

Office for
**Budget
Responsibility**

Annual report and accounts 2015-16

Office for Budget Responsibility: Annual report and accounts 2015-16

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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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 whether the Government is on course to meet 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 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 on existing policies; and
 - to report in trends in welfare spending, which we have defined as spending on social security and tax credits.
- 1.4 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.
- 1.5 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.
- 1.6 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. Our work was reviewed 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”*.

- 1.7 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.”* It also made a number of recommendations around increasing our capacity to do more in delivering on our core responsibilities – building resilience in our existing operations and expanding our work on fiscal risks, fiscal forecasting models and devolved issues. This has led to an increase on our budget over the coming Parliament that is commensurate with the growing demands being placed on us. I am pleased that our stakeholders and external reviews have recognised the achievements we have made during the OBR’s first five years and I look forward to building on our reputation for clarity and transparency in our analysis of the public finances over the next five years.
- 1.8 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. Given the additional post-election Budget and the Treasury’s review of the OBR, it was a challenging year for our staff and our stakeholders. Any suggestions as to how we might fulfil our remit more effectively are always welcome.



Robert Chote, Chairman

27 June 2016

Statement of performance and activities

- 1.9 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.
- 1.10 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 following 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;
 - alongside each Autumn Statement, 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
 - from next year, producing a biennial report of fiscal risks to which the Government is committed to respond.
- 1.11 The *Charter* sets out that the OBR's 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 <http://budgetresponsibility.org.uk/independence/legislation-and-related-material/>

- 1.12 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.

Performance summary – Achievements in 2015-16

Core responsibilities

- 1.13 In 2015-16, we fulfilled our statutory core responsibilities through the publication of the following reports:
- the July 2015, November 2015 and March 2016 *Economic and fiscal outlooks (EFO)* set out our latest economic and fiscal forecasts and assessments of the likelihood that the Government will meet its fiscal mandate and welfare cap. In the July 2015 *EFO*, we made relatively small changes to our economy and pre-policy-measures fiscal forecasts, while the new Government raised taxes, cut welfare spending and increased departmental spending. In our November 2015 *EFO*, we made further small changes to our economy and fiscal forecasts, with lower debt interest spending and a slightly higher receipts forecast. The Government increased departmental spending in the Spending Review and reversed some of the cuts to welfare spending that had been announced in July. Finally, in March 2016, we revised down our assumption for trend productivity growth in light of significant weakness at the end of 2015. That led to a significant downward revision to our receipts forecast and meant our pre-policy-measures forecast showed all the Government's legislated fiscal targets being missed. The effect of Budget policy measures meant our final forecast showed the Government's surplus target being met, while the debt target and welfare cap continued to be missed;
 - our fifth *Fiscal sustainability report (FSR)* was published in June 2015. In this 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 pressure over the longer term primarily as a result of an ageing population. We produced further analysis of long-term prospects for North Sea oil and gas receipts. We also assessed the additional information on the public sector balance sheet provided in the 2013-14 Whole of Government Accounts;
 - our fifth *Forecast evaluation report (FER)* was published in October 2015. The report analysed different vintages of forecasts for borrowing in 2014-15. Relative to our first forecast in June 2010, borrowing was significantly higher due to a cumulative shortfall in nominal GDP growth driven by weakness in productivity and real earnings growth, which fed through to weaker tax receipts in labour income. Relative to more recent forecasts, errors were smaller. The analysis informed a number of lessons for future forecasts; and
 - our second *Welfare trends report (WTR)* was also published in June 2015. We revisited some of the key conclusions about overall trends in welfare spending from our first

report, while presenting new analysis of UK social protection spending in international context. That showed the UK spends an average on low-income households (reflecting the tax credits system) and less than average on unemployment benefits (partly due to associated support with housing costs being delivered via a separate benefit – housing benefit).

- 1.14 Alongside our medium-term forecasts, in accordance with the *Scotland Act 2012* and the *Wales Act 2014*, we forecast Scottish and Welsh receipts from four taxes – the Scottish and Welsh rate of income tax, stamp duty land tax (replaced by a land and buildings transaction tax in Scotland from April 2015), landfill tax and aggregates levy – which the Government has devolved to the Scottish Parliament and Welsh Assembly.

Wider analysis

- 1.15 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 2015-16, we published one working paper (described below) and continued our monthly commentary on the ONS/HMT public sector finance data release.²
- *Working paper No.8 – Anti-avoidance costings: an evaluation* (published in January 2016), which reported on the performance of 59 policy measures aimed at reducing the level of tax avoidance and evasion and to enhance the compliance performance of HM Revenue & Customs that were announced and implemented between 2010 and 2015. The analysis found that the yield from the majority of measures was reasonably close to the original estimate, but there were more under-performing measures than over-performing ones. It also found that costings had, on average, underestimated the amount of time that it would take before a measure became fully effective.

Communications and stakeholder engagement

- 1.16 The Budget Responsibility Committee (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* and jointly for the *FSR* and *WTR*. Presentations have been given, among others, to: the Government Economic Service, Organisation for Economic Cooperation and Development (OECD), European Commission, and Glasgow University Business School. We hosted a variety of international delegations interested in the work of the OBR.
- 1.17 We also 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 Confederation of British Industry, the National Institute of Economic and Social Research, the Institute for Fiscal Studies, the London School of Economics, the Office for National Statistics and the National Audit Office. We have also discussed forecast

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

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 International Monetary Fund, the OECD, and the European Commission.

- 1.18 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 Scottish Parliament Finance Committee.

Performance analysis

How we measure performance

- 1.19 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. The non-executives required assessment appears in the Accountability report.
- 1.20 We also measure our performance based on feedback from external stakeholders. Over the past five years we have relied on a range of outputs to achieve this, such as:
- 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 bi-lateral 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

- 1.21 The OBR is committed to the central government target of paying valid invoices within five days of receipt. In the reporting period, 92 per cent of invoices (85 per cent in 2014-15) that the OBR have received have been paid within the target time of five days.
- 1.22 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 2016 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 (2014-15: 0 days).
- 1.23 The OBR shares a building with the Attorney General's Office (AGO). We work with them to agree priorities for ensuring that the environmental impact of our building and operations

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

are minimised. The 20 Victoria Street Sustainability Group has agreed a number of initiatives, which we hope will improve the sustainability of both our operations as well as reducing the overall shared cost of accommodation. In 2013, the Display Energy Rating on the office's Display Energy Certificate (DEC) improved from 'Red' to 'Amber'. A further small improvement in the operational rating score was achieved in 2015.

Operations

1.24 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 new multi-year budget settlement has been agreed with the Treasury, comprising a commitment for the years 2015-16 to 2020-21. The Chairman of the OBR is designated as the Accounting Officer responsible for the effective management of public funds.

Service agreements

1.25 We share our workspace and accommodation with the AGO at 20 Victoria Street. As part of this arrangement, we pay a share of the cost of the AGO's service contracts for security and facilities management. Our IT infrastructure and maintenance is also delivered via the AGO network. We work together with the AGO to ensure that both departments continue to achieve value-for-money in the procurement of shared services. The lease on our shared office space expires in December 2016; as a result we will relocate to alternative premises on the government estate.

1.26 As a small organisation, to ensure value-for-money, we contract administrative human resources, finance, accounting, procurement and payroll services from HM Treasury. These services are outlined within a Service Level Agreement (SLA) between HM Treasury and the OBR.

Going concern

1.27 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 new multi-year budget settlement has been agreed with the Treasury, comprising a commitment for the years 2015-16 to 2020-21.

1.28 The OBR's Statement of Financial Position at 31 March 2016 shows net liabilities of £155,000. 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

1.29 The OBR's corporate and business plan is published annually on our website.⁴ 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, whilst meeting statutory and other requirements.

Risk management

1.30 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 and Autumn Statements. 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.

1.31 In the coming year, as our staff numbers increase in order to deliver on the recommendations of the Treasury's 2015 Review of the OBR and we move to new premises, change management risks will have greater importance than has been the case in recent years.

1.32 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

27 June 2016

⁴ <http://budgetresponsibility.org.uk/topics/governance-and-reporting/>

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 the 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.

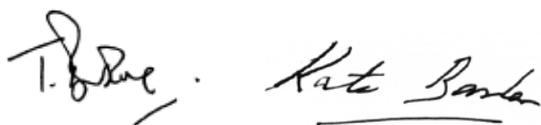
2.3 To fulfil our roles, we have continued to monitor and assess the OBR's work and its operational and governance arrangements through the OBR's Oversight Board and the Audit and Risk Assurance Committee. In the spring of 2016, we met with the staff at the OBR and with the individual members of the BRC to review the performance of the OBR over the past year. 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 recommendations that succession planning is undertaken to mitigate risks associated with senior leadership change, 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 to non-technical audiences.
- 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. We support the thrust of these recommendations, as they pertain to the OBR's existing remit. Potential changes to that remit are a matter for Parliament.
- 2.7 In terms of the OBR's core responsibilities, we note:
- the OBR published three economic and fiscal forecasts in the July 2015, November 2015 and March 2016 *Economic and fiscal outlooks*;
 - the OBR also published an analysis of the sustainability of the public finances in its June 2015 *Fiscal sustainability report*, and a thorough assessment of the accuracy of its previous forecasts in the October 2015 *Forecast evaluation report*;
 - in addition, the OBR published its second *Welfare trends report* in June 2015, which examines trends in spending on different elements of the welfare system;
 - the OBR has also produced wider analysis relevant to its remit through the publication of one working paper and a monthly analysis of the public finances.
- 2.8 All of these outputs have generally been seen as robust, authoritative and objective, although inevitably some outside commentators will disagree with some of the conclusions reached. They are also very accessible to read and 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 are now routinely sent the emails exchanged between the OBR and the relevant departments just ahead of any fiscal event. We are pleased to confirm that these indicate there is no inappropriate comment from the departments, and that the OBR is clear and robust in maintaining its views if 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. However the three fiscal events in 2015 did lead to increased overtime and imposed some stresses on the organisation with little opportunity between

fiscal events to carry out improvements to processes or produce additional papers. Nevertheless, we continue to find good morale among staff and the BRC, that staff turnover had been handled successfully, and that working relationships within the OBR were positive and effective.

- 2.11 The OBR has been given 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 important that the successor to Sir Stephen Nickell as a member of the BRC is announced in a timely fashion. 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 We will continue to monitor the OBR and seek to provide guidance and challenge wherever necessary.
- 2.15 We look forward to continuing our work with the OBR over the coming year.



Lord Burns

Dame Kate Barker

Non-executive members of the Office for Budget Responsibility

27 June 2016

Statement of accounting officer's responsibilities

- 2.16 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.
- 2.17 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.
- 2.18 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:
- 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;
 - confirm that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information;
 - 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; and
 - prepare the accounts on a going concern basis.
- 2.19 The Accounting Officer of HM Treasury has designated the Chairman as Accounting Officer of the OBR.
- 2.20 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

2.21 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.

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 and the functions and broad governance structure of the Office. In support of the primary legislation, the *Office for Budget Responsibility and HM Treasury Framework Document*, available on our website, describe 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.¹ 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 Stephen Nickell 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 19 to provide analytical and corporate support, led by the Head 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 of the Exchequer is required to consult the Chair of the BRC for appointments to the two other positions on the BRC. The non-executive members are nominated by the OBR and appointed by the Chancellor of the Exchequer. The initial appointments to the non-executive members' positions were made by the Chancellor, in consultation with the Chair of the BRC.

¹ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

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, the Public Policy Committee of the British Academy 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 by the University of York.

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

Professor Sir Stephen Nickell CBE



Stephen Nickell has held Economics Professorships at both the London School of Economics and Oxford and was President of the Royal Economic Society from 2000 to 2003. He was a member of the Bank of England Monetary Policy Committee from 2000 to 2006.

He is a Fellow of the Econometric Society and the British Academy as well as being a foreign honorary member of the American Economic Association and the American Academy of Arts and Sciences.

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 Electra Private Equity plc, Taylor Wimpey plc and the Yorkshire Building Society. 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. In October 2015 Robert Chote was re-appointed for a second and final term. Sir Stephen Nickell and Graham Parker both intend to serve three years out of their full five-year terms. The duration of contracts for members is set by 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.²

Table 2.1: Members' contract lengths and expiry dates

Member	Contract length	Contract expiry date
Robert Chote	5 years	03-Oct-20
Stephen Nickell	5 years	25-Oct-18
Graham Parker	5 years	25-Oct-19
Lord Burns	4 years	21-Jun-18
Dame Kate Barker	3 years	20-Jun-17

The Oversight Board

2.28 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

² <http://budgetresponsibility.org.uk/independence/legislation-and-related-material/>

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.

- 2.29 The Board's terms of reference are published on the OBR's website.³ They have been refreshed to include additional processes for reviewing correspondence with relevant 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.
- 2.30 All members attended the scheduled meetings of the Oversight Board during 2015-16. Minutes of the meetings are published on the OBR website.
- 2.31 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

- 2.32 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 the OBR website. Its 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.
- 2.33 All members attended the scheduled meetings of the Committee over 2015-16. Minutes of all meetings of the Committee are also published on the OBR website.

Executive management

- 2.34 I lead the OBR's management group, which includes the OBR's Head 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

- 2.35 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 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.

³ <http://budgetresponsibility.org.uk/transparency/governance/>

- 2.36 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.
- 2.37 The Head 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 Head 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.

Analytical risks

- 2.38 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 judgments 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 resource, 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. I am content that our new budget settlement provides us with the resources we need to meet our objectives, and this is also the view of our non-executive members. To ensure we are open to external analysis, we have set up an Advisory Panel and we consult widely with stakeholders and outside analysts.
- 2.39 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* will be reviewed and updated during 2016-17 to ensure that it continues to provide a robust framework for our work with government departments. I chair a regular meeting of senior officials from the key departments to ensure effective working. If I have concerns around these working 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.
- 2.40 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.

- 2.41 We have also published a *Memorandum of Understanding* with HM Treasury covering the shared ownership of the 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

- 2.42 Our budget is small at £2.234 million this year 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 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.
- 2.43 Our financial management services are provided by HM Treasury who reviews its controls, processes and systems regularly. The Treasury Group Director of Finance has provided assurance on the current processes.
- 2.44 We have appointed a qualified financial adviser who attends our Board and Audit Committee meetings. Our current financial adviser is also the Deputy 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 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. We have developed a business continuity plan and subscribe to back-up IT facilities and office space. We have a robust security policy to mitigate the risks of accidental loss or leak of confidential material. Internal audit reviewed our knowledge management systems and our IT service contracts in 2012-13. We continue to work with the National Archives to deliver our updated records management policy. In 2015-16 we asked internal audit to review the OBR's knowledge and information management. The audit provided reassurance that we have effective systems in place. It made a number of recommendations that will be implemented.

Opinion on effectiveness of governance arrangements

- 2.46 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 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.

- 2.47 My review of the effectiveness of the systems 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

27 June 2016

Remuneration and staff report

2.48 All disclosures within the remuneration and staff report have been audited.

Members' remuneration

2.49 The table below reports the remuneration of each member of the Budget Responsibility Committee. Members' remuneration is set by the Treasury on appointment. Current members' letters of appointment, which include detailed remuneration arrangements, are published on the OBR website.⁴ As stipulated in the letters of appointment, the BRC 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 of the 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)

Member	Salary (£)		Pension benefits (£)		Total (£)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Robert Chote (Chairman)	150,831	149,922	30,166	29,984	180,997	179,906
Steve Nickell (0.6FTE)	73,291	72,798	-	-	73,291	72,798
Graham Parker (0.6FTE)	73,291	72,798	-	-	73,291	72,798

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 £30,166 (£29,984 in 2014-15).

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.

⁴ <http://budgetresponsibility.org.uk/about-the-obr/who-we-are/>

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 3-8.05 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 £1052 (£1817 in 2014-15) 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 19 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 of the BRC.

2.62 The OBR staff are led by the Head of Staff – Andy King. There are currently five analysts working on the macroeconomic forecast, eight working on the public finances forecast and policy costings, and two working on long-term fiscal sustainability and other analytical projects. 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 2016, the gender balance of the members of the OBR, the senior civil servant Head of Staff and the no-SCS OBR staff was as set out in the table below.

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	12	6	18

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 members in 2015-16 was £1,070,000 (£1,099,000 in 2014-15).⁵ This includes a pot of £22,210 paid in-year for non-consolidated performance-related payments available to the OBR’s non-senior civil service staff. The Oversight Board is responsible for overseeing the pay remit for OBR staff. As such, the Oversight Board approves the Remuneration Report.

⁵ Figures rounded to the nearest £1,000.

Staff numbers and related costs

Table 2.4: Analysis of total staff costs

	2015-2016 Permanent staff £000	2014-2015 Permanent staff £000
Wages and salaries	1,261	1,174
Social Security costs	126	119
Other pension costs	206	183
Total costs	1,593	1,476
Less recoveries in respect of outward secondments	-	-
Total net costs	1,593	1,476

Pension schemes

2.65 The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha” are unfunded multi-employer defined benefit scheme in which the OBR is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2014. Details can be found in the Accounts of the Cabinet Office: Civil Superannuation.⁶

2.66 For 2015-16, employer contributions of £176,080 (2014-15: £152,886) were payable to the civil service schemes at one of four rates in the range 20.0 to 24.5 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 2015-16 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

2.67 During the year 2015-16, payments towards the pension costs of the Chairman were £30,166 (2014-15: £29,984).

Average number of persons employed

2.68 The average number of full-time equivalent persons employed during the year was 16.6 (2014-15: 17.1).

Exit packages

2.69 The OBR did not incur any costs for exit packages (2014-15: nil).

Pay relativity

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.

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/496066/53726_HC_45_Web.pdf

- 2.71 The remuneration of the highest-paid director in the OBR in the year ended 31 March 2016 was £150,831 (£149,922 year ended 31 March 2015). This was 3.0 times (3.1 times 2014-15) the median remuneration of the workforce, which was £51,059 (£48,128 in 2014-15). The median remuneration has risen as overtime costs increased over the course of the year; in addition staff that joined the OBR were on average paid more than the staff they replaced. The median salary includes the full-year equivalent salary of all staff in post as at 31 March 2016.
- 2.72 In 2014-15 and 2015-16, no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,138 to £85,256 in 2015-16 (£19,151 to £78,031 in 2014-15).
- 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 2016, the average number of working days lost due to sickness absence was 0.8 days per full-time equivalent (FTE) (2014-15: 0.2 days per FTE).



Robert Chote, Chairman

27 June 2016

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. 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 2015-16 was £2,105,000. The net expenditure for prior years was as follows:

Table 2.5: Expenditure and income

	2014-15 £000	2013-14 £000
Expenditure	1,986	1,737
Income	0	1
Net expenditure	1,986	1,736



Robert Chote, Chairman

27 June 2016

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 2016 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 2016 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

28 June 2016

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

3 Financial statements

01 April 2015 to 31 March 2016

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

	Note	2015-2016 £000	2014-2015 £000
Expenditure			
Staff costs	2	1,593	1,476
Other expenditure	3	515	510
		<u>2,108</u>	<u>1,986</u>
Income			
Other income		(3)	-
Net expenditure		<u>2,105</u>	<u>1,986</u>

There were no other items of comprehensive expenditure.

The notes on pages 35 to 39 form part of these accounts.

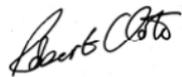
Statement of Financial Position

as at 31 March 2016

	Note	2015-2016 £000	2014-2015 £000
Current assets			
Receivables due within one year	5	17	12
Cash and cash equivalents	6	109	70
Total current assets		126	82
Current liabilities			
Payables due within one year	7	(281)	(257)
Total current liabilities		(281)	(257)
Net current assets		(155)	(175)
Net current assets/(liabilities)		(155)	(175)
Taxpayers' equity			
General fund		(155)	(175)
Total taxpayers' equity		(155)	(175)

The notes on pages 35 to 39 form part of these accounts.

The financial statements were approved by the Board on 25 May 2016.



Robert Chote, Chairman

27 June 2016

Statement of Cash Flows

for the year ended 31 March 2016

	Note	2015-2016 £000	2014-2015 £000
Cash flows from operating activities			
Net operating costs		(2,105)	(1,986)
Changes in working capital other than cash		19	18
Net cash outflow from operating activities		(2,086)	(1,968)
Cash flows from financing activities			
Grant-in-Aid from HM Treasury		2,125	1,996
Net financing		2,125	1,996
Net increase/(decrease) in cash and cash equivalents in the period	6	39	28
Cash and cash equivalents at the beginning of the period		70	42
Cash and cash equivalents at the end of the period	6	109	70

The notes on pages 35 to 39 form part of these accounts.

Statement of Changes in Taxpayers' Equity

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	<u>(155)</u>

for the year ended 31 March 2015

	General Reserve £000
Balance at 1 April 2014	(185)
Grant-in-Aid from HM Treasury	1,996
Comprehensive Expenditure for the year	(1,986)
Balance at 31st March 2015	<u>(175)</u>

The notes on pages 35 to 39 form part of these accounts.

Notes to the Accounts

No significant accounting estimates or judgements were made in the preparation of these accounts.

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM).¹ 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 Office for Budget Responsibility (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 2015. The OBR has reviewed the effects that new accounting standards are expected to have on its financial statements and there is no material impact.

1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention.

1.2 Basis of preparation

The OBR's Statement of Financial Position at 31 March 2016 shows net liabilities of £155,000. This reflects the inclusion of liabilities falling due in 2016-17 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 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 in the financial year 2015-16 was £2,125,000. This total represents the cash requirement within the reporting period and the carryover of a cash balance into the following financial year.

¹ <https://www.gov.uk/government/publications/government-financial-reporting-manual-2015-to-2016>

1.4 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant 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 unfunded and contributory. The OBR recognises the expected costs of the schemes 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.

1.5 Employee benefits

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

1.6 Financial instruments

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

Cash and cash equivalents comprise cash at bank.

1.7 Leases

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

2. Staff numbers and related costs

2.1 Analysis of total staff costs

	2015-16 Permanent staff £000	2014-15 Permanent staff £000
Wages and salaries	1,261	1,174
Social Security costs	126	119
Other pension costs	206	183
Total costs	1,593	1,476

Further details of staff costs and numbers are now disclosed in the Remuneration and Staff Report (see pages 22 to 26).

3. Other expenditure

	2015-16 £000	2014-15 £000
Accommodation costs	241	232
Printing and office services	83	87
IT costs	94	84
Contracted out services	35	31
External auditor's remuneration	15	15
Staff Support and Staff-related costs, including training and travel	23	16
External independent review	-	45
Development work on the OBR website	24	-
Total	515	510

No payments were made to the external auditors in respect of non-audit services.

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 relate to contracts to buy non-financial items in line with the OBR's expected purchase and usage requirements and the OBR is therefore exposed to little credit, liquidity or market risk.

5. Receivables

Amounts falling due within one year	2015-2016 £000	2014-2015 £000
Trade receivables	6	-
Taxation and social security	7	5
Other receivables	4	7
Total	17	12

6. Cash and cash equivalents

	2015-16 £000	2014-15 £000
Balance at 1 April	70	42
Net change in cash balances – inflow/(outflow)	39	28
Balance at 31 March	109	70

All cash balances are held with the Government Banking Service.

7. Payables and other current liabilities

	2015-16	2014-15
Amounts falling due within one year	£000	£000
Taxation and social security	35	34
Trade and other payables	19	19
Accruals	227	204
Total	281	257

8. Commitments and Leases

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

The OBR leases its office space from the Attorney General's Office (AGO) by means of an agreement as set out within a Memorandum of Terms of Occupation. This covers both the provision of accommodation and office services. The agreement runs for a period of 6 years from 13 December 2010 until 22 December 2016.

Obligations over the lease period comprise:

	2015-16	2014-15
	£000	£000
Accommodation		
Not later than one year	170	230
Later than one year and not later than five years	-	167
	170	397
IT and office services		
Not later than one year	80	127
Later than one year and not later than five years	-	93
	80	220

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

9. 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 OBR has ongoing transactions with the AGO relating to an arrangement through which AGO recharges the OBR in respect of costs for accommodation and IT and office services.

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.

10. Events after the reporting period date

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

11. Date authorised for issue

The financial statements were authorised for issue on 28 June 2016.

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.

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