

Office for
**Budget
Responsibility**

Annual report and accounts 2016-17



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Office for Budget Responsibility: Annual report and accounts 2016-17

Annual report presented to Parliament pursuant
to Paragraph 15, Schedule 1 of the Budget
Responsibility and National Audit Act 2011

Accounts presented to Parliament pursuant
to Paragraph 18, Schedule 1 of the Budget
Responsibility and National Audit Act 2011

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Contents

Chapter 1	Performance report	1
	Overview	1
	Statement of performance and activities	3
	Performance analysis.....	7
	Operations	7
Chapter 2	Accountability report	11
	Corporate governance report.....	11
	Governance statement.....	14
	Remuneration and staff report.....	21
	Parliamentary accountability and audit report	26
	The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	27
Chapter 3	Financial Statements	29
	Notes to the accounts	33

1 Performance report

1.1 The performance report contains:

- the **overview**, which includes the Chairman’s message;
- the **statement of performance and activities**, which sets out how we have delivered our statutory duties over the past year;
- the **performance analysis**, which describes how we measure performance against our objectives; and
- an outline of the key elements of our **operations**.

Overview

Chairman’s message

1.2 Welcome to the Annual Report of the Office for Budget Responsibility, which was established in 2010 to provide independent and authoritative analysis of the UK’s public finances.

1.3 The Budget Responsibility and National Audit Act 2011 states that “*it shall be the duty of the Office to examine and report on the sustainability of the public finances*”. In practice we have five main tasks, each of which we have fulfilled over the past year:

- to prepare and publish the official five-year **forecasts for the economy and the public finances** that accompany each Budget and Autumn Statement;
- to **assess the Government’s performance against the fiscal targets** that it has set itself and what the risks to meeting those targets are;
- to **scrutinise and comment publicly on the Treasury’s policy costings** – its assessment of the amount that particular tax and spending measures will raise or cost;
- to **analyse and report on the health of the public sector’s balance sheet and the long-term sustainability of the public finances** based on existing policies; and
- to **report on trends in welfare spending**, which we have defined as spending on social security and tax credits.

1.4 In October 2015, Parliament added a sixth task to our list: to produce a fiscal risks report setting out the main risks to the public finances, including macroeconomic risks and specific

fiscal risks. This is to be produced once every two years, with our first report planned for July 2017. We published a discussion paper on its possible content in September 2016.

- 1.5 In setting about these tasks, our guiding principle is to undertake them in as transparent a way as possible – not just in terms of the outputs we produce, but also in the way we engage with government departments and agencies in preparing them. People may agree or disagree with the analysis and conclusions we present, but we want them to be as confident as possible that they are based on our best professional judgement and not on politically motivated wishful thinking. To that end, we have also accompanied the flagship publications we are required to produce by the Act with descriptive materials that explain the methods and techniques that we use.
- 1.6 A second principle has been to recognise explicitly the enormous uncertainty that lies around all analysis of the public finances, both because of uncertainty regarding the path of the economy and uncertainty regarding how much the government will raise and spend in any given state of the economy. In our *Economic and fiscal outlook* publications, for example, we do not simply quantify the uncertainty around our central projections, we use sensitivity and scenario analysis to explain how different economic and fiscal judgements would affect the public finances. Our dedicated *Fiscal risks report* will allow us to explore these issues in greater depth.
- 1.7 In all the analysis we have undertaken, we have come under no pressure from Ministers, political advisers or officials to change any of the analysis we have presented or the conclusions we have reached.
- 1.8 Our work has been the subject of two reviews in recent years:
- in 2014 by Kevin Page, former Parliamentary Budget Officer for Canada. His review concluded that the OBR “*has laudably achieved the core duties of its mandate*” and “*succeeded in reducing perceptions of bias in fiscal and economic forecasting and increased the transparency of its products*”. The review found that “*confidence in the OBR’s work is consistent across stakeholder groups*”; and
 - in September 2015 HM Treasury published its own review into the OBR, led by the Chief Economic Adviser Sir Dave Ramsden. The review concluded that the OBR “*has ended the perception of bias associated with the forecasts that were previously produced by the Treasury.*”
- 1.9 This year we welcomed Professor Sir Charles Bean to the Budget Responsibility Committee, succeeding Professor Sir Stephen Nickell who left the Committee after six years.
- 1.10 In undertaking all our work over the past year, my colleagues on the Budget Responsibility Committee and I would like to express our particular gratitude to the permanent staff of the OBR for all their hard work. We are also grateful to the many officials in government departments and agencies, and to our other outside stakeholders, for their time and

patience in helping us fulfil our remit. Any suggestions as to how we might do so more effectively are always welcome.



Robert Chote, Chairman

26 June 2017

Statement of performance and activities

- 1.11 The Office for Budget Responsibility (OBR) provides independent and authoritative analysis of the UK's public finances. We are a non-departmental public body (NDPB) and became a statutory body on 4 April 2011 following Royal Assent of the *Budget Responsibility and National Audit Act 2011*.¹ Prior to Royal Assent, the OBR existed as a non-statutory body from 17 May 2010.
- 1.12 The *Act* requires the OBR to examine and report on the sustainability of the public finances. This is a broad remit that allows us to analyse the public finances from many angles. We have complete discretion to set our own work programme, subject to meeting the core requirements and guidance set out in the *Act* and the accompanying *Charter for Budget Responsibility*. These requirements have expanded in recent years, including in the October 2015 update of the *Charter* that reflected the key recommendations of the Treasury's 2015 Ramsden Review of the OBR. Our core requirements are:
- the production of at least two fiscal and economic forecasts, in each case accompanied by an assessment of the extent to which the Government's fiscal mandate has been, or is likely to be, achieved. The *Charter* sets out that the Government intends to adopt the OBR's forecasts as the official forecasts for the annual Budget;
 - an annual assessment of the accuracy of our previously prepared fiscal and economic forecasts;
 - an analysis of the sustainability of the public finances, including long-term fiscal projections once every two years;
 - assessing the Government's performance against its welfare cap on a subset of welfare spending, and producing an annual report on trends in welfare spending; and
 - producing a biennial report of fiscal risks to which the Government is committed to respond within a year.

¹ <http://budgetresponsibility.org.uk/independence/legislation-and-related-material/>

- 1.13 The *Charter* sets out that our forecasts should be based on all Government policy decisions that have a material impact on the fiscal outlook and that can be quantified with reasonable accuracy. To this end, we also independently scrutinise and certify the Government's estimates of the cost of policy decisions. Importantly, the *Act* and *Charter* also specify that we should not consider the effect of alternative policies and should not provide normative commentary on the particular merits of government policies.
- 1.14 Our independence is central to the effective delivery of our responsibilities, and to support this we are required by the *Act* to perform our duties objectively, transparently and impartially. A detailed *Memorandum of Understanding* between us and our main stakeholder departments sets out how the requirements of the *Act* and *Charter* are pursued in practice. It was reviewed and updated this year.

Performance summary – Achievements in 2016-17

Core responsibilities

- 1.15 In 2016-17, we fulfilled our statutory core responsibilities through the publication of the following reports:
- the November 2016 and March 2017 *Economic and fiscal outlooks (EFO)* set out our latest economic and fiscal forecasts and assessments of the likelihood that the Government would meet its targets for the deficit, debt and welfare spending. These were our first forecasts after the referendum vote in favour of the UK leaving the EU. While the Government had set out some of its objectives in areas including trade and migration policy, we noted that precise outcomes would depend on further policy development and negotiations that had yet to commence. With no meaningful basis on which to predict the precise end-point of the negotiations, our forecasts were based on broad-brush assumptions. In our November *EFO*, we assumed a near-term slowing in GDP growth and revised down medium-term productivity growth. On that basis, the budget would remain in deficit throughout the forecast period (instead of moving into surplus in 2019-20, as we had forecast in our March 2016 *EFO*). The Government would have missed all three targets that had applied in the March 2016 Budget, but was on course to meet the new, less constraining fiscal targets that it proposed in the Autumn Statement. In our March 2017 *EFO*, we revised up near-term GDP growth and revised down the deficit in 2016-17, but made only small changes to subsequent years. The Government remained on course to meet all three of its new fiscal targets;
 - in 2016-17, we departed from our normal publication timetable for the *Fiscal sustainability report (FSR)* because of the uncertainty that followed the June 2016 referendum vote. We cancelled our planned July 2016 *FSR* and, instead, published five *Fiscal sustainability analytical papers (FSAPs)* in the second half of 2016. These featured analysis of health spending, the public sector balance sheet, population projections and state pensions, student loans and the long-term effects of recent private pensions and savings policies. Our sixth *FSR* was published in January 2017. In it, we set out long-term projections of tax and expenditure under current policy settings,

which suggested that the public finances are likely to come under significant pressure over the longer term, primarily due to the effects of an ageing population and further upward pressure on health spending from factors such as technological advancements and the rising prevalence of chronic health conditions;

- our latest *Forecast evaluation report (FER)* was published in October 2016. It analysed different vintages of forecasts for borrowing in 2015-16. Relative to our first forecast in June 2010, borrowing was significantly higher due to a cumulative shortfall in nominal GDP growth, which fed through to weaker tax receipts. This more than offset lower-than-expected spending on welfare and debt interest. Relative to more recent forecasts, errors were smaller. The analysis informed a number of lessons for future forecasts. We also set out some of the evidence and criteria that we will be using in our 2017 review of selected fiscal forecasting models; and
- our third *Welfare trends report (WTR)* was also published in October 2016. We sought to explain the past and prospective path of welfare spending between 2010-11 and 2020-21 – a period that covers two Parliaments characterised by big spending cuts. Simple changes to uprating policy – freezes and caps – accounted for the bulk of the cuts in the last Parliament, and proved a more reliable sources of savings than various structural reforms undertaken during that period. In the current Parliament welfare spending is set to be cut further, including £12 billion of cuts introduced since the 2015 election. We also examined trends in benefit spending in support of sick and disabled people over the same period. This showed that simple uprating policy changes have reduced spending relative to the level it would otherwise have reached, but that structural reforms such as the introduction of the employment and support allowance and personal independence payment have yet to deliver expected savings.

1.16 Alongside our medium-term forecast, and in accordance with the Scotland Acts of 2012 and 2016 and the Wales Acts of 2014 and 2017, we forecast Scottish and Welsh Government receipts from five devolved tax areas: income tax, property transaction taxes (stamp duty land tax in Wales and land and buildings transaction tax in Scotland), landfill taxes, aggregates levy and, in Scotland only, air passenger duty.

Wider analysis

1.17 We supplement our core outputs with wider analysis that supports our key objective of examining and reporting on the sustainability of the public finances. In 2016-17, we published two working papers (one of which featured in our series of *Fiscal sustainability analytical papers*) and continued our monthly commentary on the ONS/HMT public sector finance data release:²

- *Working paper No.9 – Fiscal sustainability and public spending on health* (published in September 2016) reviewed the assumptions underpinning our long-term health

² <http://budgetresponsibility.org.uk/category/topics/monthly-public-finance-data/>

spending projections and recommended adding an explicit recognition of non-demographic pressures, which we implemented in our 2017 *FSR*; and

- *Working paper No.10 – Forestalling ahead of property tax changes* (published in October 2016) analysed periods where the pre-announcement of changes to property tax rates, including the recent 3 per cent stamp duty supplement on additional properties, had led to taxpayers bringing forward transactions to avoid higher tax bills.

Communications and stakeholder engagement

- 1.18 The BRC and OBR staff have made numerous presentations to a wide range of external audiences through the year on the role of the OBR and on our analysis and forecasts. We have held press conferences after the publication of each *EFO*. Presentations have been given, among others, to: the Government Economic Service, the International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), the European Commission, the Social Security Advisory Committee, the Budget Office of the Parliament of Georgia and the 2016 African Parliamentary Budget Offices conference. We also hosted a variety of international delegations interested in the work of the OBR.
- 1.19 We engage widely with external analysts ahead of the production of our main reports in order to inform our internal work, though the judgements and conclusions of all our analysis are solely the responsibility of the BRC. As well as meetings with relevant analysts in government departments, this year we have engaged with external institutions including the Bank of England, the National Institute of Economic and Social Research, the Institute for Fiscal Studies, the London School of Economics, the Office for National Statistics, the National Audit Office and the Confederation of British Industries. We have also discussed forecast issues with government economists in Scotland and Wales, and with the Scottish Fiscal Commission. We have discussed our analysis with experts from international organisations including the IMF, the OECD, and the European Commission.
- 1.20 We are accountable to Parliament primarily through appearances at the Treasury Select Committee, which have been held after the publication of *EFOs*. The transcripts can be found via our website.³ The Chairman has also appeared before the Finance Committees of the Scottish Parliament and the National Assembly for Wales.

³ <http://budgetresponsibility.org.uk/transparency/evidence-to-parliament/>

Performance analysis

How we measure performance

- 1.21 Under Section 15 (2) of the *Budget Responsibility and National Audit Act 2011* the non-executive members of the OBR are required to assess the extent to which the OBR has performed its duties. This assessment appears in the accountability report.
- 1.22 We also measure our performance based on feedback from external stakeholders. In recent years we have relied on a range of approaches to achieve this, including:
- the *External review of the Office for Budget Responsibility*, carried out by Kevin Page in 2014, which undertook a stakeholder survey as part of its assessment of our independence and transparency;
 - the *HM Treasury Review of the Office for Budget Responsibility* in 2015, which incorporated views from a number of round table events, discussion forums and bilateral meetings into its conclusions and recommendations; and
 - our own stakeholder survey, which we carried out to inform our first *Annual Report and Accounts* in 2011-12.

Financial performance and sustainability

- 1.23 The OBR is committed to the central government target of paying valid invoices within five days of receipt. In the reporting period, 84 per cent of invoices (92 per cent in 2015-16) that we have received have been paid within the target time of five days.
- 1.24 The OBR's trade creditor days for the period, calculated as the proportion that is the aggregate amount owed to trade creditors at 31 March 2017 compared with the aggregate amount invoiced by suppliers during the year, expressed as a number of days when compared with the period of account, was 0 days (2015-16: 0 days).

Operations

- 1.25 Our financial management and oversight arrangements were established in the *Framework document* drawn up by the Treasury and agreed with the OBR. Key elements of the arrangements are described in the governance statement. Our sponsor department is HM Treasury and we are funded via a delegated budget from the Treasury. A multi-year budget settlement was agreed with the Treasury in March 2016. It comprises a commitment for the years 2016-17 to 2020-21. The Chairman of the OBR is designated as the Accounting Officer responsible for the effective management of public funds.

Service agreements

- 1.26 Up to 11 September 2016 we shared our workspace and accommodation with the Attorney General's Office (AGO) at 20 Victoria Street. As part of this arrangement, we paid a share of the cost of the AGO's service contracts for security and facilities management. Our IT infrastructure and maintenance were also delivered via the AGO network. From 12 September we have been located at 102 Petty France where we share our workspace and accommodation with the Ministry of Justice (MoJ). As part of this arrangement we pay a share of the MoJ's rent and rates, and a share of the cost of the MoJ's service contracts for security and facilities management. Our IT infrastructure and maintenance are also delivered via the MoJ network. We worked together with the AGO, and continue to work with the MoJ, to ensure that appropriate steps have been taken to achieve value-for-money in the procurement of shared services.
- 1.27 Our funding allocation for 2016-17 was agreed with the Treasury in March 2016. Including £129,000 of 'Budget Exchange' carried forward from 2015-16, our budget was £2,796,000. In addition, the Treasury recognised the possibility that the costs associated with our office move during the year would require a one-off addition to our funding.⁴ This flexible allocation would only be added to our budget if it was required. The potential cost of dilapidations at our previous office space at 20 Victoria Street was considered likely to trigger this requirement, but in the event no such costs were settled in 2016-17 as the process was ongoing at year-end.
- 1.28 Accordingly, the statement of comprehensive net expenditure in this year's Accounts puts our total spending for the year at £2,882,000, which includes an accounting provision for £132,000 to cover the best estimate of the maximum probable cost of dilapidations and therefore the maximum size of the additional funding allocation. It is not yet certain whether this cost will actually materialise, as it depends on how the owner decides to use the building in future. However, payment is considered probable and so a provision is included in 2016-17 to reflect the additional costs incurred and attributable to the financial year in which we moved offices. Excluding the provision, our total expenditure in 2016-17 – including the remaining costs associated with our office move – was £2,775,000, £46,000 below our allocation. We will carry this difference over to 2017-18 as Budget Exchange, along with the agreement from the Treasury to fund the eventual value of the provision if it crystallises.
- 1.29 As a small organisation, we achieve greater value-for-money by contracting administrative human resources, finance, accounting, procurement and payroll services from HM Treasury, rather than employing our own staff to deliver those functions. These services are outlined within a Service Level Agreement (SLA) between HM Treasury and the OBR.

⁴ http://budgetresponsibility.org.uk/docs/dlm_uploads/Delegation-of-Financial-Responsibilities-2016-17-to-2020-21.pdf

Going concern

- 1.30 The OBR is a statutory corporate body established under the *Budget Responsibility and National Audit Act 2011*, which entered into force on 4 April 2011 under SI 892 (2011). This legislation provides the basis for the creation and continued operation of the OBR. The OBR is funded annually by Parliament through Grant-in-Aid financed from the HM Treasury supply estimate. A multi-year budget settlement was agreed with the Treasury in March 2016. It comprises a commitment for the years 2016-17 to 2020-21.
- 1.31 The OBR's Statement of Financial Position at 31 March 2017 shows net liabilities of £442,000. This reflects the inclusion of liabilities falling due in 2016-17 which, insofar as the OBR is unable to meet them from its other sources of income, would fall, in the last resort, to be met by Grant-in-Aid from central government. Under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need, but there is no reason to believe that, if required, grant funding and parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for these financial statements.

Business model

- 1.32 The OBR's corporate and business plan is published on our website.⁵ This document describes our statutory remit and structure and the two overarching business objectives that guide our work:
- to **fulfil our duties under the *Act* and *Charter*** to examine and report on the sustainability of the public finances; and
 - to **ensure our governance and operational arrangements are fit for purpose** and allow us to operate as a responsible, effective and transparent NDPB, while meeting statutory and other requirements.

Risk management

- 1.33 The main risks faced by the OBR relate to the successful delivery of our core responsibility to produce independent and authoritative analysis of the sustainability of the public finances. We produce high-profile outputs that are central to fiscal management in the UK and in particular to the delivery of the Government's annual Budgets. The operational and financial risks that we face are relatively less significant as the OBR is a small organisation with a small budget that is primarily spent on staff and accommodation costs.
- 1.34 Over the past year, as our staff numbers increased in order to deliver on the recommendations of the Treasury's 2015 Review of the OBR and we moved to new premises, change management risks were given greater importance than had been the case in previous years. This allowed us to manage both sets of changes successfully – for

⁵ <http://budgetresponsibility.org.uk/transparency/governance/>

example, completing and publishing a number of key reports shortly after new staff had joined the team and we had moved to new accommodation and IT systems.

- 1.35 Our risk management strategy involves all members of staff in the OBR and our Oversight Board. Our approach is described in the governance statement in the accountability report.



Robert Chote, Chairman

26 June 2017

2 Accountability report

2.1 The accountability report contains:

- the **corporate governance report**, which includes the non-executive members' assessment of the OBR's delivery against its legal duties, the statement of Accounting Officer's responsibilities, the governance statement and the risk management strategy;
- the **remuneration and staff report**, which details the pay, pension arrangements and staffing structure of the office; and
- the **parliamentary accountability and audit report**, which details audit arrangements and contains the certificate and report of the Comptroller and Auditor General.

Corporate governance report

Non-executive members' assessment

2.2 Our statutory duties as non-executive members of the Office for Budget Responsibility (OBR) are set out in the *Budget Responsibility and National Audit Act 2011*. This requires us to keep under review the way in which the OBR has performed its main duties. In the Annual Report, under Paragraph 15, Schedule 1 of the Act, we are required to assess the extent to which the OBR has been able to perform its main duties with complete discretion and in line with the principles of impartiality, objectivity and transparency.

2.3 To fulfil our roles, we have continued to monitor and assess the OBR's work and its operational and governance arrangements through the OBR's Oversight Board and the Audit and Risk Assurance Committee. In the spring of 2017, we met with the staff at the OBR and with the individual members of the BRC to review the performance of the OBR over the past year, and identify any concerns. We have again taken note of the relevant reports of the House of Commons Treasury Committee. The OBR has readily provided us with all of the necessary information and assistance.

2.4 The Act requires that at least once in every five years we "*appoint a person or body to review and report on such of the Office's reports*" as we determine. The first such report needed to be carried out no later than 1 October 2015 and consider OBR reports from 1 October 2010 to the review date. We asked Kevin Page, former Parliamentary Budget Officer for Canada, to carry out such a review to report by September 2014. This review provided us with further reassurance that the OBR has continued to perform its main duties in line with the principles of impartiality, objectivity and transparency.

2.5 We continue to review progress against the key recommendations:

- that succession planning is undertaken to mitigate risks associated with senior leadership change; noting this year the timely appointment of Sir Charlie Bean to replace Sir Stephen Nickell;
- that steps are taken to formalise discussions with the 'fiscal community' that would facilitate staff development and moves; and
- that further 'brief guides' are produced that enhance the accessibility of OBR outputs.

2.6 In September 2015, the *HM Treasury review of the Office for Budget Responsibility*, which was commissioned by the Chancellor, confirmed the OBR's success in building a strong reputation and credibility for its independence. This review also made a number of recommendations. In March 2017, the Chairman of the OBR set out his view of progress against these recommendations in a letter to the Chairman of the Treasury Select Committee. We were pleased to note good progress against these recommendations, including the agreement of the new and more detailed Memorandum of Understanding between the OBR, HM Treasury, HM Revenue and Customs and the Department for Work and Pensions (published in March 2017). To ensure a full assessment of the public finances, it is important that the relevant departments are able to supply their decisions to the OBR on the timetable agreed.

2.7 In terms of the OBR's core responsibilities, we note:

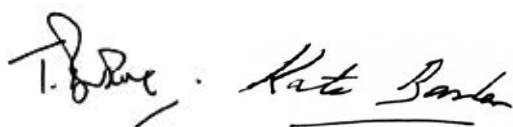
- the OBR published two economic and fiscal forecasts in the November 2016 and March 2017 *Economic and fiscal outlooks*;
- the OBR also published an analysis of the sustainability of the public finances in its January 2017 *Fiscal sustainability report*, and a thorough assessment of the accuracy of its previous forecasts in the October 2016 *Forecast evaluation report*;
- in addition, the OBR published its third *Welfare trends report* in October 2016, which examines trends in spending on different elements of the welfare system; and
- the OBR has also produced wider analysis relevant to its remit through the publication of two working papers. It continues to publish a monthly analysis of the public finances.

2.8 All of these outputs have generally been seen as robust, authoritative and objective, although it is to be expected that some outside commentators will disagree with some of the conclusions reached given the uncertainties generated by the intention to leave the EU. They are also very accessible and easy to find on the new website.

2.9 Our interactions with the OBR have enabled us to remain confident that the OBR has been free to use its own discretion in taking judgements and reaching analytical conclusions. The structures and processes for working with Government have operated effectively again this year, and the OBR has been transparent about these interactions. The BRC have made clear

to us that they have come under no pressure from Ministers, special advisers or officials to change the conclusions of their analysis. Following questions raised at the Treasury Select Committee, we routinely examine any emails exchanged between the OBR and the relevant departments just ahead of any fiscal event which contain any suggestions from departments that go beyond fact checking and clarification. We are pleased to confirm that these continue to indicate there is no inappropriate comment from the departments, and that the OBR is clear and robust in maintaining its views when it disagrees with any challenges.

- 2.10 We remain content that the OBR's internal management structures and working practices are effective, and that the OBR currently has the resources, skills and expertise that it needs to meet its objectives. The budget settlement agreed in March 2016 had enabled the recruitment of additional resources and this has enabled the OBR to meet new requirements especially with regard to devolved fiscal matters. We continue to find good morale among staff and the BRC, that staff turnover has been handled successfully, and that working relationships within the OBR are positive and effective.
- 2.11 The OBR has a new multi-year budget settlement that will provide additional resources to deliver some of the key recommendations contained in the Treasury's review. In particular, this should help to alleviate some of the pressures around peak times, provide some resilience for key posts in the OBR and allow the department to deliver the new report on fiscal risks.
- 2.12 Through the OBR's Oversight Board and the Audit and Risk Assurance Committee we have also monitored the OBR's operational risks, such as knowledge management and the accidental loss or leak of confidential material or the loss of IT services and/or access to office space ahead of delivery of major reports. The internal audit reviews have made some useful suggestions, which we will ensure are implemented.
- 2.13 Our overall assessment therefore is that the OBR continues to deliver its remit in line with the principles of impartiality, objectivity and transparency and that the operational and governance arrangements are working well. A key issue is to ensure that it can maintain the right level and mix of skills and experience among the staff. It is also vital that the forecasting infrastructure is kept fit for purpose, in line with the Memorandum of Understanding with HM Treasury on the maintenance and development of the macroeconomic model.
- 2.14 The non-executive members will continue to monitor the OBR and seek to provide guidance and challenge wherever necessary over the coming year.



Lord Burns

Dame Kate Barker

Non-executive members of the Office for Budget Responsibility, 24 May 2017

Statement of Accounting Officer's responsibilities

- 2.15 Under Paragraph 18, Schedule 1 of the *Budget Responsibility and National Audit Act 2011*, HM Treasury has directed the OBR to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.
- 2.16 The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OBR and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.
- 2.17 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:
- confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable;
 - observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
 - prepare the accounts on a going concern basis.
- 2.18 The Accounting Officer of HM Treasury has designated the Chairman as Accounting Officer of the OBR.
- 2.19 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the OBR's assets, are set out in *Managing Public Money* published by HM Treasury.

Governance statement

- 2.20 As Accounting Officer, I have responsibility for reviewing the effectiveness of our governance arrangements and risk management. My review is informed by the work of the non-executive members of our Oversight Board, our internal and external auditors, and the staff within the organisation who have responsibility for the development and maintenance of internal processes.

- 2.21 The board reviews its performance once a year and reflects on the quality of the support received from the board secretariat. No concerns have been raised about the quality of the support or information provided.

Governance structures

- 2.22 Corporate governance structures within the OBR are framed by the requirements of the *Budget Responsibility and National Audit Act 2011*, which sets out the legal duties of the OBR, its functions and broad governance structure. In support of the primary legislation, the *Office for Budget Responsibility and HM Treasury Framework Document*, available on our website, describes how we are accountable to Parliament and the Chancellor, our governance structures, my responsibilities as Accounting Officer, our audit arrangements, and our management and budgeting processes.
- 2.23 Our governance structure has been designed, where relevant, to be consistent with the principles of the *Corporate Governance Code of Good Practice for Central Government Departments*, published by HM Treasury. Smaller non-ministerial bodies, such as the OBR, are encouraged to adopt the practices set out in this Code, which is primarily aimed at ministerial departments. The Oversight Board has reviewed our governance arrangements and is satisfied that they are effective and that they comply with the principles and practices set out in the Code.

Members of the Office for Budget Responsibility

- 2.24 The OBR is comprised of five members: the Budget Responsibility Committee (BRC) – Robert Chote (Chairman), Sir Charlie Bean and Graham Parker; and two non-executive members – Lord Burns and Dame Kate Barker. Short biographies of the OBR members are provided below. The OBR currently employs a staff of 25 (and 27 when at full complement) to provide analytical and corporate support, led by the Chief of Staff – Andy King.
- 2.25 The BRC is solely responsible for the delivery of the OBR's core responsibilities. The non-executive members are required to keep the OBR's performance under review and, together with the BRC, form the OBR's Oversight Board.
- 2.26 Appointments to the BRC are made by the Chancellor of the Exchequer, with the agreement of the Treasury Select Committee. The Chancellor is required to consult the Chair of the BRC about appointments of the two other members of the BRC. The non-executive members are nominated by the OBR and appointed by the Chancellor. The initial appointments to the non-executive members' positions in 2011 were made by the Chancellor, in consultation with the Chair of the BRC.

The Budget Responsibility Committee

Robert Chote, Chairman



Robert Chote has been Chairman of the Office for Budget Responsibility since October 2010, having been re-appointed for a second five-year term in 2015. Previously Robert served as Director of the Institute for Fiscal Studies from 2002 to 2010, as an adviser to senior management at the International Monetary Fund from 1999 to 2002, as Economics Editor of the Financial Times from 1995 to 1999, and as an economics and business writer on the Independent and Independent on Sunday from 1990 to 1994.

Robert is chair of the Royal Statistical Society's advisory group on public data literacy. He is also a member of the Finance Committee of the University of Cambridge and the advisory committees of the ESRC Centre for Macroeconomics and the Oxford Institute of Economic Policy (Oxonia). He is also a governor of the National Institute of Economic and Social Research (NIESR).

Robert was educated at Queens' College, Cambridge (where he is now an Honorary Fellow), at City University in London and at the School of Advanced International Studies at Johns Hopkins University in Washington DC. He has also been awarded an honorary doctorate from the University of York.

Robert is married to Sharon White, chief executive of the communications regulator Ofcom.

Professor Sir Charlie Bean



Charlie Bean joined the OBR in January 2017 and also holds a part-time Professorship at the London School of Economics. From 2000 to 2014, he worked at the Bank of England, first as Executive Director and Chief Economist, and then as Deputy Governor for Monetary Policy. Before joining the Bank, he was a member of the economics department at the LSE and has also worked at HM Treasury. He has published extensively on economic issues, most recently his independent review of UK economic statistics. He has also served as an

adviser to the Treasury and other Parliamentary committees, and was President of the Royal Economic Society from 2013 to 2015.

Graham Parker CBE



Graham Parker worked in a variety of civil service roles from 1972, including seven years working on manpower planning, five years advising on economic statistics, 13 years providing analysis, forecasts and policy costings for the Inland Revenue and nine years as head of the Public Sector Finances team in the Treasury, forecasting the whole of public sector expenditure and receipts, and advising on the fiscal position.

He was awarded a CBE in 2008 for his service to the Treasury and his work on the public finances. Following his retirement in January 2009, Graham was appointed to the IMF Fiscal Affairs Department's panel of technical experts in July 2009.

Non-executive members

Lord Burns GCB



Lord Burns is a Senior Adviser to Grupo Santander and Vice Chairman of the Hay Festival of Literature and Arts Ltd. He is a former Chief Economic Adviser and Permanent Secretary to HM Treasury. He is also a former Chairman of Santander UK plc, Channel Four Television Corporation, Marks and Spencer plc Welsh Water and The Royal Academy of Music.

Dame Kate Barker CBE



Kate Barker is presently Chair of the British Coal Staff Superannuation Scheme, member of the Jersey Fiscal Policy Panel, and a non-executive director of Man Group plc and Taylor Wimpey plc. She is also a member of the National Infrastructure Commission. Previously, Kate Barker was a member of the Monetary Policy Committee of the Bank of England from 2001 to 2010. During this period, she also led two major policy reviews for the Government, on housing supply and on land use planning. Before joining the MPC, she was Chief Economic Adviser at the CBI.

- 2.27 Appointments to the BRC will usually be for a period of five years and may be renewed once. Non-executive members' appointments will typically be for three years and may also be renewed once. Special arrangements were in place for the first appointed members of the OBR in order to ensure future appointments were staggered.
- 2.28 In January 2017 Sir Charlie Bean was appointed to the BRC following an open competition and approval from the Treasury Select Committee. He succeeded Sir Stephen Nickell who chose to step down after a little over three years of his second and final term as a member of the BRC. This was consistent with the intention he set out when appointed to his second term on the BRC. The length of contracts for members is stipulated in the *Budget Responsibility and National Audit Act 2011* and further detail is provided within the *OBR and HMT Framework Document*, both of which are available on the OBR website.¹

Table 2.1: Members' contract lengths and expiry dates

Member	Contract length	Contract expiry date
Robert Chote	5 years	3 October 2020
Sir Stephen Nickell	5 years	25 October 2018 (left 31 December 2016)
Graham Parker	5 years	25 October 2019
Sir Charlie Bean	5 years	1 January 2022
Lord Burns	4 years	21 June 2018
Dame Kate Barker	3 years	20 June 2017

¹ <http://budgetresponsibility.org.uk/independence/legislation-and-related-material/>

The Oversight Board

- 2.29 The Act requires the Office to appoint five members, the three executive members of the BRC and the two non-executive members. The five members of the OBR have established the OBR's Oversight Board, as required by the *Framework Document*. Consistent with best practice, the Oversight Board is chaired by one of the non-executive members, currently Lord Burns.
- 2.30 The Board's terms of reference are published on our website.² These were updated in 2016 to include an additional process for reviewing correspondence with forecasting departments in the run-up to fiscal events. The Board is responsible for establishing and taking forward the strategic aims of the OBR and for ensuring that effective governance arrangements are in place. It also provides assurance on internal risk management and controls.
- 2.31 All members in post at the time of each meeting attended Oversight Board meetings during 2016-17. Minutes of each meeting are published on our website.
- 2.32 The Board members do not hold any directorships or have significant interests in organisations that may conflict with their management responsibilities.

The Audit and Risk Assurance Committee

- 2.33 The Audit and Risk Assurance Committee is a sub-committee of the Oversight Board. The Committee consists of the Chairman and the two non-executive members. It is chaired by Dame Kate Barker. The terms of reference for the Committee are published on our website alongside those of the Oversight Board. The Committee's function is to provide advice to the Oversight Board and the Accounting Officer on the appropriateness and adequacy of risk management, internal controls and governance arrangements.
- 2.34 All members attended the three scheduled meetings of the Committee over 2016-17. Minutes of each meeting are published with the Board minutes on our website.

Executive management

- 2.35 I lead the OBR's management group, which includes the OBR's Chief of Staff and other members of staff as appropriate. This has responsibility for the overall management of the OBR. We are responsible for implementing strategic decisions taken by the Board, for making any necessary and appropriate decisions relating to the day-to-day performance of the OBR's business, and for the effective management of OBR staff.

Risk management

- 2.36 The main risks the OBR faces relate to the successful delivery of our core responsibility to produce independent and authoritative analysis of the sustainability of the public finances. We produce high-profile outputs that are central to fiscal management in the UK and in particular to the delivery of the Government's annual Budget. The operational and financial

² <http://budgetresponsibility.org.uk/transparency/governance/>

risks that we face are relatively less significant as the OBR is a small organisation with a small budget that is primarily spent on staff and accommodation costs.

- 2.37 Our risk management strategy involves all members of staff in the OBR and our Board. As we are a small organisation, our approach to risk management is naturally very closely integrated with both the longer-term strategic planning and the day-to-day management of the organisation. All members of staff and all members of the Board are involved in the identification of risks. There is clear ownership and responsibilities for managing risks.
- 2.38 The Chief of Staff is responsible for compiling and maintaining a register of the key risks facing the organisation. All members of staff and the BRC are consulted in identifying these risks. The register is discussed in detail at Board meetings and a mitigation strategy has been agreed for each risk. I am responsible with the Chief of Staff for ensuring the mitigation strategies are implemented and reporting back to the Board. We also ensure that staff and the BRC are regularly consulted on any new risks. Over the past year, the Board has considered the key analytical, presentational and operational challenges and risks that resulted from the June 2016 referendum decision for the UK to leave the European Union.

Analytical risks

- 2.39 To deliver our objectives, it is important that OBR staff have appropriate skills and experience and that we are able to draw on relevant external analysis, while ensuring the judgements we take are solely those of the BRC. The potential loss of experienced staff members, an increase in the demands placed on our staff without corresponding increases in resources, and the effective maintenance and development of the forecasting infrastructure, such as the macroeconomic model, are risks that the Board and management of the OBR are focused on mitigating. To ensure we are open to external analysis, we have set up an Advisory Panel and we consult widely with stakeholders and outside analysts.
- 2.40 The disaggregated nature of the public finances forecast means we also require close and effective working with experts in a number of government departments. To mitigate the risks around this process we have agreed a *Memorandum of Understanding (MoU)* with the key government departments involved in our work that sets out roles and responsibilities, coordination of the forecast process, and the process for information sharing. The *MoU* was reviewed and updated during 2016-17 to ensure that it continues to provide a robust framework for our work with departments. I chair a regular meeting of senior officials from the key departments to ensure effective working. Were I to have concerns about these relationships, I have recourse under the *MoU* to raise issues with the relevant departmental Permanent Secretaries. I have not had reason to deploy this mechanism so far.
- 2.41 It is central to our objectives that our analysis and judgements are produced independently from Ministers and that they are perceived to be so by the public. The *MoU* provides a framework within which we can work with Government officials while retaining our independence. To mitigate risks around the perception of independence, we set out transparently our process for working with Government in each of our major reports and

publish a log of contact with Ministers, special advisers and their private office officials. We have detailed the approach taken in each aspect of our forecast process in briefing papers available on our website. To date we have come under no pressure from Ministers, advisers or officials to change any of our conclusions.

- 2.42 We have also published a separate *Memorandum of Understanding* with HM Treasury covering the shared ownership of our macroeconomic model. This sets out governance arrangements for shared ownership, a process for agreeing and implementing a rolling model development plan, and commits both parties to providing sufficient resource to meet these requirements. This helps address a key risk around the effective maintenance and development of our forecasting infrastructure.

Operational risks

- 2.43 Our budget is small at £2.8 million and is primarily spent on staff and accommodation costs. The financial risks we face are therefore relatively low. Nevertheless, as Accounting Officer I am responsible for safeguarding the public funds for which I have charge, and I have ensured we have robust processes in place to do so that are proportionate to our size and the level of financial risks we face.
- 2.44 We have appointed a qualified financial adviser who attends our Board and Audit Committee meetings. Our current financial adviser is also the Director of Finance at HM Treasury. In her capacity as our financial adviser she is accountable to me. This arrangement is operationally efficient and represents value-for-money given that the OBR contracts administrative finance services from HM Treasury. The Board considers an update report on our finances at each meeting.
- 2.45 Our financial management services are provided by HM Treasury, which reviews its controls, processes and systems regularly. The Treasury Group Director of Finance has provided assurance on the current processes.
- 2.46 The key operational risks we face are the accidental loss or leak of confidential material, or the loss of IT services and/or access to our office space, ahead of delivery of our major reports. Having moved to new premises during 2016-17, we have updated our business continuity plan and our security policy, which mitigates the risks of accidental loss or leak of confidential material. As part of the update process, internal audit reviewed these policies. The audit provided assurance that we have effective policies in place. It made a number of recommendations that will be implemented. Internal audit has previously reviewed our knowledge management systems.

Opinion on effectiveness of governance arrangements

- 2.47 The Deputy Head of Treasury Group Internal Audit has provided an annual opinion on the adequacy and effectiveness of the OBR's framework of governance, risk management and control to me, as the Accounting Officer, and to the Audit and Risk Committee. Their findings and agreed actions were not significant, reflecting a generally sound control

environment, but they did identify the need for some control improvements that will be implemented.

- 2.48 My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the OBR, who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. On this basis, I consider the OBR's governance arrangements to be effective.



Robert Chote, Chairman

26 June 2017

Remuneration and staff report

Members' remuneration

- 2.49 The table below reports the remuneration of each member of the Budget Responsibility Committee. Members' remuneration is set by HM Treasury on appointment. Current members' letters of appointment, which include detailed remuneration arrangements, are published on the OBR website.³ As stipulated in the letters of appointment, BRC members are not entitled to any bonus payments. 'Salary' includes gross salary only. These disclosures have been subject to external audit.
- 2.50 The non-executive members of the OBR do not receive any fees.
- 2.51 All members of the BRC are subject to the deduction of appropriate taxes via the PAYE system.
- 2.52 No benefits in kind have been paid to members of the BRC.

Table 2.2: Remuneration (salary, benefits in kind and pensions) (Audited)

Member	Salary (£)		Pension benefits (£)		Total (£)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Robert Chote (Chairman)	151,573	150,831	30,315	30,166	181,888	180,997
Steve Nickell (0.6FTE April to December)	55,102	73,291	-	-	55,102	73,291
Graham Parker (0.6FTE)	73,608	73,291	-	-	73,608	73,291
Charlie Bean (0.5FTE January to March)	15,422	-	-	-	15,422	-

³ <http://budgetresponsibility.org.uk/about-the-obr/who-we-are/>

Pensions

- 2.53 As part of his contractual terms, Robert Chote receives a payment equivalent to 20 per cent of his annual fee into his personal pension scheme, which amounts to £30,315 (£30,166 in 2015-16).
- 2.54 The OBR does not pay any pension contributions on behalf of any of the other members of the BRC.

Civil Service pensions

- 2.55 Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced, the Civil Servants and Others Pension Scheme (alpha), which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS), which has four sections: three final salary schemes with a normal pension age of 60 (classic, premium, classic plus); and one providing benefits on a whole career basis with a normal pension age of 65 (nuvos).
- 2.56 These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under all the above schemes are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt either for a defined benefit arrangement or a partnership pension account.
- 2.57 The following transition arrangements were put in place for the introduction of alpha:
- members within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015;
 - members who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha between 1 June 2015 and 1 February 2022; and
 - all members who switch to alpha have their existing PCSPS benefits 'banked'. Any earlier final salary benefits members hold will be based on their final salary upon leaving alpha.
- 2.58 Further details of the schemes:
- **employee contributions** are salary-related, and range from 3 to 8.05 per cent of pensionable earnings for members of classic (and those who joined alpha from classic), and 4.6 to 8.05 per cent for members of premium, classic plus, nuvos, and all other members of alpha;

- **benefits** for classic accrue at a rate of 1/80th of final pensionable earnings for each year of service; for premium, the rate is 1/60th. Classic plus is essentially a hybrid, with benefits calculated broadly as per classic in respect of service before 1 October 2002, and as per premium since that date. Benefits in nuvos are based on pensionable earnings during the period of scheme membership, with 2.3 per cent of member's pensionable earnings credited to their earned pension account at the end of each scheme year (31 March), and the accrued pension uprated in line with Pensions Increase legislation. alpha is similar to nuvos, except the accrual rate is 2.32 per cent;
- a **lump sum** equivalent to three years' pension is payable on retirement for members of classic. For premium, there is no automatic lump sum. In all cases members may give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004.

2.59 More information on Civil Service pension arrangements can be found at www.civilservicepensionscheme.org.uk.

Expenses

2.60 The OBR publishes a record of travel and subsistence expenses for BRC members on its website on a quarterly basis. The OBR has incurred a cost of £1,561 (£1,052 in 2015-16) for Robert Chote's travel and subsistence expenses over the period. No other member of the BRC made any claims for expenses.

Staff summary

2.61 The OBR currently has 26 permanent staff members. Members of staff are all civil servants and are primarily permanent employees of the OBR rather than seconded from other departments. All staff members report to and are accountable to Robert Chote as Chairman.

2.62 The OBR staff are led by the Chief of Staff – Andy King. There are currently six analysts working on the macroeconomic forecast, 11 working on the public finances forecast and policy costings, and four working on long-term fiscal sustainability and fiscal risks. Four members of staff work on the OBR's communications, operations, finances, office management, website and project management of the production of our reports and associated press events.

2.63 As of 31 March 2017, the gender balance of the members of the OBR, the senior civil servant Chief of Staff and the non-SCS OBR staff was as set out in Table 2.3.

Table 2.3: Gender balance

	Male	Female	Total
BRC and non-executive members	4	1	5
Senior civil servants	1	0	1
Non-SCS staff	19	6	25

Staff remuneration

2.64 The OBR’s staff are civil servants and pay arrangements are governed by the policy framework set out by the Cabinet Office and HM Treasury. Total pay cost for OBR staff in 2016-17 was £1,517,000 (£1,009,000 in 2015-16).⁴ This includes a pot of £24,525 paid in-year for non-consolidated performance-related payments available to OBR staff (but not available to the SCS Chief of Staff). The Oversight Board is responsible for overseeing the pay remit for OBR staff. As such, the Oversight Board approves the Remuneration Report.

Staff numbers and related costs (Audited)

Table 2.4: Analysis of total staff costs

	2016-2017 Permanent staff £000	2015-2016 Permanent staff £000
Wages and salaries	1,517	1,261
Social Security costs	181	126
Other pension costs	268	206
Total net costs	1,966	1,593

Pension schemes

2.65 The Civil Servants and Others Pension Scheme (alpha) was launched as a new pension scheme for civil servants from 1 April 2015. Details on the transition arrangements between alpha and Principal Civil Service Pension Scheme (PCSPS) are outlined in section 2.55-2.59 Civil Service pensions on pages 22-23. The PCSPS scheme actuary valued the scheme as at 31 March 2012. Details can be found in the 2016-17 Resource Accounts of the Cabinet Office: Civil superannuation.

2.66 For 2016-17, employers’ contributions of £237,791 (2015-16: £176,080) were payable to the PCSPS at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Average number of persons employed

2.67 During 2016-17, OBR staff numbers increased in line with the new budget settlement and the resources required to meet the recommendations of the Treasury’s 2015 review of the OBR. Most of the recruitment for these new posts took place mid-way through 2016-17, so the average number of persons employed across the year was below the number employed at the end of the year.

⁴ Figures rounded to the nearest £1,000.

- 2.68 The average number of full-time equivalent persons employed during the year was 24.3 (2015-16: 16.6).

Exit packages

- 2.69 The OBR did not incur any costs for exit packages (2015-16: nil).

Pay relativeity

- 2.70 Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.
- 2.71 The remuneration of the highest-paid director in the OBR in the year ended 31 March 2017 was £151,573 (£150,831 year ended 31 March 2016). This was 3.0 times (3.0 times 2015-16) the median remuneration of the workforce, which was £50,641 (£51,059 in 2015-16). The median remuneration has fallen modestly reflecting the composition by grade, and by years at grade, of staff who joined during expansion of the staff team. The median salary includes the full-year equivalent salary of all staff in post as at 31 March 2017.
- 2.72 In 2015-16 and 2016-17, no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,522 to £90,308 in 2016-17 (£19,138 to £85,256 in 2015-16).
- 2.73 Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Sickness absence data

- 2.74 During the period ending 31 March 2017, the average number of working days lost due to sickness absence was 1.1 days per full-time equivalent (FTE) (2015-16: 0.8 days per FTE).



Robert Chote, Chairman

26 June 2017

Parliamentary accountability and audit report

- 2.75 The accounts of the OBR are audited by the Comptroller and Auditor General under Paragraph 18 (4), Schedule 1 of the *Budget Responsibility and National Audit Act 2011*. The audit fee charged was £15,000 (£15,000 in 2015-16). The auditors received no fees for non-audit services. The auditors have been provided with all relevant audit information necessary to complete their audit and the Accounting Officer has taken all of the necessary steps to ensure that the auditors are aware of any relevant information.
- 2.76 All expenditure was applied to the purpose intended by Parliament (Audited).
- 2.77 No fees or charges were paid by the OBR (Audited).
- 2.78 The OBR has no remote contingent liabilities.
- 2.79 The OBR's total expenditure in 2016-17 was £2,887,000. The net expenditure for prior years was as follows:

Table 2.5: Expenditure and income

	2016-17 £000	2015-16 £000	2014-15 £000	2013-14 £000
Expenditure	2,887	2,108	1,986	1,737
Income	(5)	(3)	-	(1)
Net expenditure	2,882	2,105	1,986	1,736



Robert Chote, Chairman

26 June 2017

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Office for Budget Responsibility for the year ended 31 March 2017 under the Budget Responsibility and National Audit Act 2011. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that are described in those reports as having been audited.

Respective responsibilities of the Office for Budget Responsibility, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Office for Budget Responsibility and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Budget Responsibility and National Audit Act 2011. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Office for Budget Responsibility's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office for Budget Responsibility; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office for Budget Responsibility's affairs as at 31 March 2017 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Budget Responsibility and National Audit Act 2011 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Budget Responsibility and National Audit Act 2011; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

27 June 2017

National Audit Office, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP

3 Financial statements

01 April 2016 to 31 March 2017

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2017

	Note	£000	£000
Expenditure			
Staff costs	2	1,966	1,593
Other expenditure	3	921	515
		<u>2,887</u>	<u>2,108</u>
Income			
Other income		(5)	(3)
Net expenditure		<u>2,882</u>	<u>2,105</u>

There were no items of other comprehensive expenditure.

The notes on pages 33 to 38 form part of these accounts.

Statement of financial position

as at 31 March 2017

	Note	2016-17 £000	2015-16 £000
Current assets			
Receivables due within one year	5	11	17
Cash and cash equivalents	6	277	109
Total current assets		288	126
Current liabilities			
Payables due within one year	7	(598)	(281)
Provisions	9	(132)	-
Total current liabilities		(730)	(281)
Net current liabilities		(442)	(155)
Taxpayers' equity			
General fund		(442)	(155)
Total taxpayers' equity		(442)	(155)

The notes on pages 33 to 38 form part of these accounts.

The financial statements were approved by the Board on 24 May 2017.



Robert Chote, Chairman

26 June 2017

Statement of cash flows

for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net operating costs		(2,882)	(2,105)
Changes in working capital other than cash		455	19
Net cash outflow from operating activities		(2,427)	(2,086)
Cash flows from financing activities			
Grant-in-Aid from HM Treasury		2,595	2,125
Net financing		2,595	2,125
Net increase/(decrease) in cash and cash equivalents in the period	6	168	39
Cash and cash equivalents at the beginning of the period		109	70
Cash and cash equivalents at the end of the period	6	277	109

The notes on pages 33 to 38 form part of these accounts.

Statement of changes in taxpayers equity

for the year ended 31 March 2017

	General Reserve £000
Balance at 1 April 2016	(155)
Grant-in-Aid from HM Treasury	2,595
Comprehensive Expenditure for the year	(2,882)
Balance at 31st March 2017	(442)

for the year ended 31 March 2016

	General Reserve £000
Balance at 1st April 2015	(175)
Grant-in-Aid from HM Treasury	2,125
Comprehensive Expenditure for the year	(2,105)
Balance at 31st March 2016	(155)

The notes on pages 33 to 38 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

Pursuant to the Framework Document¹ between the Office for Budget Responsibility (OBR) and HM Treasury, these financial statements have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FReM).² The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the OBR for the purpose of giving a true and fair view has been selected. The particular policies adopted by the OBR are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

IFRSs in issue but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2016. The OBR has reviewed the effects that new accounting standards are expected to have on its financial statements, namely IFRS 9 in respect of financial instruments, IFRS 15 in respect of revenue from contracts and IFRS 16 in respect of leases. No material impact is expected.

1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified to account for the initial recognition of certain financial instruments at fair value where required under applicable accounting standards.

1.2 Basis of preparation

The OBR's Statement of Financial Position at 31 March 2017 shows net liabilities of £442,000. This reflects the inclusion of liabilities falling due within 2017-18 which, in so far as the OBR is unable to meet them from its other sources of income, would fall, in the last resort, to be met by grants from central government. Under normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need, but there is no reason to believe that, if required, grant funding and parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going-concern basis for these financial statements.

1.3 Significant judgements and estimates

Provisions are recognised in accordance with IAS 37 when a present obligation exists as the result of a past event, when it is probable that economic benefits will flow from OBR in order to settle the liability and that a reliable estimate can be made of the sum required to make a final settlement. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Future payments may be subject to discount rates based on the expected timing of cash flows to arrive at the net present value of all expected future cash flows. Provisions are calculated using the best available

¹ http://budgetresponsibility.org.uk/docs/dlm_uploads/2014_Framework_document.pdf

² <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

Financial statements

information, but the actual future outcomes of items provided for may differ from expectations. In accordance with IAS 1, provisions are separately disclosed as both current and non-current. Management calculates reliable estimates based on independent professional estimates as far as practicable.

1.4 Financing

The OBR is financed via a Grant-in-Aid from HM Treasury. The Grant-in-Aid is credited to the general fund in the year in which it is received. The total Grant-in-Aid received by the OBR from HM Treasury for the year ended 31 March 2017 was £2,595,000. This total represents the OBR's cash requirement within the reporting period over and above its cash balance held at the end of the previous financial year.

1.5 Property, plant and equipment

The threshold for capitalising non-current assets is £5,000, consistent with the accounting policies of HM Treasury. Accordingly, the OBR does not currently hold any property, plant or equipment as it primarily rents office space and leases IT equipment.

1.6 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Service and Other Pension Scheme (CSOPS), which are described in the Remuneration and Staff Report, cover the majority of past and present employees. The defined benefit schemes within the PCSPS and CSOPS are contributory. The OBR recognises the expected costs of the scheme on a systematic and rational basis over the period during which it benefits from employees' service by payments of amounts calculated on an accruing basis.

1.7 Employee benefits

The OBR has accrued for the cost of the outstanding employee paid holiday entitlement. It is calculated based on pay and Employers' National Insurance Contributions.

1.8 Financial instruments

Trade receivables and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.9 Cash

Cash and cash equivalents comprise cash at bank.

1.10 Leases

Operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease.

1.11 Provisions

Provisions are recognised in accordance with IAS 37 when a present obligation exists as the result of a past event, when it is probable that economic benefits will flow from OBR in order to settle the liability and that a reliable estimate can be made of the sum required to make a final settlement.

Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Future payments may be subject to discount rates based on the expected timing of cash flows to arrive at the net present value of all expected future cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations. In accordance with IAS 1, provisions are separately disclosed as both current and non-current.

2. Staff numbers and related costs

2.1 Analysis of total staff costs

	2016-2017 Permanent staff £000	2015-2016 Permanent staff £000
Wages and salaries	1,517	1,261
Social Security costs	181	126
Other pension costs	268	206
Total net costs	1,966	1,593

Further details of staff costs and numbers are now disclosed in the Remuneration and staff report (see pages 21 to 25).

3. Other expenditure

	2016-17 £000	2015-16 £000
Accommodation costs	365	241
Printing and office services	54	83
IT costs	279	94
Contracted out services	26	35
External auditor's remuneration	15	15
Staff Support and Staff-related costs, including training and travel	31	23
Development work on the OBR website	19	24
Provision of dilapidation	132	-
Total	921	515

No payments were made to the external auditors in respect of non-audit services. Increased accommodation and IT set-up costs were incurred in the current year as a result of the OBR's relocation on 12 September 2016. Accommodation costs included amounts owed post relocation for rent and rates due to the end of the OBR's prior tenancy on 22 December 2016. IT costs included £180,694 relating to the set-up of IT services on relocation. A provision of £132,000 was recognised for dilapidation costs under the terms of the OBR's Memorandum of Terms of Occupation (MOTO) related to its former tenancy.

4. Financial instruments

As the cash requirements of the OBR are met through Grant-in-Aid provided by HM Treasury, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments, namely trade receivables and payables as detailed in Note 5 and Note 7, relate to contracts to buy non-financial items in line with the OBR's expected purchase and usage requirements. The OBR is therefore exposed to little credit, liquidity or market risk.

5. Receivables

	2016-17	2015-16
	£000	£000
Amounts falling due within one year		
Trade receivables	4	6
Taxation and social security	4	7
Other receivables	3	4
Total	11	17

6. Cash and cash equivalents

	2016-17	2015-16
	£000	£000
Balance at 1 April	109	70
Net change in cash balances – inflow/(outflow)	168	39
Balance at 31 March	277	109

All cash balances are held with the Government Banking Service.

7. Payables and other current liabilities

	2016-17	2015-16
	£000	£000
Amounts falling due within one year		
Taxation and social security	60	35
Trade and other payables	32	19
Accruals	506	227
Total	598	281

In 2016-17 accruals have increased as a consequence of the OBR's relocation on 12 September 2016. Amounts accrued at 31 March 2017 for which invoices remain outstanding include £180,694 for IT set-up costs related to the relocation and £212,478 for rent, rates, service charges and IT support costs due in connection with the OBR's new tenancy.

8. Commitments and leases

The OBR has neither entered into any capital commitments nor any non-cancellable contracts.

The OBR leased its former office space by means of an agreement set out within a MOTO. The lease covered the provision of both accommodation and office services and ran for 6 years from 13 December 2010 to 22 December 2016.

The OBR relocated on 12 September 2016 without any leasehold improvements being required. It has similarly leased office space by means of an agreement set out within a MOTO. This MOTO covers the provision of accommodation and office services, but excludes IT. The agreement runs for 12 years from 12 September 2016 to 23 December 2028. There are no finance leases included within the MOTO.

Arrangements for the provision of IT equipment and services are by separate agreement. IT equipment is accounted for under an operating lease.

Obligations and commitments over the lease period comprise:

	2016-17 £000	2015-16 £000
Accommodation and office services		
Within one year	346	170
Between one and five years	1,388	
Later than five years	2,314	
	<u>4,048</u>	<u>170</u>
IT and office services		
Within one year	45	80
Between one and five years	181	
Later than five years	318	
	<u>544</u>	<u>80</u>

These figures do not take account of any future increases in the underlying costs which would be passed on to the OBR.

9. Provisions

	2016-17 £000	2015-16 £000
Balance as at 1 April	-	-
Provided during the year	132	-
Balance as at 31 March	<u>132</u>	<u>-</u>
Not later than one year	132	-
Later than one year and not later than five years	-	-

Under the MOTO covering its former tenancy the OBR has an obligation to pay a pro-rata share of dilapidation costs chargeable on the landlord by the freeholder that arise on cessation of the head lease. The OBR's share of these costs is estimated to be a maximum of £132,000. This liability will become payable if the freeholder decides to retain the property for business use and not convert it to residential use.

While a decision by the freeholder on the future use of the property remains outstanding, at the reporting date it was considered probable that the property would continue to be used for commercial letting. Accordingly, a provision has been recognised based on a professional estimate of the likely expenditure payable by the OBR.

10. Related party transactions

The sponsoring department of the OBR is HM Treasury. HM Treasury is regarded as a related party with which the OBR has had various material transactions during the year, including the provision of HR and financial services to the OBR.

The OBRs formerly leased office space from the Attorney General's Office (AGO) under a MOTO. During the year the OBR made payments of £255,285 to the AGO in respect of costs for accommodation, IT and office services for the period to 22 December 2016, when the MOTO expired.

The OBR relocated to office space leased by the Ministry of Justice (MoJ) on 12 September 2016. The OBR has ongoing transactions with the MoJ due in accordance with the MOTO through which the MoJ recharges the OBR for the cost of accommodation and office services and separately under the MoJ's agreement to provide IT services. In the period since relocation to 31 March 2017 the OBR incurred costs payable to the MoJ of £180,694 for IT set-up and £212,478 for rent, rates, service charges and IT support costs.

Board member remuneration is disclosed in the Remuneration Report. No Board member, key manager or other related party has undertaken any other material transactions with the OBR.

11. Events after the reporting period

There were no significant events after the reporting period

12. Date authorised for issue

The financial statements were authorised for issue on 27 June 2017.

There were no changes to the accounts between the date when the Accounting Officer signed the accounts and the date they were authorised for issue.

