

Office for
**Budget
Responsibility**

Annual report and accounts 2017-18

Office for Budget Responsibility: Annual report and accounts 2017-18

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

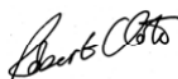
Chairman’s message

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 six 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 Spring 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 sustainability and riskiness of the public finances**, which we fulfilled this year through the publication of our first *Fiscal risks report*;
- to **evaluate our previous forecasts and identify lessons for future ones**; and
- to **report on 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, but also use sensitivity and scenario analysis to explain how different economic and fiscal judgements would affect the public finances. Our dedicated *Fiscal risks report* allowed us to explore these issues in greater depth, including via a fiscal stress test.
- 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.
- 1.7 Since our previous Annual Report both of our original non-executive members have stepped down from the Oversight Board. Dame Kate Barker’s second term came to an end in June 2017, while Lord Burns left in December to take up a new role as Chair of OFCOM. I am very grateful for their advice and contributions to the governance of the OBR during our first eight years. Sir Chris Kelly was appointed in June 2017 and Bronwyn Curtis was appointed in June 2018. I am delighted that we have been able to attract such expertise to the Oversight Board, as I approach the end of my second and final term as Chairman.
- 1.8 The *Fiscal risks report* was a particular highlight of the past year. We launched into an ambitious project, to analyse fiscal risks from a wide range of sources. I am pleased that the report received acclaim from international organisations. Its inclusion in the UK’s fiscal reporting calendar marks us out as leaders in fiscal transparency – an attribute that we have been keen to develop since our establishment. We are looking forward to the Government’s formal response to the report, which is due to be published shortly after this Annual Report.
- 1.9 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

19 June 2018

Statement of performance and activities

- 1.10 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
- 1.11 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, in part to reflect the key recommendations of the Treasury's 2015 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 cap on a subset of welfare spending, and producing an annual report on trends in welfare spending.
 - Producing a biennial report on fiscal risks to which the Government is committed to respond within a year.
- 1.12 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

¹ <http://obr.uk/topics/legislation-and-related-material/>

we should not consider the effect of alternative policies or provide normative commentary on the merits of government policies.

- 1.13 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 in March 2017.

Performance summary – Achievements in 2017-18

Core responsibilities

- 1.14 In 2017-18, we fulfilled our statutory core responsibilities through the publication of the following reports:
- The November 2017 and March 2018 ***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. In our November *EFO*, the weaker outlook for productivity and GDP growth was the main story in terms of our economy forecast. The fiscal effects of this were cushioned to an extent by stronger in-year performance of the public finances. We concluded that the Government was on track to meet its three medium-term fiscal targets but that it was unlikely that it would balance the budget by the middle of the next decade. Our March *EFO* accompanied the Chancellor's first Spring Statement. This did not include new policy measures, consistent with the Chancellor's plan to move to a single fiscal event in each year. With little time passing between our November and March forecasts, there was little change over the medium term. But we did revise down in-year borrowing. With the terms of the Brexit 'divorce bill' having been published in December, we were able to provide a detailed estimate of the financial settlement.
 - In July 2017, we published our first ***Fiscal risks report (FRR)***. This took a broad view of risks to the fiscal position over both the medium- and long-term. In the medium term, the *FRR* looked at risks to our most recent *EFO* forecast and highlighted the large ones associated with recessions and financial crises as well as a wide range of smaller specific revenue and spending risks. Debt interest risks were explored in greater detail and were a key feature of a fiscal stress test based on the Bank of England's 2017 'annual cyclical scenario'. In the longer term, economic risks to fiscal sustainability included recessions and financial crises and persistent weakness in potential output growth. Health and social care spending were identified as very large risks, both in terms of size and likelihood given demographic and other cost pressures. This was in line with the findings of our previous work on fiscal sustainability.
 - Our latest ***Forecast evaluation report (FER)*** was published in October 2017. It analysed two forecasts for borrowing in 2016-17: our March 2015 forecast – the last under the Coalition Government – and our March 2016 forecast – our last before the EU

referendum. In terms of borrowing, our March 2015 forecast was too optimistic while our March 2016 forecast was too pessimistic, despite a weaker real economy in both instances. The analysis informed several lessons for future forecasts. We also published our first set of priorities in our systematic review of fiscal forecasting models.

- Our fourth **Welfare trends report (WTR)** was published in January 2018. It focused exclusively on universal credit (UC). This was a challenging report to produce because the complexity of the modelling that underpins the estimated effect of UC on spending and the pressure that DWP's UC analysts are under from other quarters, notably in preparing a full business case to present to the Treasury and Cabinet Office this year. It was also a valuable one, revealing several important forecast issues to address and highlighting the risks posed by gaps in the administrative data and DWP's capacity to analyse what information is available.

- 1.15 Alongside our medium-term forecasts, 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.
- 1.16 We work closely with the Scottish Fiscal Commission to ensure that we can bring all relevant information to bear in producing our Scottish tax forecasts and have published the principles we use to guide engagement between our two organisations.² Similarly, we work with the Welsh Government to inform our Welsh tax forecasts and have agreed a Memorandum of Understanding that sets out principles of engagement between us.³

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 2017-18, we published *Working paper No. 11 – Evaluation of HMRC anti-avoidance and operational measures* in September, which updated the analysis and conclusions presented in *Working Paper No. 8* that was published in January 2016.

Communications and stakeholder engagement

- 1.18 The BRC and OBR staff have made numerous presentations to 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 our other core publications. Presentations have been given, among others, to: the Government Economic Service, the International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), and the European Commission. We have also undertaken a number of international visits to share our expertise in working at an independent fiscal council, including Argentina,

² <http://obr.uk/download/shared-principles-scottish-fiscal-commission-office-budget-responsibility/>

³ http://obr.uk/docs/dlm_uploads/Welsh-Government-OBR-MoU.pdf

Georgia, South Africa and Tajikistan. We also hosted a variety of international visitors and 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, the Local Government Association, the Resolution Foundation, Transport for London, Network Rail, and the Confederation of British Industry. 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.⁴ The Chairman has also appeared before the Finance Committees of the Scottish Parliament and the National Assembly for Wales.

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 in Chapter 2.
- 1.22 We also measure our performance based on feedback from external stakeholders. In recent years we have drawn 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; and
 - the *HM Treasury Review of the Office for Budget Responsibility* in 2015, which incorporated views from several round table events, discussion forums and bilateral meetings into its conclusions and recommendations.
- 1.23 We also monitor public comments on our work by international organisations. As set out in the non-executive member's assessment, the OBR has been identified as benchmark for independent fiscal institutions by its international peers for transparency and by the OECD in terms of its independence.⁵ The IMF's most recent *Fiscal transparency evaluation* of the

⁴ <http://obr.uk/topics/evidence-to-parliaments/>

⁵ *The UK Office for Budget Responsibility: Mission accomplished? A perspective from a former practitioner*, in *Independent fiscal councils: Watchdogs or lapdogs*. Edited by Roel Beetsma and Xavier Debrun. CEPR Press.

UK concluded that “While it is still relatively early in terms of its track record, the OBR’s forecasting record indicates a lower degree of bias than under the Treasury forecasting regime.” The IMF’s Fiscal Affairs Director praised our new *Fiscal risks report*, identifying the inclusion of a fiscal risks scenario to suggest that it “extends the UK beyond the current leading edge of international practice”.⁶

Financial performance and sustainability

- 1.24 The OBR is committed to the central government target of paying valid invoices within five days of receipt. In the reporting period, 85 per cent of invoices (84 per cent in 2016-17) that we have received have been paid within the target time of five days.
- 1.25 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 2018 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 (2016-17: 0 days).
- 1.26 We lease office space from the Ministry of Justice (MoJ) at its central London office, where we contribute to its environmental and sustainability agenda through the building facilities committee and policies implemented throughout the MoJ estate. Recent initiatives have included the banning of disposable plastic cups, the provision of food and compostable waste bins, the provision of a real-time energy use display, and participation in events including Earth Hour, Biodiversity day and recycling week.

Operations

- 1.27 Our financial management and oversight arrangements are established in the *Framework document*. 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

- 1.28 We share our workspace and accommodation with the 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 work with the MoJ to ensure that appropriate steps are taken to achieve value-for-money in the procurement of shared services.
- 1.29 Our funding allocation of £2,693,000 for 2017-18 was agreed with the Treasury in March 2017. We also agreed £46,000 of ‘Budget Exchange’, carried forward from 2016-17,

⁶ <http://blog-pfm.imf.org/pfmblog/2017/07/stressing-the-public-finances-the-uk-raises-the-bar.html>

increasing our total budget to £2,739,000. In addition, the Treasury again recognised the possibility that the costs associated with our office move during the year could require a one-off addition to our funding. 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 no such costs were settled in 2017-18 as the process remains ongoing.

- 1.30 The statement of comprehensive net expenditure in this year's Accounts puts our total spending for the year at £2,563,000.
- 1.31 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.

Going concern

- 1.32 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.
- 1.33 The OBR's Statement of Financial Position at 31 March 2018 shows net liabilities of £328,000 which includes accrued payments for accommodation and staff bonuses for 2017-18, and the outstanding provision for dilapidations. This reflects the inclusion of liabilities falling due in 2017-18 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 would not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for these financial statements.

Business model

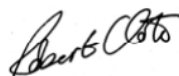
- 1.34 The OBR's corporate and business plan is published on our website.⁷ This document describes our statutory remit and structure and the two overarching business objectives that guide our work:
- to **fulfil our duties under the Act and Charter** to examine and report on the sustainability of the public finances; and

⁷ <http://obr.uk/topics/governance-and-reporting/>

- 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

- 1.35 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.
- 1.36 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

19 June 2018

2 Accountability report

2.1 The accountability report contains:

- the **corporate governance report**, which includes the non-executive member's 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 member's assessment

- 2.2 My statutory duties as non-executive member of the Office for Budget Responsibility (OBR) are set out in the *Budget Responsibility and National Audit Act 2011*. The Act requires me to keep under review the way in which the OBR has performed its main duties – to prepare its key reports objectively, transparently and impartially – as set out in Paragraphs 4 and 5 of the Act. In the Annual Report, Paragraph 15, Schedule 1 of the Act requires me 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 this role, I have monitored and assessed 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 2018, I 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. I have also taken note of the relevant reports of the House of Commons Treasury Committee. The OBR has readily provided me with all of the necessary information and assistance.
- 2.4 The Act requires that at least once in every five years the non-executive members of the OBR "*appoint a person or body to review and report on such of the Office's reports as the Committee determines*". The first such review was carried out by Kevin Page, former Parliamentary Budget Officer for Canada, in 2014. In September 2015 HM Treasury published a review of the OBR, following its first five years of operation. Both reviews made recommendations on succession planning for key personnel and expanding the OBR's outputs to relate to a wider audience. They also noted that caution should be exercised in considering any expansion of the OBR's remit.

2.5 I continue to review progress against these recommendations and note that:

- The process for replacing Graham Parker as a member of the Budget Responsibility Committee (BRC) has been undertaken in a timely manner and that the OBR is undertaking succession planning for other senior members of staff.
- The OBR has increased interactions with the international community, through membership of both the European and OECD networks of independent fiscal institutions, with Robert Chote taking a leading role in the latter organisation. With the creation of the Scottish Fiscal Commission, engagement with the Scottish fiscal analysis community has also increased.
- The OBR has increased the amount of material published on the website, to include ‘in depth’ guides to how individual taxes and spending are forecast; added a database of analytical boxes, usually contained within the main forecast publication; and developed more engaging social media outputs, including animations and more accessible summary forecast information.

2.6 In terms of the OBR’s core responsibilities, I note:

- the OBR published two economic and fiscal forecasts in the November 2017 and March 2018 *Economic and fiscal outlooks*;
- the OBR published its first *Fiscal risks report* in July 2017, an analysis of a wide range of issues which pose possible risks to the sustainability of the public finances;
- the OBR published its latest *Welfare trends report* in January 2018, which examined universal credit, a major reform in the welfare system which poses significant modelling and forecasting issues;
- a thorough assessment of the accuracy of its previous forecasts and review of forecasting models in the October 2017 *Forecast evaluation report*; and
- the OBR has also produced wider analysis relevant to its remit through the publication of a working paper – *Evaluating the costing of anti-avoidance and operational policy measures* – and a briefing paper detailing the forecast evaluation process. It continues to publish a monthly analysis of the public finances.

2.7 In general, these outputs are seen as authoritative and objective, although it is to be expected that some outside commentators will disagree with some of the conclusions reached, particularly given the uncertainties generated by the process of leaving the EU. The OBR publishes detailed reports and a vast amount of supporting data, particularly alongside the *Economic and fiscal outlook*, ensuring that it is possible for others to question its judgments and conclusions.

- 2.8 The OBR has been identified as a benchmark for independent fiscal institutions by its international peers for transparency and by the OECD in terms of its independence. The IMF's most recent *Fiscal transparency evaluation* of the UK concluded that "*While it is still relatively early in terms of its track record, the OBR's forecasting record indicates a lower degree of bias than under the Treasury forecasting regime.*" The IMF's Fiscal Affairs Director has also praised the new *Fiscal risks report*, identifying the inclusion of a fiscal risks scenario to suggest that it "*extends the UK beyond the current leading edge of international practice*".
- 2.9 The OBR website is one of the key tools for communicating its analysis to the public. The website has been developed substantially over the past 18 months and the OBR has carried out a survey of users. Respondents identified that the website contains a large amount of information and the majority found it easy to navigate and found what they were looking for whilst visiting.
- 2.10 My interactions with the OBR have enabled me to remain confident that it has been free to use its own discretion in taking judgements and reaching analytical conclusions. The structures and processes for working with Government operate effectively, and the OBR has been transparent about these interactions in its log of contacts, which is published alongside major publications. The BRC have made clear to me that they have come under no pressure from Ministers, special advisers or officials to change the conclusions of their analysis. I routinely examine any emails exchanged between the OBR and the relevant departments that could be perceived to go beyond fact checking and clarification. I am 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.
- 2.11 From my engagement thus far, I am 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 regarding devolved fiscal matters, as well as the new report on fiscal risks. The OBR's staff survey shows that staff are engaged and have a strong understanding of the objectives and purpose of the organisation. Working relationships within the OBR are positive and effective, which is reflected in the level of engagement and visibility between the staff and BRC. The main concern revealed by the staff survey, as it has consistently been in previous surveys, is about opportunities for learning and development.
- 2.12 The OBR will need to manage some senior staff moves in the next year, for which succession planning is well underway. Given the small size of the organisation, and the expertise of those involved, this will be a significant challenge.
- 2.13 My 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 will also need to incorporate the effects of leaving the EU into its forecasts, and the judgements it has taken to do so,

transparently and objectively in order to avoid any erosion of its reputation for authoritative and independent fiscal analysis.

- 2.14 In considering my first assessment as a non-executive member of the OBR I have been grateful for guidance and input from Lord Burns, who resigned as a member at the end of 2017. I will work with his replacement to continue to monitor the OBR and seek to provide guidance and challenge wherever necessary over the coming year.



Sir Christopher Kelly

Non-executive member of the Office for Budget Responsibility, 30 April 2018

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 net resource outturn, application of resources, 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 are fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that they are 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. The Accounting Officer is responsible for ensuring that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer is required to take all steps to ensure he is aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- 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, HM Treasury as providers of our HR and finance systems, 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 CBE; and two non-executive members – Sir Christopher Kelly and a second position that was vacant as of 31 March 2018.

- 2.25 During the 2017-18 reporting year Lord Burns and Dame Kate Barker stepped down as non-executive members of the OBR. Dame Kate's second and final term expired in June 2017. Lord Burns stepped down in December 2017, before the end of his second term, as he took on a new role as chair of OFCOM in January 2018.
- 2.26 In June 2017, Sir Christopher Kelly was appointed as successor to Dame Kate Barker. In June 2018, Bronwyn Curtis OBE was appointed as successor to Lord Burns. As the appointment was made after the end of the 2017-18 reporting period covered by this annual report, Bronwyn Curtis has not played a formal role in its production.
- 2.27 As at 31 March 2018 the OBR employed a staff of 26 (and 27 when at full complement) to provide analytical and corporate support, led by the Chief of Staff – Andy King.
- 2.28 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.
- 2.29 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 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. He also chairs the OECD's network of parliamentary budget offices and independent fiscal institutions, as well as the external advisory group of the Irish parliamentary budget office.



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 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. She is also a trustee of Sadler's Wells and a non-executive director of Barratt Developments.

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

Sir Christopher Kelly



Sir Christopher has had a long career in the civil service and beyond. He served in various roles in HM Treasury and the Department of Social Security, ending his civil service career as Permanent Secretary of the Department of Health between 1997 and 2000. Since then he has led on a number of reviews and chaired a wide range of committees and organisations including the NSPCC, Financial Ombudsmen Service and the Committee on Standards in Public Life. He is currently Chair of the Kings Fund and the Responsible Gambling Strategy Board, a senior independent non-executive director on the Board of the Co-op Group and member of the Advisory Board to the Institute of Business Ethics.

Lord Burns GCB



Lord Burns is Chairman of Ofcom, 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. Lord Burns stepped down from his role as non-executive member of the OBR in December 2017.

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, she 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. Dame Kate stepped down as a non-executive member of the OBR at the end of her second three-year term, in June 2017.

2.30 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.

2.31 As flagged to the Treasury Select Committee when he was reappointed to the BRC, Graham Parker has decided to step down ahead of the formal expiry of his second and final term. He will be leaving his position on the 31 August 2018.

Table 2.1: Members' contract lengths and expiry dates

Member	Contract length	Contract expiry date
Robert Chote	5 years	03-Oct-20
Sir Charlie Bean	5 years	01-Jan-22
Graham Parker CBE	5 years	25-Oct-19
Sir Christopher Kelly	3 years	19-Jun-20
Dame Kate Barker (left 20 June 2017)	3 years	20-Jun-17
Lord Burns (left 31 December 2017)	4 years	21-Jun-18

The Oversight Board

2.32 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. It was previously chaired by Lord Burns and has been chaired by Sir Christopher Kelly since Lord Burns stepped down in December 2017.

2.33 The Board's terms of reference are published on our website.¹ These were most recently 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

¹ <http://obr.uk/topics/governance-and-reporting/>

governance arrangements are in place. It also provides assurance on internal risk management and controls.

- 2.34 All members in post at the time of each meeting attended Oversight Board meetings during 2017-18. Minutes of each meeting are published on our website.
- 2.35 The Board members do not hold any directorships or have significant interests in organisations that might conflict with their management responsibilities.

The Audit and Risk Assurance Committee

- 2.36 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 was previously chaired by Dame Kate Barker and has been chaired by Sir Christopher Kelly since his appointment. 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.
- 2.37 All members in post at the time of each scheduled meeting, attended them during 2017-18. Minutes of each meeting are published with the Board minutes on our website.

Executive management

- 2.38 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

- 2.39 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 commensurately small budget that is primarily spent on staff and accommodation costs.
- 2.40 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.
- 2.41 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, along with the Chief of Staff, for ensuring the mitigation strategies are implemented and reported 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 relate to the continuing process towards the UK leaving the European Union.

Analytical risks

- 2.42 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, 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.
- 2.43 The disaggregated nature of the public finances forecast means we also require close and effective working with experts in several 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.
- 2.44 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.
- 2.45 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

- 2.46 Our budget is small at £2.7 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.
- 2.47 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.
- 2.48 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.
- 2.49 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 in 2016-17, we updated our business continuity plan and our security policy, which helps to mitigate these risks. The Government Internal Audit Agency (GIAA) provided assurance that we have effective policies in place. In 2017-18 we asked GIAA to review the effectiveness of the sponsor arrangements with HM Treasury, and the processes in place for providing the OBR with HR and finance support. The audits provided reassurance that effective systems were in place. It made a small number of recommendations that will be implemented.

Opinion on effectiveness of governance arrangements

- 2.50 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 Assurance Committee. GIAA's findings and agreed actions were not significant, reflecting a generally sound control environment, but did identify some control improvements that will be implemented.
- 2.51 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 reports. On this basis, I consider the OBR's governance arrangements to be effective.
- 2.52 I have taken the necessary steps to ensure that the NAO, as external auditors, and I, as accounting officer, are aware of all relevant audit information. I can confirm that as far as I am aware, there is no relevant audit information of which the NAO, as external auditors, are unaware.



Robert Chote, Chairman

19 June 2018

Remuneration and staff report

Members' remuneration

- 2.53 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.² 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.
- 2.54 The non-executive members of the OBR do not receive any fees.
- 2.55 All members of the BRC are subject to the deduction of appropriate taxes via the PAYE system.
- 2.56 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 (£)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Robert Chote (Chairman)	154,587	151,573	30,917	30,315	185,504	181,888
Graham Parker (0.6FTE)	74,985	73,608	-	-	74,985	73,608
Charlie Bean (0.5FTE)	62,149	15,422 (FYE 61,687)	-	-	62,149	15,422 (FYE 61,687)
Steve Nickell (0.6FTE April to December 2016)	-	55,102 (FYE 73,608)	-	-	-	55,102 (FYE 73,608)

Pensions

- 2.57 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 £30,917 (£30,315 in 2016-17).
- 2.58 The OBR does not pay any pension contributions on behalf of any of the other members of the BRC.

² <http://obr.uk/about-the-obr/who-we-are/>

Civil Service pensions

- 2.59 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).
- 2.60 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.
- 2.61 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.
- 2.62 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.

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

Expenses

2.64 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 £9,336 (£1,561 in 2016-17) for Robert Chote's travel and subsistence expenses over the period. No other member of the BRC made any claims for expenses.

Staff summary

2.65 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 report to and are accountable to Robert Chote as Chairman.

2.66 The OBR staff are led by the Chief of Staff – Andy King. There are currently five analysts working on the macroeconomic forecast, 12 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.

2.67 As of 31 March 2018, 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. Over the past year we have taken steps to recruit more female staff at the OBR, via our recruitment processes. Since the end of the financial year we have improved our gender balance, having recruited Bronwyn Curtis to the vacant non-executive position.

2.68 The OBR Board and management are determined to attract excellent female staff at all grades and to pay them fairly. Departments with fewer than 250 staff are not required to publish data on the gender pay gap and for an organisation as small as the OBR – with just 26 staff at the end of March 2018 – raw pay differentials are very volatile from year to year as more or less experienced members of staff join or leave. Salaries at the OBR are set within ranges that reflect the responsibilities of posts and the experience and expertise required of them.

2.69 A more meaningful like-for-like comparison can be derived by looking at the gender pay gap for junior and senior analysts separately. As at the end of March 2018, these show a negative pay gap of minus 11.9 per cent for senior analysts (with women paid more than men on average) and 6.2 per cent for more junior analysts (both on a mean basis). But even this metric is volatile as more or less experienced staff join or leave the OBR.

Table 2.3: Gender balance

Member	Male	Female	Total
BRC and non-executive members	4	0	4
Senior civil servants	1	0	1
Non-SCS staff	20	5	25
Total	25	5	30

Staff remuneration

2.70 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. Wages and salaries for OBR staff in 2017-18 was £1,553,000 (£1,517,000 in 2016-17).³ This includes a pot of £29,280 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 and staff report.

Staff numbers and related costs (audited)

Table 2.4: Analysis of total staff costs

	£	
	Permanent staff	
	2017-18	2016-17
Wages and salaries	1,553	1,517
Social Security costs	181	181
Other pension costs	275	268
Total costs	2,009	1,966

Pension schemes

- 2.71 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 paragraphs 2.59 to 2.63. 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.
- 2.72 For 2017-18, employers' contributions of £245,102 were payable to the PCSPS (2016-17: £237,791) at one of four rates in the range 20.0 to 24.5 per cent of pensionable earnings, 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 2017-18 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.
- 2.73 Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha.

³ Figures rounded to the nearest £1,000.

Average number of persons employed

- 2.74 The average number of full-time equivalent persons employed during the year was 26 (2016-17: 24.3).

Exit packages

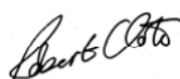
- 2.75 The OBR did not incur any costs for exit packages (2016-17: nil).

Pay relativity (audited)

- 2.76 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.
- 2.77 The remuneration of the highest-paid director in the OBR in the year ended 31 March 2018 was £154,587 (£151,573 year ended 31 March 2017). This was 3.1 times (3.0 times 2016-17) the median remuneration of the workforce, which was £49,345 (£50,641 in 2016-17). 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 2018.
- 2.78 In 2016-17 and 2017-18, no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,465 to £99,736 in 2017-18 (£19,522 to £90,308 in 2016-17).
- 2.79 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.

Employee matters

- 2.80 During the period ending 31 March 2018, the average number of working days lost due to sickness absence was 1.6 days per full-time equivalent (FTE) (2016-17: 1.1 days per FTE).
- 2.81 The OBR is committed to ensuring equality of opportunity for all disabled staff, so applicants for positions at the OBR are invited to notify the organisation if special arrangements are required to enable them to participate in the recruitment process. Staff in post can access necessary adjustments through workplace assessments.
- 2.82 There were no reported health and safety incidents in 2017-18.
- 2.83 There were no off-payroll arrangements in 2017-18 (2016-17: none). OBR did not incur any consultancy costs in 2017-18 (2016-17: nil).



Robert Chote, Chairman


19 June 2018

Parliamentary accountability and audit report

- 2.84 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 2016-17). 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 the necessary steps to ensure that the auditors are aware of any relevant information.
- 2.85 No losses or special payments above £300,000 have been incurred by the OBR in 2017-18 (2016-17: none) (audited).
- 2.86 All expenditure was applied to the purpose intended by Parliament (audited).
- 2.87 No fees or charges were paid by the OBR (audited).
- 2.88 The OBR has no remote contingent liabilities (audited).
- 2.89 The OBR's total expenditure in 2017-18 was £2,569,000. The net expenditure for prior years was as follows:

Table 2.5: Expenditure and income

	£			
	2017-18	2016-17	2015-16	2014-15
Expenditure	2,569	2,887	2,108	1,986
Income	-6	-5	-3	-
Net expenditure	2,563	2,882	2,105	1,986



Robert Chote, Chairman

19 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the Office for Budget Responsibility for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Office for Budget Responsibility's affairs as at 31 March 2018 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office for Budget Responsibility in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Budget Responsibility and National Audit Act 2011.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office for Budget Responsibility's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office for Budget Responsibility's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Accountability report

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, 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.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Performance Report and Accountability Report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Budget Responsibility and National Audit Act 2011;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; 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 Accountability Report 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

21 June 2018

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

3 Financial statements

01 April 2017 to 31 March 2018

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2018

	Note	£ thousand	
		2017-18	2016-17
Expenditure		2,569	2,887
<i>of which:</i>			
Staff costs	2	2,009	1,966
Other expenditure	3	560	921
Income			
Other income		(6)	(5)
Net expenditure		2,563	2,882

There were no items of other comprehensive expenditure.

The notes on pages 37 to 43 form part of these accounts.

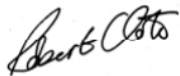
Statement of financial position

as at 31 March 2018

	Note	£ thousand	
		2017-18	2016-17
Current assets			
Receivables due within one year	5	18	11
Cash and cash equivalents	6	116	277
Total current assets		134	288
Current liabilities			
Payables due within one year	7	(330)	(598)
Provisions	9	(132)	(132)
Total current liabilities		(462)	(730)
Net current liabilities		(328)	(442)
Taxpayers' equity			
General fund		(328)	(442)
Total taxpayers' equity		(328)	(442)

The notes on pages 37 to 43 form part of these accounts.

The financial statements were approved by the Board on 14 June 2018.



Robert Chote, Chairman

19 June 2018

Statement of cash flows

for the year ended 31 March 2018

	Note	£ thousand	
		2017-18	2016-17
Cash flows from operating activities			
Net operating cost		(2,563)	(2,882)
Changes in working capital other than cash		(275)	455
Net cash outflow from operating activities		(2,838)	(2,427)
Cash flows from financing activities			
Grant-in-Aid from HM Treasury		2,677	2,595
Net financing		2,677	2,595
Net increase/(decrease) in cash and cash equivalents in the period	6	(161)	168
Cash and cash equivalents at the beginning of the period		277	109
Cash and cash equivalents at the end of the period	6	116	277

The notes on pages 37 to 43 form part of these accounts.

Statement of changes in taxpayers equity

for the year ended 31 March 2018

	£ thousand
	General reserve
Balance at 1 April 2017	(442)
Grant-in-Aid from HM Treasury	2,677
Comprehensive expenditure for the year	(2,563)
Balance at 31 March 2018	(328)

for the year ended 31 March 2017

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

The notes on pages 37 to 43 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 2017-18 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 2017.

The OBR has reviewed the effects that new accounting standards are expected to have on its financial statements.

No material impact is expected from the adoption of IFRS 9 in respect of financial instruments and IFRS 15 in respect of revenue from contracts, both of which will be effective for reporting periods beginning on or after 1 January 2018.

IFRS 16 will be effective for reporting periods beginning on or after 1 January 2019 and will impact the recognition of leases in the OBR's financial statements. Under IFRS 16 lessees will be required to recognise both right-of-use assets and corresponding lease liabilities on the balance sheet for all leases. As a result there will be an increase in both assets and liabilities for contractual arrangements currently accounted for as operating leases.

¹ <http://obr.uk/topics/legislation-and-related-material/#framework>

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

Financial statements

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 2018 shows net liabilities of £328k. This reflects the inclusion of liabilities falling due within 2018-19 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

In 2016-17 a provision of £132k was recognised for dilapidation costs. Management calculated a reliable estimate in accordance with IAS 37, based on independent professional estimates as far as was 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 period ended 31 March 2018 was £2,677k. 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 under an operating lease.

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

	£ thousand	
	Permanent staff	
	2017-18	2016-17
Wages and salaries	1,553	1,517
Social Security costs	181	181
Other pension costs	275	268
Total costs	2,009	1,966

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

3. Other expenditure

	£ thousand	
	2017-18	2016-17
Accommodation costs	357	365
Printing and office services	68	54
IT costs	55	279
Contracted out services	11	26
External auditor's remuneration	15	15
Bank charges	1	-
Staff support and staff-related costs, including training and travel	43	31
OBR website maintenance	10	19
Provision for dilapidation	-	132
Total	560	921

No payments were made to the external auditors in respect of non-audit services. IT costs incurred in 2016-17 included initial set-up costs on relocation of £180k.

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

	£ thousand	
	2017-18	2016-17
Amounts falling due within one year		
Amounts due from HM Treasury	10	-
Trade receivables	3	4
Taxation and social security	-	4
Other trade receivables	5	3
Total falling due within one year	18	11

Amounts due from HM Treasury relate to administrative expenses borne by the OBR and recoverable from HM Treasury. Taxation and social security relate to VAT, for which there was a receivable in the prior year but a net liability as at 31 March 2018, was recognised in payables (Note 7 below).

6. Cash and cash equivalents

	£ thousand	
	2017-18	2016-17
Balance at 1 April	277	109
Net change in cash balances – inflow/(outflow)	(161)	168
Balance at 31 March	116	277

All cash balances are held with the Government Banking Service.

7. Payables and other current liabilities

	£ thousand	
	2017-18	2016-17
Amounts falling due within one year		
Taxation and social security	84	60
Trade & other payables	44	32
Accruals	202	506
Total falling due within one year	330	598

In 2017-18 taxation and social security includes VAT adjustments which were not required in the prior year. Accruals were higher in 2016-17 primarily reflecting costs incurred in the OBR's relocation on 12 September 2016 and higher initial accruals for accommodation costs until quarterly invoicing began in 2017-18.

8. Commitments and leases

The OBR has not entered into either any capital commitments or non-cancellable contracts.

The OBR relocated to new premises on 12 September 2016, leasing office space by means of an agreement set out within a Memorandum of Terms of Occupation (MOTO). This MOTO covers the provision of accommodation, including rates and service charges, but excludes IT. The MOTO agreement runs for 12 years from 12 September 2016 to 23 December 2028. There are no finance leases included within the MOTO. Charges under this MOTO for 2017-18 totalled £357k.

Arrangements for the provision of IT equipment and services are by separate agreement. IT equipment is accounted for under an operating lease. Charges for IT services in 2017-18 totalled £43k.

Obligations and commitments over the lease period comprise:

	£ thousand	
	2017-18	2016-17
Accommodation and office services		
Within one year	347	346
Between one and five years	1,385	1,388
Later than five years	1,970	2,314
Total	3,702	4,048
IT services		
Within one year	43	45
Between one and five years	172	181
Later than five years	258	318
Total	473	544

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

9. Provisions

	£ thousand	
	2017-18	2016-17
Balance at 1 April	132	-
Provided during the year	-	132
Balance at 31 March	132	132
Not later than one year	132	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 £132k. This liability will become payable if the freeholder decides to retain the property for business use and not convert it to residential use.

In 2016-17 a provision for the maximum £132k was recognised following the professional assessment that the property would most likely be retained for business use and a professional estimate of the likely expenditure payable by the OBR. It was anticipated that this would be settled in 2017-18, but as at the reporting date no negotiations have begun with regard to costs. These are now expected to be settled in 2018-19.

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 OBR has leased office space from the Ministry of Justice (MoJ) since 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. The total charged by the MoJ in 2017-18 was £400k.

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 21 June 2018.

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.

