

Office for Budget Responsibility: Annual report and accounts 2018-19

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 fulfil our remit by publishing a range of core publications and by engaging with international and domestic peers as widely as possible. In brief we carry this out by:

- Producing **five-year ahead forecasts** for the economy and public finances twice a year, alongside the Government’s annual Budget and Spring Statement.
- Assessing the likely **costs or savings from individual tax and spending measures** announced in each fiscal statement, including the impact of any changes in behaviour they might prompt.
- Using our forecasts to **assess the Government’s performance against its fiscal and welfare spending targets**. We also assess the uncertainty around the chances of the Government meeting its fiscal objectives.
- Publishing **analysis of the outturn public finance data** produced monthly by the Office for National Statistics. We focus on how the evolution of the data through the year compares in broad terms to what would be implied by our most recent forecast.

- Assessing the **long-term outlook for and riskiness of the public finances**, drawing on measures of the public-sector balance sheet and 50-year projections of spending, receipts and the key fiscal aggregates.
- Appearing before the Treasury Select Committee, the Scottish Finance Committee and the Welsh Assembly to **explain the judgements and conclusions of our work**. We hold regular press events alongside the publication of our major reports and contribute to wider discussion at external conferences and events.
- Engaging with a range of **international counterparts** across a number of networks for independent fiscal institutions, contributing to the development of new bodies and sharing knowledge with organisations with similar remits.

- 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.
- 1.6 Our regular publications have been supplemented this year by three working papers and a Brexit discussion paper. The paper on *Student loans and fiscal illusions* has been particularly influential and has encouraged the ONS to make improvements to the accounting treatment of student loans that will better capture their impact on the public finances. Our Brexit discussion paper has allowed us to set out some of the judgements we will have to make when the details of Brexit become clearer in order to incorporate them in our forecasts.
- 1.7 In all the analysis we have undertaken, we have come under no pressure from Ministers, political advisers or officials to change any of the analysis we have presented or the conclusions we have reached.
- 1.8 This year we welcomed Andy King (previously our Chief of Staff) to the Budget Responsibility Committee, succeeding Graham Parker who left the Committee after eight years.

- 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, 28 June 2019

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

- A forecast of the receipts from taxes and spending from social security that it has devolved – or intends to devolve – to the Scottish and Welsh Governments.

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 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 2018-19

Core responsibilities

1.14 In 2018-19, we fulfilled our statutory core responsibilities through the publication of the following reports:

- The October 2018 and March 2019 ***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 October *EFO*, our updated forecast showed a significant improvement in the underlying pace of deficit reduction, which had in effect already been swallowed up by the June 2018 announcement of higher medium-term health spending. The result was to leave the outlook for the public finances much the same as it had been in March 2018. Our March *EFO* accompanied the Chancellor's Spring Statement. In it we revised down the near-term outlook for growth, but stronger tax receipts and lower debt interest spending, mean that we forecast a modest medium-term improvement in the public finances.
- In July 2018, we published our latest ***Fiscal sustainability report (FSR)***, setting out our latest long-term projections for spending, revenue and financial transactions, and our assessment of whether they imply a sustainable path for public sector debt. The results were dominated by the long-term implications of the Prime Minister's June 2018 announcement that medium-term health spending would be higher, in effect crystallising one of the key policy risks we identified in our 2017 *Fiscal risks report*.
- Our latest ***Forecast evaluation report (FER)*** was published in December 2018. It focused on the performance of our forecasts immediately following the EU referendum. The slowdown in economic growth after the vote took longer than we expected to materialise, but it is now in line with our November 2016 forecast.

- Our fourth **Welfare trends report (WTR)** was published in January 2019. The report looked at the effect of recent disability benefit reforms on public spending. It found that the introduction of PIP that was intended to reduce spending appears to have cost 15 to 20 per cent more than a continuation of the previous system.

1.15 We work closely with the Scottish Fiscal Commission (SFC) 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

1.16 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 2018-19, we published Working Paper No.12: *Student loans and fiscal illusions*, Working Paper No. 13: *In-year fiscal forecasting and monitoring*, and Working Paper No. 14: *Devolved income tax: forecasting by tax bands*.

1.17 We also published Discussion paper No.3: *Brexit and the OBR's forecasts*, which set out some of the judgements we will need to reach to incorporate further Brexit details into our forecast as and when they become clear.

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*. Presentations have been delivered, among others, to: the Government Economic Service, the International Monetary Fund (IMF), Scottish Fiscal Commission, and the European Union. 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, and the Institute and Faculty of Actuaries. 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.

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

- 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.

The next external review will be published later this year.

- 1.23 In 2018-19, we measured our website performance with website traffic data. The website traffic peaks on key publication dates but of all website traffic over the year, the “Forecast in-depth” pages which give a wealth of information on our forecasts account for a quarter of all traffic to the site. We also gathered feedback on our website in 2017-18 via an anonymous online survey. The responses received were generally positive, with many pleased with the amount of content we produce, but some highlighted that the search function and navigation requires some improvement to ease navigation around the now large website. We have begun to redesign the website to improve ease of use and will launch the new design in 2019-20.
- 1.24 We also monitor social media analytics to inform our communication strategy for core publications. We see large peaks in our Twitter engagement on these key dates. In 2018-19, we gained 607 new twitter followers, half as many as the previous financial year. The number of retweets has also halved. Part of this can be attributed to the surge of new followers and retweets in July 2017 after publishing our first *Fiscal risks report*. Whereas key parliamentary Brexit votes occurring on the release dates of January 2019 *Welfare trends report* and March 2019 *Economic and fiscal outlook* are likely to have dampened engagement.

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

- 1.25 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
- 1.26 In terms of the performance of our forecasts, our economy forecasts have been significantly more accurate on average than those of the previous 20 years, based on the mean absolute forecast difference. But comparing the median absolute forecast differences shows that this is almost entirely down to recession years that represent outliers in the distribution of forecast differences. By contrast, our fiscal forecasts outperform the previous 20 years both on the mean and median comparisons. But the outperformance is greater for the mean, showing that the recession effect to some degree flatters this comparison.

Financial performance and sustainability

- 1.27 The OBR is committed to the central government target of paying valid invoices within five days of receipt. In the reporting period, 82 per cent of invoices (85 per cent in 2017-18) that we have received have been paid within the target time of five days.
- 1.28 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 2019 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 (2017-18: 0 days).
- 1.29 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. Throughout 2018-19 several initiatives were run including the phasing out of consumer single use plastics in line with the MoJ's new single use plastics policy, further promotion of compostable products as alternatives to plastics, the provision of an online real-time energy use display, and participation in events including Earth Hour, Biodiversity day and Recycling Week.

Operations

- 1.30 Our financial management and oversight arrangements were established in the *Framework document*, which was most recently updated in March 2019. 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.

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.

Service agreements

- 1.31 We share our workspace and accommodation with the MoJ at 102 Petty France. 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.
- 1.32 Our funding allocation of £2,720,000 for 2018-19 was agreed with the Treasury in March 2018. This increased to £3,054,000 as a result of securing an additional £333,750 to fund additional costs from incorporating the effects of Brexit into our forecasts. We also agreed £132,000 of 'Budget Exchange', carried forward from 2017-18, as recognition that there was the possibility that further costs associated with our office move in September 2016 could materialise (which we provisioned for in the 2016-17 accounts). A review of the provision has resulted in the release of £52,000 of the original total. The process for resolving the provision for dilapidations at our old premises remains ongoing.
- 1.33 The statement of comprehensive net expenditure in this year's accounts puts our total spending for the year at £2,860,000.
- 1.34 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 Memorandum of Understanding between HM Treasury and the OBR.

Going concern

- 1.35 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.
- 1.36 The OBR's statement of financial position at 31 March 2019 shows net liabilities of £303,000 which includes accrued payments for accommodation and staff bonuses for 2018-19, and the outstanding provision for dilapidations (as detailed in our 2017-18 Annual report and accounts). This reflects the inclusion of liabilities falling due in 2018-19 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

1.37 The OBR's corporate and business plan is published on our website.⁶ This document describes our statutory remit and structure and the two overarching business objectives that guide our work:

- to **fulfil our duties under the Act and Charter** to examine and report on the sustainability of the public finances; and
- to **ensure our governance and operational arrangements are fit for purpose** and allow us to operate as a responsible, effective and transparent NDPB, while meeting statutory and other requirements.

Risk management

1.38 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 Budget and the Spring Statement. 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.

1.39 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, 28 June 2019

⁶ <https://obr.uk/topics/governance-and-reporting/>

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 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*. The Act requires us 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.

2.3 To fulfil this role, we 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 2019, we met with the staff at the OBR and with the individual members of the BRC to review the performance of the OBR over the past year, and identify any concerns. 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 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 In April this year, we commissioned the Organisation for Economic Co-operation and Development (OECD) to undertake the second external review, which will report in the

autumn. It will focus on the quality of the OBR's core reports, its analytical capacity, its independence, its accountability and its visibility.

2.6 The recommendations from the previous reviews continue to guide the development of the OBR. Over the past year this has been particularly relevant across the three following areas:

- The process for replacing the specialist fiscal member of the Budget Responsibility Committee (BRC) Graham Parker was undertaken on a timely basis. This was a significant moment for the OBR as it was the first transition of this crucially important post. Andy King's appointment provided continuity and certainty. Preparation for his taking up the role included a process of codifying existing knowledge which was well managed by staff.
- The OBR has increased interactions with the international community, through membership of both the European and OECD networks of independent fiscal institutions. Interaction with the Scottish and Welsh fiscal institutions has continued to increase. The OBR will take on a bigger role in the Welsh fiscal framework in 2019-20.
- The OBR has continued to develop its digital outputs, adding more 'in depth' guides to how individual taxes and spending are forecast and further developing more engaging social media outputs, including animations and more accessible summary forecast information. A website survey, undertaken in 2017-18, identified a range of areas that require further development. Website usage data suggests that the new 'in-depth' and 'box sets' (a collection of the analytical boxes from core publications) areas drew around a third of all website visits in the last year.

2.7 In terms of its core responsibilities and publications:

- the OBR published two economic and fiscal forecasts in the October 2018 and March 2019 *Economic and fiscal outlooks*;
- the OBR published its latest *Fiscal sustainability report* in July 2018, setting out its latest long-term projections for spending, revenue and financial transactions, and an assessment of whether they imply a sustainable path for public sector debt;
- a thorough assessment of the accuracy of its previous forecasts and a review of forecasting models was published in the December 2018 *Forecast evaluation report*;
- the OBR published its latest *Welfare trends report* in January 2019, looking at the effect of recent disability benefit reforms on public spending;
- in October 2018 the OBR published a discussion paper which set out the issues and judgements it would need to consider when incorporating the effects of leaving the European Union in its forecast;

- the OBR has also produced wider analysis relevant to its remit through the publication of three working papers – *Student loans and fiscal illusions*, *In-year fiscal forecasting and monitoring*, and *Devolved income tax: forecasting by tax bands*. It continues to publish a monthly analysis of the public finances.

- 2.8 The analytical papers aim to enhance knowledge of how the forecast works or to highlight areas that cause particular difficulties. The papers produced this year have influenced debate in a number of areas. The student loans working paper contributed to the appetite for changing the way student loans are measured in the public finances. The Brexit discussion paper and in year forecasting paper allowed the OBR to lay the groundwork for upcoming changes to its forecasts.
- 2.9 Our overall impression is that the OBRs 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 considerable amount of supporting data, particularly alongside the *Economic and fiscal outlook*, to help make it possible for others to question its judgements and conclusions.
- 2.10 The European Fiscal Board’s second annual report suggested that the OBR ranks first in the scope index of fiscal institutions (SIFI) published by the European Commission, the IMF’s signal enhancement capacity index (SEC), and the OECD’s index of IFI independence.
- 2.11 Our interactions with the OBR have enabled us 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 members of the BRC have confirmed to us that they have come under no pressure from Ministers, special advisers or officials to change the conclusions of their analysis. As part of the assurance process, we routinely examine for ourselves any emails exchanged between the OBR and the relevant departments that could be perceived to go beyond fact checking and clarification. We are pleased to confirm that these continue to indicate no inappropriate comment from the departments, and that the OBR is clear and robust in maintaining its views when it disagrees with any challenges.
- 2.12 In both *EFOs* produced in the past year the OBR has expressed concern about the amount of notice that the Treasury has provided in relation to the forecast and about the ability of the Treasury to meet deadlines within the timetable. We recognise that some of the uncertainty about setting the timetable reflected the critical stage of the Brexit process. But it is important for the quality of future forecasts that this experience does not set a new precedent. As planning for the autumn forecast begins, uncertainty around the Brexit process is likely to persist, but should not delay agreement on a forecast timetable with the required notice period, to avoid entrenching the precedent of the two most recent forecasts. The Treasury and the OBR have worked constructively to resolve issues in meeting deadlines within the forecast process itself.

- 2.13 We are 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 enabled the recruitment of additional resources to meet new requirements, especially regarding devolved fiscal matters and the new report on fiscal risks. Working relationships within the OBR are positive and effective, and are reflected in the level of engagement and visibility between the staff and BRC. The OBR's staff survey results continue to show very high levels of engagement, a strong understanding of the objectives and purpose of the organisation and generally positive feedback about working at the OBR. In the 2018-19 survey some areas did, however, show a decline in positive responses, attributed to a particularly challenging year of analytical work and management turnover. We will continue to assess progress on these areas over the coming year.
- 2.14 In sum, we believe 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. Areas of focus over the next year should include meeting the challenges identified in the staff survey to address the effect of change in the organisation, particularly as the final term of the Chairman comes to an end in 2020.



Sir Christopher Kelly



Bronwyn Curtis

Non-executive members of the Office for Budget Responsibility, 20 June 2019

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:
- 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.
- confirm that the Annual report and accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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 As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Office for Budget Responsibility's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

2.20 I confirm that the Annual report and accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

2.21 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

2.22 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.

2.23 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

- 2.24 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.
- 2.25 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.

Members of the Office for Budget Responsibility

- 2.26 The OBR is comprised of five members: the Budget Responsibility Committee (BRC) – Robert Chote (Chairman), Sir Charlie Bean and Andy King; and two non-executive members – Sir Christopher Kelly and Bronwyn Curtis.
- 2.27 During the 2018-19 reporting year Graham Parker stepped down as Member of the Budget Responsibility Committee and was replaced by Andy King, who was previously Chief of Staff at the OBR.
- 2.28 In June 2018, Bronwyn Curtis OBE was appointed as a non-executive member as Chair of the Audit Committee.
- 2.29 As at 31 March 2019 the OBR employed a staff of 28 (and 32 when at full complement) to provide analytical and corporate support, led by the Chief of Staff – Stephen Farrington.
- 2.30 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.
- 2.31 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 reappointed 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 advisor 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 Policy Committee of the Centre for Economic Performance at the London School of Economics and the advisory committee 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 an honorary doctorate from the University of York.

Robert is married to Sharon White, currently chief executive of the communications regulator Ofcom. (She will step down from this post at the end of 2019 to become Chairman of The John Lewis Partnership.) 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.

Andy King (from 1 September 2018)



Before being appointed to the Budget Responsibility Committee in 2018, Andy King was Chief of Staff at the Office for Budget Responsibility from 2013. Andy joined the civil service as an economist in 1998, working in the Treasury until 2001 and at the British Embassy in Tokyo until 2005. Andy then worked in a range of macroeconomic policy roles at the Treasury, including heading the Fiscal Policy Team for the June 2010 Budget and the Macroeconomic Coordination & Strategy team overseeing reforms to the UK monetary policy framework and UK-focused relations with international organisations. In 2009-10, Andy worked as a macro-fiscal advisor in the Liberian Finance Ministry. He was appointed to the IMF Fiscal Affairs Department's panel of technical experts in 2014, and has since advised several Finance Ministries in Africa and Asia on approaches to fiscal governance, reporting and forecasting.

Graham Parker CBE (until 31 August 2018)



Graham worked in a variety of civil service roles from 1972, including seven years working on staff 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. Graham stepped down from his role as Member of the Budget Responsibility Committee in August 2018.

Non-executive members

Sir Christopher Kelly



Sir Christopher has 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 Ombudsman Service and the Committee on Standards in Public Life. He is currently Chair of the Kings Fund and the senior independent director on the Board of the Co-op Group.

Bronwyn Curtis OBE (from 8 June 2018)



Bronwyn Curtis OBE is a global financial economist who has served in senior executive positions in both the financial and media sectors. She has served as Chairman of the Society of Business (now Professional) Economists and a Council/Board Member of the National Institute of Economic and Social Research. She has also held a number of roles on boards of academic institutions and is a patron of ProBono Economics. She has also worked as a consultant to the World Bank and UNCTAD on commodity projects in West Africa, Asia and the Caribbean.

- 2.32 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.

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 (left 31 August 2018)	5 years	25-Oct-19
Andy King	5 years	31-Aug-23
Sir Christopher Kelly	3 years	19-Jun-20
Bronwyn Curtis OBE	3 years	07-Jun-21

The Oversight Board

- 2.33 The Act requires the Office to appoint five members, the three executive members of the BRC and the two non-executive members. The five members of the OBR have established the OBR's Oversight Board, as required by the *Framework Document*. Consistent with best practice, the Oversight Board is chaired by one of the non-executive members, currently Sir Christopher Kelly.
- 2.34 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 governance arrangements are in place. It also provides assurance on internal risk management and controls.
- 2.35 All members in post at the time of each meeting attended Oversight Board meetings during 2018-19. Minutes of each meeting are published on our website.

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

- 2.36 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

- 2.37 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 chaired by Sir Christopher Kelly until the appointment of Bronwyn Curtis in June 2018. 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.
- 2.38 All members in post at the time of each scheduled meeting attended them during 2018-19. Minutes of each meeting are published with the Board minutes on our website.

Executive management

- 2.39 I lead the OBR's management group, which includes the OBR's Chief of Staff and Deputy Chief 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

- 2.40 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.
- 2.41 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.
- 2.42 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

- 2.43 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 an Advisory Panel and we consult widely with stakeholders and outside analysts.
- 2.44 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.
- 2.45 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.
- 2.46 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

- 2.47 Our budget is small at £3.2 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.

- 2.48 We have been provided with a finance business partner 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.
- 2.49 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.
- 2.50 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 2018-19 we asked GIAA to review the processes in place for the management of skills and capability in the OBR. It made a number of recommendations that will be implemented.

Opinion on effectiveness of governance arrangements

- 2.51 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.
- 2.52 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.
- 2.53 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, 28 June 2019

Remuneration and staff report

Members' remuneration

- 2.54 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.
- 2.55 The non-executive members of the OBR do not receive any fees.
- 2.56 All members of the BRC are subject to the deduction of appropriate taxes via the PAYE system.
- 2.57 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 (£)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Robert Chote (Chairman)	158,762	154,587	31,752	30,917	190,514	185,504
Graham Parker (0.6FTE) April to August 2018)	31,769	74,985	–	–	31,769	74,985
Charlie Bean (0.5FTE)	63,633	62,149	–	–	63,633	62,149
Andy King (0.9FTE) (Appointed 1 September 2018)	64,304	–	12,810	–	77,114	–

Pensions

- 2.58 As part of their contractual terms, Robert Chote and Andy King receive a payment equivalent to 20 per cent of their annual fee into a personal pension scheme, which amounts to £31,752 (£30,917 in 2017-18) for Robert Chote, and £12,810 (£0 in 2017-18) for Andy King.
- 2.59 The OBR does not pay any pension contributions on behalf of Sir Charlie Bean.

Civil Service pensions

- 2.60 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

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

(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).

2.61 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.

2.62 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.

2.63 Further details of the schemes:

- **Employee contributions** are salary-related, and range from 4.6 to 8.05 per cent of pensionable earnings for members of classic, premium, classic plus, nuvos and alpha.
- **Benefits** for classic accrue at a rate of $1/80^{\text{th}}$ of final pensionable earnings for each year of service; for premium, the rate is $1/60^{\text{th}}$. 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.

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

Pension schemes

- 2.65 The Civil Servants and Others Pension Scheme (alpha) was launched as a new pension scheme for civil servants from 1 April 2015. Details on the transition arrangements between alpha and Principal Civil Service Pension Scheme (PCSPS) are outlined in 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.
- 2.66 For 2018-19, employers' contributions of £273,688 were payable to the PCSPS (2017-18: £245,102) 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 2018-19 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.
- 2.67 Employee contributions are salary-related and range between 4.6 per cent and 8.05 per cent for members of classic, premium, classic plus, nuvos and alpha.

Expenses

- 2.68 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 £6,488 (£9,336 in 2017-18) for Robert Chote's travel and subsistence expenses over the period. No other member of the BRC made any claims for expenses.

Staff summary

- 2.69 The OBR currently has 28 permanent staff members. Members of staff are all civil servants and are primarily employees of the OBR, rather than seconded from other departments. All staff report to and are accountable to Robert Chote as Chairman.
- 2.70 The OBR staff are led by the Chief of Staff – Stephen Farrington, supported by the Deputy Chief of Staff. There are currently five analysts working on the macroeconomic forecast, 10 working on the public finances forecast and policy costings, and three 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. Three (four at full complement) members of staff work across teams on incorporating the effects of Brexit into our forecast, although staff across the OBR contributed to Brexit-related analysis throughout the year.
- 2.71 As of 31 March 2019, the gender balance of the members of the OBR, the senior civil servant Chief and Deputy 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.

- 2.72 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 28 staff at the end of March 2019 – 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.
- 2.73 A more meaningful like-for-like comparison can be derived from looking at the gender pay gap for junior and senior analysts separately. As at the end of March 2019 these show a negative pay gap of minus 14.7 (minus 11.9 in 2017-18) for senior analysts, with women paid more than men on average, and 7.9 per cent for more junior posts (6.2 per cent in 2017-18). These are calculated on a mean basis with full time equivalent salaries. But even this metric is volatile as more or less experienced staff join or leave the OBR. The recruitment of more female staff in junior posts has resulted in an increase in the pay gap in junior posts this year.

Table 2.3: Gender balance

Member	Male	Female	Total
BRC and non-executive members	4	1	5
Senior civil servants	2	0	2
Non-SCS staff	18	8	26
Total	24	9	33

Staff remuneration

- 2.74 The OBR’s staff are civil servants and pay arrangements are governed by the policy framework set out by the Cabinet Office and HM Treasury. Total pay cost for OBR staff in 2018-19 was £1,808,000 (£1,553,000 in 2017-18).³ This includes a pot of £35,515 paid in-year for non-consolidated performance-related payments available to OBR staff (but not SCS staff). Pay and bonus payments to SCS staff are subject to a civil service wide process overseen by the Cabinet Office. The Oversight Board is responsible for overseeing the pay remit for OBR staff. As such, the Oversight Board approves the Remuneration and staff report.

³ Figures rounded to the nearest £1,000.

Staff numbers and related costs (audited)

Table 2.4: Analysis of total staff costs

	£	
	Permanent staff	
	2018-19	2017-18
Wages and salaries	1,808	1,553
Social Security costs	202	181
Other pension costs	330	275
Total costs	2,340	2,009

Average number of persons employed

2.75 The average number of full-time equivalent persons employed during the year was 27 (2017-18: 26).

Exit packages (audited)

2.76 The OBR did not incur any costs for exit packages (2017-18: nil).

Pay relativity (audited)

2.77 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.

2.78 The remuneration of the highest-paid director in the OBR in the year ended 31 March 2019 was £158,762 (£154,587 year ended 31 March 2018). This was 3.0 times (3.1 times 2017-18) the median remuneration of the workforce, which was £52,661 (£49,345 in 2017-18). The median remuneration has risen slightly due to the addition of a senior staff post. The median salary includes the full-year equivalent salary of all staff in post as at 31 March 2019.

2.79 In 2017-18 and 2018-19, no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £22,901 to £87,996 in 2018-19 (£19,465 to £99,736 in 2017-18).

2.80 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

2.81 During the period ending 31 March 2019, the average number of working days lost due to sickness absence was 1.1 days per full-time equivalent (FTE) (2017-18: 1.6 days per FTE).

2.82 There were no reported health and safety incidents in 2018-19. We work with the Ministry of Justice and HM Treasury to offer First Aid training to staff.



Robert Chote, Chairman, 28 June 2019

Parliamentary accountability and audit report

2.83 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 2017-18). 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.

2.84 All expenditure was applied to the purpose intended by Parliament (audited).

2.85 The OBR has no remote contingent liabilities (audited).

2.86 No losses or special payments above £300,000 have been incurred by the OBR in 2018-19 (2017-18: none) (audited).

2.87 The OBR's total expenditure in 2018-19 was £2,911,000. The net expenditure for prior years was as follows:

Table 2.5: Expenditure and income

	£ thousand			
	2018-19	2017-18	2016-17	2015-16
Expenditure	2,911	2,569	2,887	2,108
Income	-	-6	-5	-3
Net expenditure	2,911	2,563	2,882	2,105



Robert Chote, Chairman, 28 June 2019

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of Office for Budget Responsibility for the year ended 31 March 2019 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 2019 and of 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

Conclusions relating to going concern

I am required to 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 for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

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 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.

- 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.

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 income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions 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 or the 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:

Accountability report

- 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 the 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.

Gareth Davies

Comptroller and Auditor General

2 July 2019

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

3 Financial statements

1 April 2018 to 31 March 2019

Statement of comprehensive net expenditure

for the year ended 31 March

		£ thousand	
	Note	2019	2018
Expenditure			
<i>of which:</i>			
Staff costs	2	2,340	2,009
Other expenditure	3	520	560
Income			
Other income		(-)	(6)
Net expenditure		2,860	2,563

There were no items of other comprehensive expenditure.

The notes on pages 36 to 42 form part of these accounts.

Statement of financial position

as at 31 March

	Note	£ thousand	
		2019	2018
Current assets			
Receivables due within one year	5	18	18
Cash and cash equivalents	6	220	116
Total current assets		238	134
Current liabilities			
Payables due within one year	7	(461)	(330)
Provisions	9	(80)	(132)
Total current liabilities		(541)	(462)
Net current liabilities		(303)	(328)
Taxpayers' equity			
General fund		(303)	(328)
Total taxpayers' equity		(303)	(328)

The notes on pages 36 to 42 form part of these accounts.

The financial statements were approved by the Board on 20 June 2019.



Robert Chote, Chairman

28 June 2019

Statement of cash flows

for the year ended 31 March

	Note	£ thousand	
		2019	2018
Cash flows from operating activities			
Net operating cost		(2,860)	(2,563)
Changes in working capital other than cash		131	(275)
Release of provisions		(52)	-
Net cash outflow from operating activities		(2,781)	(2,838)
Cash flows from financing activities			
Grant-in-Aid from HM Treasury		2,885	2,677
Net financing		2,885	2,677
Net increase/(decrease) in cash and cash equivalents in the period	6	104	(161)
Cash and cash equivalents at the beginning of the period		116	277
Cash and cash equivalents at the end of the period	6	220	116

The notes on pages 36 to 42 form part of these accounts.

Statement of changes in taxpayers' equity

for the year ended 31 March 2019

	£ thousand	
		General reserve
Balance at 1 April 2018		(328)
Grant-in-Aid from HM Treasury		2,885
Comprehensive expenditure for the year		(2,860)
Balance at 31 March 2019		(303)

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)

The notes on pages 36 to 42 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 2018-19 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 circumstances of the OBR for the purpose of giving a true and fair view has been selected. The 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 2018.

The OBR has reviewed the effects that the new accounting standard-IFRS16- Leases will have on its financial statements.

IFRS 16 will be effective for reporting periods beginning on or after 1 April 2020 for the public sector and will impact the recognition of leases in the OBR's financial statements. The OBR does not intend to early adopt IFRS 16.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

On transition, the OBR will recognise, measure, present and disclose the right-of-use asset under leases previously classified as operating leases, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease, recognised in the statement of financial position immediately before the date of initial application. As at the end of the financial year, the OBR's operating lease obligations were £3,355m for accommodation and office services, and £401m for IT services, which will give rise to right-of-use assets.

Work is still in progress to quantify the impact that IFRS 16 will have on the OBR's accounts.

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 <https://obr.uk/download/framework-document-2/>

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

1.2 Basis of preparation

The OBR's Statement of Financial Position at 31 March 2019 shows net liabilities of £330k. This reflects the inclusion of liabilities falling due within 2019-20 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

A provision of £132k which was recognised for dilapidation costs in financial year 2017-18 was revised down by the Landlord for financial year 2018-19 to £80K.

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 2019 was £2,885k. 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. Liability for payment of future benefits is a charge on the scheme.

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. A new methodology for calculating Annual leave accruals was applied this financial year.

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 in line with IFRS9 *Financial instruments*. There has been no material impact on the financial statements on adoption of this new standard for 2018-19.

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, in line with IAS 17 which will be superseded by IFRS16. Refer to note 1 for further discussion on this.

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 the 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	
	2018-19	2017-18
Wages and salaries	1,808	1,553
Social Security costs	202	181
Other pension costs	330	275
Total costs	2,340	2,009

Further details of staff costs and numbers are now disclosed in the Remuneration and staff report (see pages 23 to 28).

3. Other expenditure

	£ thousand	
	2018-19	2017-18
Accommodation costs	307	357
Printing and office services	110	68
IT costs	86	55
Contracted out services	-	11
External auditor's remuneration	15	15
Bank charges	1	1
Staff support and staff-related costs, including training and travel	49	43
OBR website maintenance	4	10
Non-cash adjustment		
Release of provisions	(52)	-
Total	520	560

The increase in the printing and office services is partially due to an increased charge (£34k) for shared services provided by HM Treasury to the OBR.

A review of the dilapidation costs relating to the OBR's previous tenancy at 20 Victoria Street until September 2016 was carried out by the landlord, which resulted in the reduction/release of those costs by £52,000 for financial year ending 31 March 2019.

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, 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	
	2018-19	2017-18
Amounts falling due within one year		
Amounts due from HM Treasury	4	10
Accrued income	6	3
Other trade receivables	8	5
Total falling due within one year	18	18

Amounts due from HM Treasury relate to administrative expenses borne by the OBR and recoverable from HM Treasury.

6. Cash and cash equivalents

	£ thousand	
	2018-19	2017-18
Balance at 1 April 2018	116	277
Net change in cash balances – inflow/(outflow)	104	(161)
Balance at 31 March 2019	220	116

All cash balances are held with the Government Banking Service.

7. Payables and other current liabilities

	£ thousand	
	2018-19	2017-18
Amounts falling due within one year		
Taxation and social security	93	84
Trade and other payables	50	44
Accruals	318	202
Total falling due within one year	461	330

The increase in the accruals figure reflects an increase in the accrued year-end staff bonuses, overtime costs and the change in annual leave calculation methodology. It also reflects the accrued costs in relation to the Treasury Group Shared Services (TGSS). Invoices for services to the OBR relating to quarters 2 and 3 were issued and processed in the new financial year 19-20.

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 2018-19 totalled £343k.

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 2018-19 totalled £40k.

Obligations and commitments over the lease period comprise:

	£ thousand	
	2018-19	2017-18
Accommodation and office services		
Within one year	347	347
Between one and five years	1,379	1,385
Later than five years	1,628	1,970
Total	3,355	3,702
IT services		
Within one year	40	43
Between one and five years	160	172
Later than five years	201	258
Total	401	473

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	
	2018-19	2017-18
Balance at 1 April 2018	132	132
Released during the year	(52)	-
Balance at 31 March 2019	80	132
Not later than one year	80	132
Later than one year and not later than five years	-	-

Under the MOTO covering its former tenancy the OBR had an obligation to pay a pro-rata share of dilapidation costs chargeable to the landlord by the freeholder that arose on cessation of the head lease.

In 2016-17 a provision for £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. This provision was not released as at 31 March 2018 and carried forward to 2018-19. A review of the original professional estimate by the landlord resulted in the revision of that provision to a lower value of £80K for financial year ending March 2019.

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 2018-19 was £383k.

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 2 July 2019.

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.