

# **BUDGET RESPONSIBILITY AND NATIONAL AUDIT ACT 2011**

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## **EXPLANATORY NOTES**

### **BACKGROUND AND SUMMARY**

#### **Part 1: Budget Responsibility**

4. [Part 1](#) of the Act establishes the Office for Budget Responsibility (“the Office”) on a statutory basis. Part 1 also makes provision for the Government’s reforms to the fiscal framework, of which the Office is a major part.

#### **Evolution of the Government’s fiscal framework**

5. Legislation underpinning the previous Government’s fiscal framework was most recently updated through the Fiscal Responsibility Act 2010 (“FRA 2010”). The Act required the Treasury to meet specific fiscal targets and report on progress to Parliament. It supplemented the fiscal provisions in the Finance Act 1998 (“FA 1998”) which established a Code for Fiscal Stability. The code explained the previous Government’s principles for fiscal policy, prescribed contents for Budget and Pre-Budget Reports and set out the National Audit Office’s (NAO) role in auditing key forecast assumptions.
6. Government is seeking to reform the UK’s fiscal framework in a number of ways. The Budget Responsibility and National Audit Act repeals the previous fiscal framework and makes provision for the Government’s reforms.
7. The provisions of [sections 1](#) and [2](#) supersede a number of elements of the previous fiscal framework. [Section 1](#) provides for a new Charter for Budget Responsibility, which the Treasury will prepare to describe the Government’s fiscal and debt management policy and how this will operate. This provision replaces the requirement in section 155 of the FA 1998 to prepare a Code for Fiscal Stability. The Charter for Budget Responsibility must make provision for the Government’s fiscal and debt management objectives and its targets for fiscal policy that delivers these fiscal objectives (the “fiscal mandate”). This requirement supersedes the fiscal targets and reporting procedures of the FRA 2010. [Section 2](#) concerns the annual Financial Statement and Budget Report (the “FSBR” or the “Budget”), replacing the relevant provisions in the FA 1998.

#### **The Office for Budget Responsibility**

8. The remainder, and bulk, of Part 1 provides for the establishment of the Office on a statutory basis. [Section 3](#) establishes the Office as a body corporate. The Office will be led by a three-person Budget Responsibility Committee (BRC), appointed by the Chancellor with the consent of the Treasury Select Committee, and supported by at least two non-executive members.
9. [Section 4](#) describes the functions of the Office. Its main duty will be to examine and report on the sustainability of the public finances. In particular, the Office will produce economic and fiscal forecasts, which the Government intends to adopt as the “official”

*These notes refer to the Budget Responsibility and National Audit Act 2011 (c.4) which received Royal Assent on 22 March 2011*

forecasts for the annual Budget. The Office will control the production of the forecasts and make all of the judgments that underpin them, independent of Ministers; it will no longer be the Chancellor of the day who is responsible for these judgments. The Office will also undertake broader research and analysis into a range of issues relating to fiscal sustainability. In particular, the Office will produce long-term fiscal projections and analysis relating to the public sector balance sheet.

10. The Office's forecasting role supplants the forecast-auditing role of the NAO and so the provisions of FA 1998 relating to this role are repealed. The Office's economic forecasting function also supersedes the duty on the Treasury to produce biannual economic forecasts in the Industry Act 1975, which is also repealed.

**The interim Office**

11. The Government established the Office on a non-statutory, interim basis on 17 May 2010 to deliver an independent assessment of the economy and public finances for the new Government's first Budget. The interim body was led by an interim BRC headed by Sir Alan Budd and also comprising Geoffrey Dicks and Graham Parker.
12. Following its hearing on 16 September 2010, the Treasury Select Committee (TSC) approved the appointment of Robert Chote to become the first permanent Chair of the Office, commencing on 4 October 2010. The TSC also approved the appointments of Stephen Nickell and Graham Parker as the remaining two permanent members of the Budget Responsibility Committee.