessments and analysis will be produced. The Charter will be used to set such guidance, which is not appropriate for inclusion in the Act. The guidance cannot modify the substance of the duty or impose a different duty on the Office.
45. *Subsection (2)* provides that the guidance to the Office may not specify the methods to be used in preparing forecasts, analysis or assessments produced. This reinforces the discretion which the Office has in performing its main duty (see [section 5\(1\)](#)).
46. *Subsection (3)* provides that the Office must act consistently with any guidance included in the Charter when carrying out its functions. Should the Treasury wish to revise the guidance included in the Charter, then the Treasury will be required under *subsection (4)* to publish a draft at least 28 days before the revised Charter is laid before Parliament for Commons approval.

Section 7: Efficiency etc

47. This section provides that the Office has a duty to carry out its functions efficiently and cost-effectively. While the Office is expected to be a relatively small one, there remains an expectation that an Office primarily concerned with the sustainability of the public finances should clearly demonstrate these qualities.

Section 8: Reports

48. This section requires that every report the Office prepares must be published. This will include the reports mentioned in [section 4](#). The Office must lay a copy of each of these reports before Parliament and send a copy to the Treasury.

Section 9: Right to information

49. *Subsections (1)* and *(3)* provide the Office with a right of access to all information held by any Minister of the Crown or Government department. The Office also has a right to assistance and explanation in relation to this information, set out in *subsection (2)*. These rights apply only to information which the Office reasonably needs to perform its functions. This continues the current practice of using information held across Government to produce forecasts and analysis effectively (previously undertaken by the Treasury) and the Office will be entitled to receive all of the information that the Treasury has previously received.
50. *Subsection (4)* specifies that the Office will receive information in compliance with any statutory provision (such as the Data Protection Act 1998) or common law rules (such as duties of confidentiality). The Office will not have access to confidential information relating to taxpayers and any information that is received will comply with data protection principles. The Treasury has not required access to such information in exercising its current forecasting functions.

Section 10: Superseded statutory provisions

51. *Paragraph (a)* repeals section 27 of, and Schedule 5 to, the Industry Act 1975, consequently removing duties on the Treasury to produce economic forecasts and to publish and provide access to information and analysis produced by a macro-economic model for the UK for economic forecasting purposes. These duties are superseded by [section 4](#), which provides that the Office must produce economic forecasts.
52. *Paragraph (b)* repeals sections 155 to 157 of the FA 1998. These sections relate to the previous Government's fiscal policy framework (as described in the background and summary section above).
53. Section 155 of the FA 1998 established a duty for the Treasury to prepare the Code for Fiscal Stability and specified the contents of the code and how it was to be approved by the House of Commons. Section 156 established duties for the Treasury to publish certain annual Budget documents, including the Budget. These sections are now superseded by [sections 1](#) and [2](#) of the Act.
54. Section 156 of the FA 1998 also established a duty for the Comptroller and Auditor General (C&AG) to examine and report on the conventions and assumptions underpinning the annual Budget documents. Section 157 conferred rights on the C&AG to access appropriate information to undertake examination of Budget documents and produce a report. These sections, and the role of the C&AG and the NAO, are now superseded by the creation of the Office as an independent forecasting institution.
55. *Paragraph (c)* repeals the FRA 2010 in its entirety. This removes the duties of the previous Government's fiscal consolidation plan. These duties were to: reduce public sector net borrowing (PSNB) as a share of gross domestic product (GDP) each year from 2010-11 to 2015-16; halve PSNB as a share of GDP by 2013-14; and set public sector net debt as a share of GDP on a downward path in 2015-16. The Government's fiscal mandate will now be set out in the Charter (see [section 1](#)).