

Office of Budget Responsibility

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Since the new coalition Government took its place in Parliament, we have seen the process of change go into overdrive.



It is clear that the Conservatives have been preparing for power for some time and had a clear vision for how they were going to face the issue of balancing the country's books long before polling day.

While the Lib Dems will not have realistically been expecting their current position, it hasn't taken them long to fall in line with their new political partners.

Strong and often unpopular decisions needed to be made, and continue to be required, in terms of spending cuts and choices. However, reforms of the system were also required, and have indeed started to take shape.

From what we have learned so far, the Office of Budget Responsibility (OBR) looks like it will be a positive addition to our financial system.

The idea of the OBR is that it will, or should, be a positive influence on the Government's tax and spending plans. This works by independently providing a reality check on the country's finances.

Unlike other independent bodies, such as the Institute for Fiscal Studies, the OBR will have full access to Treasury data, putting it in a unique position in terms of being able to make its contributions based upon accurate figures.

One of the big issues that the Government is addressing by the formation of the OBR is the uncertainty over whether problems were being tackled at the earliest opportunity.

By this, I mean that Chancellors of the Exchequer have, in the past, been suspected of "dressing up" figures to avoid having to face looming problems.

Ahead of Budgets or pre-Budget reports, the key judgements used to produce the financial forecasts

have previously been those of the Chancellor himself, giving incentive to predict lower borrowing and higher growth. This can put off the necessary measures needed to make the public purse stronger.

Now, the forecasts will come from an OBR with an eye on reality, which will make its predictions about whether the Chancellor has a better than 50 per cent chance of meeting his targets.

While there will inevitably be questions over the independence of the OBR, the aim is to take politics out of the forecasting by giving health checks on Government's plans, based upon the office's own fiscal rules.

By highlighting any issues, the OBR's reports will encourage the Government to alter its plans, should it appear to be straying from its targets.

While the office's own fiscal rules are yet to be fully outlined, the move appears to be positive and stabilising.

We are clearly left with the question of what will happen to the Financial Services Authority, another important issue that must be dealt with sooner rather than later.

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