

Office for  
**Budget  
Responsibility**

**Annual report and accounts 2019-20**

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# Office for Budget Responsibility: Annual report and accounts 2019-20

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 (OBR), 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, usually 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 (ONS). 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 Parliament Finance Committee to **explain the judgements and conclusions of our work**.
- Holding regular **briefing events and interviews** 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 This has been an unusual year, in which the cancellation of the Budget in the autumn of 2019 prompted us to revise our normal publication timetable and resulted in our first forecast of the year coming alongside the Budget in March. At the time we closed that forecast, the coronavirus outbreak was expected to have a relatively limited impact on the economy and the public finances. The impact is now expected to be much greater and shortly after the Budget significant monetary and fiscal policy responses were announced. So in the early weeks of the financial year following that to which this report relates, we have published an illustrative scenario and stepped up our monitoring of incoming data.

1.7 This year also saw the OBR take a more formal role in the Welsh Budget process, by becoming the official provider of forecasts for devolved Welsh taxes. This has seen us increase engagement with the Welsh Government and the Welsh Parliament Finance Committee which we hope has been helpful in informing the debate in Wales.

- 1.8 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.
- 1.9 This is my final year as Chair of the OBR, after a decade laying the foundations of a fledgling organisation that I hope will now be seen as a valuable permanent piece of the UK's economic policy architecture. The OBR has endeavoured to set the bar for transparent and objective analysis of the public finances both in the UK and around the world. Alongside our summer coronavirus analysis, we have been preparing for new leadership and stand ready to prepare and welcome a new chair in October.
- 1.10 In undertaking all our work over the past year, and indeed over the last decade, 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, 18 June 2020

## Statement of performance and activities

- 1.11 The Office for Budget Responsibility (OBR) provides independent and authoritative analysis of the UK's public finances. We are a non-departmental public body (NDPB) and became a statutory body on 4 April 2011 following Royal Assent of the *Budget Responsibility and National Audit Act 2011*.<sup>1</sup>
- 1.12 The *Act* requires the OBR to examine and report on the sustainability of the public finances. This is a broad remit that allows us to analyse the public finances from many angles. We have complete discretion to set our own work programme, subject to meeting the core requirements and guidance set out in the *Act* and the accompanying *Charter for Budget Responsibility*. 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.

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

- 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.
- A forecast of the receipts from taxes and spending on social security that it has devolved – or intends to devolve – to the Scottish and Welsh Governments. We also produce the official forecast of devolved Welsh taxes for the Welsh Government, as part of its annual budget process.

1.13 The *Charter* sets out that our forecasts should be based on all Government policy decisions that have a material impact on the fiscal outlook and that can be quantified with reasonable accuracy. To this end, we also independently scrutinise and certify the Government's estimates of the cost of policy decisions. Importantly, the *Act* and *Charter* also specify that we should not consider the effect of alternative policies or provide normative commentary on the merits of government policies.

1.14 Our independence is central to the effective delivery of our responsibilities, and to support this we are required by the *Act* to perform our duties objectively, transparently and impartially. A detailed *Memorandum of Understanding* between us and our main stakeholder departments sets out how the requirements of the *Act* and *Charter* are pursued in practice. It was reviewed and updated in March 2017.

## Performance summary – Achievements in 2019-20

### Core responsibilities

- 1.15 In 2019-20, we fulfilled our statutory core responsibilities through the publication of the following reports:
- The March 2020 ***Economic and fiscal outlook (EFO)*** set out our latest economic and fiscal forecast and assessment of the likelihood that the Government would meet its targets for the deficit, debt and welfare spending. The forecast, which despite being a year after our previous forecast remained largely unchanged on a pre-measures basis, was dominated by a large fiscal giveaway and the looming coronavirus pandemic.
  - We published our second forecast of the year very quickly after the first. Following the cancellation of the November 2019 Budget, ahead of the general election in December, there was insufficient time to produce a full forecast either immediately after the election, or after the March Budget. In the March 2020 *Supplementary*

*forecast* we refined our debt interest calculations to increase accuracy and to increase consistency with the final policy package.

- In July 2019, we published our second **Fiscal risks report (FRR)**, which included chapters on fiscal policy and climate change risks for the first time. Alongside chapters on a wide range of risks to the public finances we also included a stress test, which set out the fiscal implications of a 'no deal' Brexit, based on an International Monetary Fund (IMF) macroeconomic scenario.
- Our latest **Forecast evaluation report (FER)** was published in December 2019. The FER revisited the accuracy of our post-referendum November 2016 forecasts. On the data vintage available for the report, our forecast for 11.5 per cent nominal GDP growth over the period since the referendum was accurate to one decimal place. But our fiscal forecast was too pessimistic, because the public finances in 2016-17 were in a better starting position than the data indicated at the time.
- Our sixth **Welfare trends report (WTR)** was also published in December 2019. The WTR focussed on the £12 billion cut to welfare spending pencilled in by the incoming Government in the Summer Budget in 2015, and how and why spending did not eventually fall by that amount.

1.16 In April 2019 we formally took on the role of producing the independent forecast for devolved Welsh taxes for the Welsh Government, with the first *Welsh taxes outlook* being published alongside the Welsh Government's draft budget in December.<sup>2</sup>

1.17 We also work closely with the Scottish Fiscal Commission (SFC) to ensure that we can bring all relevant information to bear in producing our Scottish tax and spending forecasts and published an MoU to guide engagement between our two organisations.<sup>3</sup>

## Wider analysis

1.18 We supplement our core outputs with wider analysis that supports our key objective of examining and reporting on the sustainability of the public finances. Following the uncertainty surrounding the timing and eventual cancellation of the Budget in November 2019, our wider public work programme was limited in 2019-20. The cancellation of the Budget led us to publish a *Restated March 2019 forecast* in December, which incorporated the significant classification changes made by the ONS since that forecast with the aim of providing a more useful and consistent comparison to the outturn data and as the baseline for the forecast that followed.

## Communications and stakeholder engagement

1.19 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 held press

<sup>2</sup> <https://obr.uk/welsh-taxes-outlook-december-2019/>

<sup>3</sup> <https://obr.uk/download/memorandum-understanding-scottish-fiscal-commission-office-budget-responsibility/>

conferences after the publication of the *EFO* and *FRR*, and a combined event after the publication of the *FER*, *WTR* and *Restated forecast*. Presentations have been delivered, among others, to: the Government Economic Service, the 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.

- 1.20 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 Institute for Government, 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 Organisation for Economic Co-operation and Development (OECD), and the European Commission.
- 1.21 We are accountable to Parliament primarily through appearances at the Treasury Select Committee, which have been held after the publication of *EFOs* and the 2019 Spending Round. The transcripts can be found via our website.<sup>4</sup> Members of the BRC have also appeared before the Finance Committees of the Scottish Parliament and the National Assembly for Wales.

## Performance analysis

### How we measure performance

- 1.22 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.
- 1.23 We regularly collect website traffic data to monitor how and when our outputs are accessed by the public. The website traffic peaks on key publication dates but of all website traffic over the year, the *Forecasts in-depth* pages which give a wealth of information on our forecasts account for a quarter of all traffic to the site. Compared with 2017-18 (the first year we launched the *Forecasts in-depth* area) website hits have increased by around 40 per cent. We have started to redesign the website to improve navigation, increase the prominence of products made beyond our key publications and build in an enhanced search function. We aim to launch the new design in 2020-21.
- 1.24 We also monitor social media analytics to inform our communication strategy for core publications and see large peaks in our Twitter engagement on these key dates.

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

For 2019-20 as a whole, we have seen an improvement in the key indicators since 2018-19. The number of followers reached 8,900. This is around 11 per cent yearly growth on 2018-19, higher than the 8 per cent yearly growth reported in the previous financial year. The number of retweets has increased by over two-thirds since 2018-19. Part of this can be attributed to the surge of new followers and retweets in July 2019 after publishing our latest *Fiscal risks report and Economic and fiscal outlook*. This contrasts with the dampened engagement we experienced when key publications clashed with Brexit votes in 2018-19.

- 1.25 We also monitor public comments on our work by important stakeholders. The Treasury Select Committee serves as our main channel of accountability to Parliament and to the press and public, through its scrutiny of our work. Following his last session on the Committee and as acting Chair, John Mann MP said *“The existence of the OBR and the quality of what you have provided to this Committee in sessions, without question, has altered the behaviour of political parties in the context of them thinking of spending and indeed bringing economics in. It is quite a hidden success, but it is a major success”* and *“The role of the OBR and the way you have been very open in this Committee is quite fundamental. That is a significant, important and rather unnoticed achievement.”*<sup>5</sup>
- 1.26 In terms of the performance of our forecasts, we can compare the absolute size of our forecast differences to the average across official forecasts made in the 20 years before the OBR was created. This is a reasonable basis for comparison, but it is important to note that any differences between our forecast record and that of the Treasury before us could be influenced by many factors beyond the control of the forecaster in question. For what it is worth, given the limitations of such comparisons, our forecasts for real GDP and borrowing have on average been more accurate than those of the previous 20 years. But following the coronavirus outbreak, our forecasts for 2020 will undoubtedly show the worst forecast errors on record.

## 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, 91 per cent of invoices (82 per cent in 2018-19) 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 (2018-19: 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 2019-20 several initiatives were run including the continued phasing-out of consumer single use plastics, further roll-out of compostable or reusable products as alternatives to plastics

<sup>5</sup> <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/spending-round-2019/oral/105325.pdf>

including reusable glass tumblers in kitchen areas, energy and waste saving projects including installation of new hand driers to replace paper towels and the provision of an online real-time energy use display.

## 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 comprised a commitment for the years 2016-17 to 2020-21. We have also agreed a revised funding allocation for 2020-21 and indicative funding to 2022-23, in anticipation of the forthcoming Spending Review. The Chairman of the OBR is designated as the Accounting Officer responsible for the effective management of public funds.

## 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 £2,747,000 for 2019-20 was originally agreed with the Treasury in March 2018. We agreed a revised delegation for 2019-20 with the Treasury which increased to £3,432,000. The majority of the extended allocation was to cover additional work on Brexit analysis and our additional responsibilities on forecasting devolved taxes for the Welsh Government.
- 1.33 The statement of comprehensive net expenditure in this year's accounts puts our total spending for the year at £3,316,000.
- 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.

## 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 comprised a commitment for the years 2016-17 to 2020-21. We have also agreed

a revised funding allocation for 2020-21 and indicative funding to 2022-23, in anticipation of the forthcoming Spending Review.

- 1.36 The OBR's statement of financial position at 31 March 2020 shows net liabilities of £357,000 which includes accrued payments for accommodation and performance-related staff bonuses for 2019-20. This reflects the inclusion of liabilities falling due in 2019-20 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 two overarching business objectives that guide our work are:

- 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, 18 June 2020



## 2 Accountability report

2.1 The accountability report contains:

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

### Corporate governance report

#### Non-executive members' assessment

2.2 The *Budget Responsibility and National Audit Act 2011* requires the non-executive directors of the Office for Budget Responsibility to keep under review the way in which the OBR has performed its main duties – to prepare its key reports objectively, transparently and impartially (Sections 4 and 5 of the Act).

2.3 To fulfil this role, we monitor the OBR's work and its operational and governance arrangements through the OBR's Oversight Board and the Audit and Risk Assurance Committee. We also meet annually (this year remotely) with the staff of the OBR and with the individual members of the BRC specifically to discuss performance over the past year and identify any concerns. OBR colleagues have readily provided us with the necessary information, for which we are grateful. Finally, we monitor public comments on the OBR's work made by the Treasury Select Committee and other stakeholders.

2.4 The Act also 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 in 2014. It was followed in September 2015 by the publication of an HM Treasury review. The recommendations of both reviews continue to guide the OBR's development, particularly in relation to succession planning, to the expansion of the OBR's outputs to relate to a wider audience, and to the importance of exercising caution about any expansion of the OBR's remit.

2.5 In April 2019, we commissioned the Organisation for Economic Co-operation and Development (OECD) to undertake a further external review, asking it to focus on the quality of the OBR's core reports, its analytical capacity, its independence, its accountability and its

visibility. The report had been expected last Autumn. We are disappointed not yet to have received it. We have no reason to believe that it will find major shortcomings in any of these areas, though we look forward to any recommendations it may make.

2.6 The OBR was faced in 2019-20 with a difficult external context, with continuing uncertainty about the nature of Brexit, the postponement of the planned Autumn Budget as a result of the calling of the general election and, at the end of the period, Covid-19. Despite these challenging circumstances, in terms of its core responsibilities and publications:

- The OBR published an economic and fiscal forecast in March 2020. It followed it a few days later with a limited update to satisfy the statutory requirement to publish two forecasts a year – a pragmatic solution to the difficulty caused by the cancellation of the Autumn Budget. A restatement of the March 2019 forecast to take account of classification changes had earlier been published in December 2019 as a partial substitute for the more usual Autumn *Economic and fiscal outlook* (EFO), so as to provide a baseline for subsequent work.
- It published its two-yearly *Fiscal risks report* in July 2019, identifying and analysing risks to the medium-term outlook for the public finances and long-term fiscal sustainability.
- In December 2019, it published its annual *Forecast evaluation report*, examining how its immediately pre-and post-EU referendum forecasts compared to subsequent outturn data and identifying any lessons for future forecasts.
- In the same month, it published its annual *Welfare trends report*, focussing on the Summer Budget 2015 welfare spending cuts.
- The inaugural Welsh taxes outlook was also published in December 2019, fulfilling the OBR's new role as provider of the independent forecast for devolved taxes for the Welsh Government. A brief update to incorporate new data was published in February 2020.
- In April 2020, outside the period covered by this report, it published an initial assessment of the potential impact of the coronavirus on the economy and public finances. The assessment was presented as a possible scenario rather than a forecast.
- It also published a considerable amount of supporting data to enable others to question its judgements and conclusions.

2.7 Our view is that the OBR has coped well during a year when uncertainties caused by Brexit negotiations and, latterly, Covid-19 have made forecasting unusually difficult. Our overall impression remains that its outputs are seen as authoritative and objective – even if, inevitably, some commentators will disagree with some of its conclusions at any given time.

- 2.8 As in previous years, we remain confident that the OBR has been free to use its own discretion in its judgements and analytical conclusions without inappropriate interference from outside. The structures and processes for working with Government have operated effectively, despite some difficulties in Autumn 2019 when the planned Budget was postponed. The OBR has continued to be transparent about its interactions through its published log of contacts. The members of the BRC have confirmed to us yet again that they have come under no pressure from ministers, special advisers or officials to change the conclusions of their analysis. There is a standing instruction that any emails exchanged between the OBR and relevant departments that could be perceived, even unintentionally, to go beyond fact checking and clarification should be referred to us. There have been no such referrals over the period covered by this report. Our impression is that the nature of the relationship between the OBR and departments is now firmly established and is conducted on an adult and mutually respectful basis.
- 2.9 There was some suggestion at the time that a fully independent OBR should have published its restatement of its March forecast when it was ready in the Autumn, not delayed it because of the general election. We emphatically do not share this view. It is difficult to see how the organisation could have ignored clear advice from the Cabinet Secretary that to publish during an election period would have breached the rules of pre-election purdah.
- 2.10 In last year's report we drew attention to the concern expressed by the OBR in both its 2018-19 EFOs about the amount of notice then being provided in relation to the forecasts and about the ability of the Treasury to meet deadlines within the timetable. We are pleased to note that the OBR was largely given the required notice in relation to the March 2020 Budget. That enabled the forecasts to be produced in good order, despite the effect of a change in Chancellor part way through the process and an unusually large list of Budget measures to take into account. It is important that this good practice should be maintained in the future if the quality of OBR forecasts is to be maintained.
- 2.11 We remain content that the OBR's internal management structures and working practices are effective, and that the OBR has the resources and expertise it needs to meet its objectives, particularly after the additional resources agreed in March 2016. Working relationships remain positive with good visibility between staff and the BRC – made easier, of course, by the relatively small number of staff and the open plan nature of the OBR office. The staff survey results continue to show very high levels of engagement and clear understanding of organisational objectives and purpose. For the second year in succession, however, some areas did show a decline in positive responses, particularly in relation to leadership and managing change. There are a number of possible explanations, including the challenges experienced during the year and adjustment to changes in management structure alongside the relatively rapid increase in staff numbers. The organisation has already taken a number of steps to address these issues. We will continue to monitor progress, particularly in the context of the change in Chairman expected in October 2020.
- 2.12 It is a privilege to serve as non-executives on the Oversight Board of the OBR. We are proud to be part of an organisation which continues to deliver its remit effectively and authoritatively and in line with the principles of impartiality, objectivity and transparency on

which its success depends. Circumstances over the next 12 months, with both Covid-19 and continuing uncertainty about the nature of the exit from the European Union, will continue to provide challenges.



Sir Christopher Kelly



Bronwyn Curtis

Non-executive members of the Office for Budget Responsibility, 15 June 2020

## Statement of Accounting Officer's responsibilities

- 2.13 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.
- 2.14 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.
- 2.15 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;
  - prepare the accounts on a going concern basis; and
  - 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.
- 2.16 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.

- 2.17 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.
- 2.18 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.
- 2.19 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*, updated in March 2019 and 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.<sup>1</sup>
- 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.

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<sup>1</sup> <https://obr.uk/download/framework-document-2/>

## Members of the Office for Budget Responsibility

- 2.24 The OBR is comprised of five members: the Budget Responsibility Committee (BRC) – Robert Chote (Chairman), Professor Sir Charlie Bean and Andy King; and two non-executive members – Sir Christopher Kelly and Bronwyn Curtis OBE.
- 2.25 In June 2020, Sir Christopher Kelly was re-appointed as a non-executive member of the OBR for a second three-year term.
- 2.26 As at 31 March 2020 the OBR employed a staff of 34 (and 37 when at full complement) to provide analytical and corporate support, led by the Chief of Staff – Stephen Farrington.
- 2.27 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.
- 2.28 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 officials 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, the advisory committee of the ESRC Centre for Macroeconomics, and the Council of Westcott House Theological College in Cambridge. He is 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, Chairman of The John Lewis Partnership. She is also Deputy Chairman 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 holds a part-time Professorship at the London School of Economics. He is also Chairman of the Trustees of the Centre for Economic Policy Research (an academic research network). 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



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.

## 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, the Committee on Standards in Public Life and the Kings Fund. He is currently the senior independent director on the Board of the Co-op Group and chair of its insurance subsidiary. He is also a trustee of the Canal and River Trust, where he chairs the Audit and Risk Committee.

## Bronwyn Curtis OBE



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.

- 2.29 Appointments to the BRC are usually for a period of five years and may be renewed once. Non-executive members’ appointments are typically for three years and may also be renewed once.

Table 2.1: Members’ contract lengths and expiry dates

Member	Contract length	Contract expiry date
Robert Chote	5 years	3 October 2020
Sir Charlie Bean	5 years	1 January 2022
Andy King	5 years	31 August 2023
Sir Christopher Kelly	3 years	20 June 2023
Bronwyn Curtis OBE	3 years	7 June 2021

## The Oversight Board

- 2.30 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.
- 2.31 The Board’s terms of reference are published on our website.<sup>2</sup> 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.
- 2.32 All members in post at the time of each meeting attended Oversight Board meetings during 2019-20. Minutes of each meeting are published on our website.
- 2.33 The Board members do not hold any directorships or have significant interests in organisations that might conflict with their management responsibilities.

<sup>2</sup> <https://obr.uk/topics/governance-and-reporting/>

## The Audit and Risk Assurance Committee

- 2.34 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 has been chaired by Bronwyn Curtis since June 2018. The terms of reference for the Committee are published on our website alongside those of the Oversight Board.<sup>3</sup>
- 2.35 All members in post at the time of each scheduled meeting attended them during 2019-20. Minutes of each meeting are published with the Board minutes on our website.

## Executive management

- 2.36 I lead the OBR's management group, which includes the OBR's Chief of Staff and Deputy Chief of Staff and other staff and members of the BRC 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

- 2.37 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.
- 2.38 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.
- 2.39 The Chief of Staff is responsible for compiling and maintaining a register of the key risks facing the organisation. OBR 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.

## Analytical risks

- 2.40 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.

- 2.41 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.
- 2.42 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.
- 2.43 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

- 2.44 Our budget is small at £3.4 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.
- 2.45 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.

- 2.46 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.
- 2.47 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. In 2019-20 we asked Government Internal Audit Agency (GIAA) to review the processes in place for knowledge management and business continuity in the OBR. For each area, it made a number of recommendations that will be implemented. The alternative working arrangements put in place as a result of the coronavirus restrictions have shown that the OBR can continue to operate effectively without access to its offices, supported by a range of IT tools to facilitate remote working.

### Opinion on effectiveness of governance arrangements

- 2.48 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.
- 2.49 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.
- 2.50 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, 18 June 2020

## Remuneration and staff report

### Members' remuneration

- 2.51 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.<sup>3</sup> 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.

2.52 The non-executive members of the OBR do not receive any fees.

2.53 Members of the BRC are subject to the deduction of appropriate taxes via the PAYE system.

2.54 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 (£)	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Robert Chote (Chairman)	162,041	158,762	32,408	31,752	194,449	190,514
Charlie Bean (0.5FTE)	64,973	63,633	–	–	64,973	63,633
Andy King (0.9FTE) <sup>1</sup>	110,942	64,304	22,178	12,810	133,120	77,114

<sup>1</sup> Appointed mid-year in 2018-19.

## Pensions

2.55 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, shown in table 2.2. The OBR does not pay any pension contributions on behalf of Professor Sir Charlie Bean.

### Civil Service pensions

2.56 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).

2.57 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.

2.58 The following transition arrangements were put in place for the introduction of alpha:

<sup>3</sup> <https://obr.uk/about-the-obr/who-we-are/>

- 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.

#### 2.59 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.
- **Employer contributions** are also salary-related, and in 2019-20 range from 26.6 to 30.3 per cent of pensionable earnings, based on four salary bands. Scheme administration charges of 0.32 per cent are included in the employer monthly contributions. For 2019-20, employers' contributions of £357,374 were payable to the PCSPS (2018-19: £273,688), the increase reflecting both a rise in the number of OBR staff, and an increase in the contribution rate.
- **Benefits** for classic accrue at a rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service; for premium, the rate is 1/60<sup>th</sup>. 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.

2.60 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 2019-20 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. The Scheme Actuary valued the scheme as at 31 March 2016. Details can be found in the Civil Service Pension Scheme actuarial valuation as at 31 March 2016: Report by the Scheme Actuary.

- 2.61 More information on Civil Service pension arrangements can be found at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

## Expenses

- 2.62 The OBR has incurred costs of £4,440 (£6,488 in 2018-19) for Robert Chote's and £609 (£0 in 2018-19) for Andy King's travel and subsistence expenses over the period.

## Staff summary

- 2.63 The OBR currently has 34 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.
- 2.64 The OBR staff are led by the Chief of Staff – Stephen Farrington, supported by the Deputy Chief of Staff. There are currently eight analysts working on the macroeconomic forecast, 16 working on the public finances forecast and policy costings, and three working on long-term fiscal sustainability and fiscal risks. Five 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.
- 2.65 As of 31 March 2020, the gender balance of the members of the OBR, the senior civil servant Chief (SCS2) and Deputy Chief of Staff (SCS1) and the non-SCS OBR staff was as set out in Table 2.3. Over recent years we have taken steps to recruit more female staff at the OBR, via our recruitment processes.
- 2.66 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 34 staff at the end of March 2020 – raw pay differentials can be 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.
- 2.67 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 2020 these show a pay gap of 7.3 per cent (minus 14.7 in 2018-19) for senior analysts, and minus 12.4 per cent for more junior posts, with women paid more than men on average (7.9 per cent in 2018-19). These are calculated on a mean basis with full time equivalent salaries. Sharp movements this year demonstrate this metric is also volatile, as turnover has been high. The doubling of female employees at the OBR is split across more experienced new joiners in junior posts turning the junior differential negative, while newly promoted female staff moving into senior analyst roles reduce the mean salary, whilst improving the gender balance overall.

Table 2.3: Gender balance

	Male	Female	Total
BRC and non-executive members	4	1	5
Senior civil servants	2	0	2
Non-SCS staff	18	14	32
<b>Total</b>	<b>24</b>	<b>15</b>	<b>39</b>

## Staff remuneration

2.68 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 costs for OBR staff in 2019-20 was £1,946,000 (£1,808,000 in 2018-19).<sup>4</sup> This includes a pot of £40,220 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.

## Staff numbers and related costs (audited)

Table 2.4: Analysis of total staff costs

	£ 000's	
	Permanent staff	
	2019-20	2018-19
Wages and salaries	1,946	1,808
Social Security costs	223	202
Other pension costs	439	330
<b>Total costs</b>	<b>2,608</b>	<b>2,340</b>

### Average number of persons employed

2.69 The average number of full-time equivalent persons employed during the year was 30 (2018-19: 27). The increase relates to additional Brexit and Welsh Government funding.

### Exit packages (audited)

2.70 The OBR did not incur any costs for exit packages (2018-19: nil).

### Pay relativity (audited)

2.71 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.

<sup>4</sup> Figures rounded to the nearest £1,000.

- 2.72 The remuneration of the highest-paid director in the OBR in the year ended 31 March 2020 was £162,041 (£158,762 year ended 31 March 2019). This was 3.1 times (3.0 times 2018-19) the median remuneration of the workforce, which was £52,828 (£52,661 in 2018-19). The median remuneration has risen very slightly in 2019-20. The median salary includes the full-year equivalent salary of all staff in post as at 31 March 2020.
- 2.73 In 2019-20, no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £23,250 to £107,642 in 2019-20 (£22,901 to £87,996 in 2018-19).

## Employee matters

- 2.74 During the period ending 31 March 2020, the average number of working days lost due to sickness absence was 0.8 days per full-time equivalent (FTE) (2018-19: 1.1 days per FTE).
- 2.75 There were no reported health and safety incidents in 2019-20. We work with the Ministry of Justice and HM Treasury to offer First Aid training to staff.
- 2.76 The OBR aims to attract talented and skilled individuals from diverse backgrounds and values the different experiences that everyone brings to the workplace. We are dedicated to giving full and fair consideration to applications made by disabled persons and to giving due regard to their aptitudes and abilities. We currently have no staff reporting a disability, but we are committed to supporting staff with training, career development, workplace adjustments and employing measures to support individual needs.



Robert Chote, Chairman, 18 June 2020

## Parliamentary accountability and audit report

- 2.77 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 £16,000 (£15,000 in 2018-19). 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.
- 2.78 All expenditure was applied to the purpose intended by Parliament (audited).
- 2.79 The OBR has no remote contingent liabilities (audited).
- 2.80 No losses or special payments above £300,000 have been incurred either individually and in total by the OBR in 2019-20 (2018-19: none) (audited).

Table 2.5: Expenditure and income

	£ 000's			
	2019-20	2018-19	2017-18	2016-17
Expenditure	3,333	2,860	2,569	2,887
Income	(17)	-	(6)	(5)
<b>Net expenditure</b>	<b>3,316</b>	<b>2,860</b>	<b>2,563</b>	<b>2,882</b>



Robert Chote, Chairman, 18 June 2020

## The Certificate and Report of the Comptroller and Auditor General to the Houses of Commons

### 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 2020 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 the Office for Budget Responsibility's affairs as at 31 March 2020 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'. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Office for Budget Responsibility's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Office for Budget Responsibility has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Office for Budget Responsibility's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Responsibilities of the Board and Accounting Officer for the financial statements

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

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to examine, 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 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.

## Accountability report

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Office for Budget Responsibility'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 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 report. However, future events or conditions may cause the Office for Budget Responsibility to cease to continue as a going concern.

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, but does not include 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:

- 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**

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

23 June 2020



# 3 Financial statements

## 1 April 2019 to 31 March 2020

### Statement of comprehensive net expenditure

for the year ended 31 March

		£ 000's	
	Note	2020	2019
<b>Expenditure</b>			
of which:			
Staff costs	2	2,608	2,340
Other expenditure	3	725	520
<b>Income</b>			
Other income		(17)	(-)
<b>Net expenditure</b>		<b>3,316</b>	<b>2,860</b>

There were no items of other comprehensive expenditure.

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

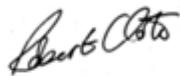
## Statement of financial position

as at 31 March

	Note	£ 000's	
		2020	2019
<b>Current assets</b>			
Receivables due within one year	5	26	18
Cash and cash equivalents	6	225	220
<b>Total current assets</b>		<b>251</b>	<b>238</b>
<b>Current liabilities</b>			
Payables due within one year	7	(528)	(461)
Provisions	9	(80)	(80)
<b>Total current liabilities</b>		<b>(608)</b>	<b>(541)</b>
<b>Net current liabilities</b>		<b>(357)</b>	<b>(303)</b>
<b>Taxpayers' equity</b>			
General fund		(357)	(303)
<b>Total taxpayers' equity</b>		<b>(357)</b>	<b>(303)</b>

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

The financial statements were approved by the Board on 15 June 2020.



Robert Chote, Chairman

18 June 2020

## Statement of cash flows

for the year ended 31 March

	Note	£ 000's	
		2020	2019
<b>Cash flows from operating activities</b>			
Net operating cost		(3,316)	(2,860)
Changes in working capital other than cash		59	131
Release of provisions		-	(52)
<b>Net cash outflow from operating activities</b>		<b>(3,257)</b>	<b>(2,781)</b>
<b>Cash flows from financing activities</b>			
Grant-in-Aid from HM Treasury		3,262	2,885
<b>Net financing</b>		<b>3,262</b>	<b>2,885</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>	<b>6</b>	<b>5</b>	<b>104</b>
Cash and cash equivalents at the beginning of the period		220	116
<b>Cash and cash equivalents at the end of the period</b>	<b>6</b>	<b>225</b>	<b>220</b>

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

## Statement of changes in taxpayers' equity

for the year ended 31 March 2020

	£ 000's	
		General reserve
<b>Balance at 1 April 2019</b>		<b>(303)</b>
Grant-in-Aid from HM Treasury		3,262
Comprehensive expenditure for the year		(3,316)
<b>Balance at 31 March 2020</b>		<b>(357)</b>

for the year ended 31 March 2019

	£ 000's	
		General reserve
<b>Balance at 1 April 2018</b>		<b>(328)</b>
Grant-in-Aid from HM Treasury		2,885
Comprehensive expenditure for the year		(2,860)
<b>Balance at 31 March 2019</b>		<b>(303)</b>

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 Document<sup>1</sup> between the Office for Budget Responsibility (OBR) and HM Treasury, these financial statements have been prepared in accordance with the 2019-20 Government Financial Reporting Manual (FReM).<sup>2</sup> 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 2019.

#### IFRS16-Leases

In preparation for the initially planned 1 April 2020 implementation date for IFRS 16, the OBR carried out an impact assessment of this standard to its financial statements. Due to the outbreak of Covid-19 on 11th March 2020, the Financial Reporting Advisory Body (FRAB) deferred the implementation of IFRS 16 for government departments to 1 April 2021. The OBR will review and revise impact assessment prior to that new implementation date. The OBR does not intend to early adopt IFRS 16.

When implemented eventually, IFRS 16 will impact the recognition of leases in the OBR's financial statements. 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 £3,007k for accommodation, which will give rise to right-of-use assets.

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<sup>1</sup> <https://obr.uk/download/framework-document-2/>

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

## IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021 (subject to endorsement by the UK).

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

This standard is not expected to have a material impact on the OBR's financial statements because the OBR does not have, or plan sign to sign any insurance contracts in the foreseeable future.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the OBR.

### 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 2019 shows net liabilities of £357k. This reflects the inclusion of liabilities falling due within 2020-21 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

The OBR has had no significant judgements during financial year 2019-20. The provision for the dilapidations remained at £80k pending future decisions.

### 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 2020 was £3,262k. 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 adjusted for cash in transit at the end of the previous financial year.

## Financial statements

### 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.

### 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, 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

	£ 000's	
	Permanent staff	
	2019-20	2018-19
Wages and salaries	1,946	1,808
Social Security costs	223	202
Other pension costs	439	330
<b>Total costs</b>	<b>2,608</b>	<b>2,340</b>

Further details of staff costs and numbers are now disclosed in the Remuneration and staff report (see pages 21 to 26).

## 3. Other expenditure

	£ 000's	
	2019-20	2018-19
Accommodation costs	367	307
Printing and office services	120	110
IT costs	90	86
External auditor's remuneration	16	15
Bank charges	1	1
Staff support and staff-related costs, including training and travel	26	49
Consultancy	105	4
<b>Non-cash adjustment</b>		
Release of provisions	-	(52)
<b>Total</b>	<b>725</b>	<b>520</b>

The increase in consultancy expenditure is mainly due a contribution of £86k to the Public Governance Directorate of the Organisation for Economic Co-operation and Development (OECD), in relation to external review engagement for the OBR.

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

	£ 000's	
	2019-20	2018-19
<b>Amounts falling due within one year</b>		
Amounts due from HM Treasury	-	4
Accrued income	17	6
Other trade receivables	9	8
<b>Total falling due within one year</b>	<b>26</b>	<b>18</b>

Accrued income relates to recharges from HM Treasury.

## 6. Cash and cash equivalents

	£ 000's	
	2019-20	2018-19
Balance at 1 April 2019	220	116
Net change in cash balances – inflow/(outflow)	5	104
<b>Balance at 31 March 2020</b>	<b>225</b>	<b>220</b>

All cash balances are held with the Government Banking Service.

## 7. Payables and other current liabilities

	£ 000's	
	2019-20	2018-19
<b>Amounts falling due within one year</b>		
Taxation and social security	77	93
Trade and other payables	75	50
Accruals	376	318
<b>Total falling due within one year</b>	<b>528</b>	<b>461</b>

The increase in accruals by £58k is mainly due to an increase in annual leave accrual of £16k, an accrual of £18k in relation to a one-off IT charge for user licences and an accrual of £14k in relation to IT project costs.

## 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 2019-20 totalled £367k.

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 2019-20 totalled £30k.

Obligations and commitments over the lease period comprise:

	£ '000's	
	2019-20	2018-19
<b>Accommodation and office services</b>		
Within one year	347	347
Between one and five years	1,370	1,379
Later than five years	1,290	1,628
<b>Total</b>	<b>3,007</b>	<b>3,355</b>
<b>IT services</b>		
Within one year	39	40
Between one and five years	157	160
Later than five years	157	201
<b>Total</b>	<b>353</b>	<b>401</b>

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

## 9. Provisions

	£ 000's	
	2019-20	2018-19
Balance at 1 April 2019	80	132
Released during the year	-	(52)
<b>Balance at 31 March 2020</b>	<b>80</b>	<b>80</b>
Not later than one year	80	80
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. 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 2018-19. This remained the same for financial year 2019-20.

## 10. Related party transactions

As the sponsoring department for the OBR, 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 2019-20 was £397k.

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 the date that the Comptroller and Auditor General (C&AG) certified the accounts.

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.

