

Office for
**Budget
Responsibility**

Annual report and accounts 2011-12

Office for Budget Responsibility: Annual report and accounts 2011-12

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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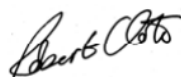
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1 Chairman's message

- 1.1 Welcome to the first Annual Report of the Office for Budget Responsibility, which was established in 2010 to provide independent and authoritative analysis of the UK's public finances. The publication of this report marks the end of our first year as a statutory body under the *Budget Responsibility and National Audit Act 2011*.
- 1.2 The Act states that "it shall be the duty of the Office to examine and report on the sustainability of the public finances". In practice we have four main tasks, each of which we have fulfilled over the past year:
- to prepare and publish the official five-year forecasts for the economy and the public finances that accompany each Budget and Autumn Statement;
 - to assess whether the Government is on course to meet the fiscal targets that it has set itself, and what the risks to meeting those targets are;
 - to scrutinise and comment publicly on the Treasury's assessment of the amount that particular tax and spending measures will raise or cost; and
 - to analyse and report on the health of the public sector's balance sheet and the long-term sustainability of the public finances on existing policies.
- 1.3 In setting about these tasks, our guiding principle has been 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 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.
- 1.4 A second principle has been to recognise explicitly the enormous uncertainty that lies around all analysis of the public finances, both because of uncertainty regarding the path of the economy and uncertainty regarding how much the government will raise and spend in any given state of the economy. In our *Economic and fiscal outlook* publications, for example, we do not simply quantify the uncertainty around our central projections; we use sensitivity and scenario

analysis to explain how different economic and fiscal judgements would affect the public finances.

- 1.5 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. We have surveyed a wide range of stakeholders on the quality of our work to date and I am pleased to report that they express considerable confidence in our independence and impartiality.
- 1.6 In undertaking all our work over the past year, my colleagues on the Budget Responsibility Committee and I would like to express our particular gratitude to the permanent staff of the OBR for all their hard work. We are also grateful to the many officials in government departments and agencies, and to our other outside stakeholders, for their time and patience in helping us fulfil our remit. Any suggestions as to how we might do so more effectively are always welcome.



Robert Chote, Chairman

12 June 2012

2 Non-executive members' assessment

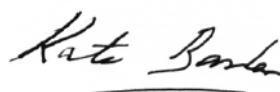
- 2.1 We were appointed to our roles as the non-executive members of the Office for Budget Responsibility in June 2011. Our statutory duties are set out in the *Budget Responsibility and National Audit Act 2011*. This requires us to keep under review the way in which the OBR has performed its main duties. Specifically, we are required in the Annual Report, under Paragraph 15, Schedule 1 of the *Act*, to assess the extent to which the OBR has been able to perform its main duties with complete discretion and in line with the principles of impartiality, objectivity and transparency.
- 2.2 In September 2011 we formed the OBR's Oversight Board and Audit Committee with the members of the Budget Responsibility Committee (BRC). Through these we are able to monitor and assess the OBR's work and its operational and governance arrangements. In addition, we have met with the staff at the OBR and with the individual members of the BRC to review the performance of the OBR over the past year. We have also taken note of feedback received from a number of stakeholders in response to the OBR's end-of-year survey, and the relevant reports of the House of Commons Treasury Select Committee. We are satisfied that the OBR has provided us with all of the necessary information and assistance which we need to fulfil our roles as non-executive members.
- 2.3 The OBR has delivered the core responsibilities as set out in the *Act* through the production of two economic and fiscal forecasts published in the November 2011 and March 2012 *Economic and fiscal outlooks*, an analysis of the sustainability of the public finances in its July 2011 *Fiscal sustainability report*, and an assessment of the accuracy of its previous forecasts in its October 2011 *Forecast evaluation report*. Moreover, it has been able to undertake wider analysis that is relevant to its remit through the publication of working papers, briefing papers and a monthly analysis of the public finances. While there will always be differences of view on the conclusions reached, we judge that all these outputs have generally been seen as robust, authoritative and objective. The OBR's determined stance of full transparency around its analysis and projections has been a particular success which has enhanced the reputation of the organisation.
- 2.4 We are confident that the OBR has been free to use its own discretion in taking judgements and reaching analytical conclusions. The OBR has put in place effective structures and processes for working with Government, and been

transparent about these interactions. The BRC have made clear that they have come under no pressure from Ministers, special advisers or officials to change the conclusions of their analysis.

- 2.5 We are content that the OBR's internal management structures and working practices are effective, and that the OBR currently has the resources, skills and expertise that it needs to meet its objectives. We found that morale amongst staff and the BRC was very good, that people were enjoying their jobs, and that working relationships within the OBR were felt to be positive and effective.
- 2.6 Through the Oversight Board and Audit Committee we have also monitored the OBR's operational risks. The key operational risks are around the accidental loss or leak of confidential material, or the loss of IT services and/or access to office space ahead of delivery of major reports. In their first full year of operation we asked the OBR staff to focus on developing their risk management strategies in these areas, and asked the internal auditors to assess these plans. This has provided us with reassurance that effective plans are in place. The internal audit review made some suggestions for improvements in some processes, which we will ensure are implemented.
- 2.7 Our overall assessment therefore is that the OBR has made an excellent start in the performance of its duties in line with the principles of impartiality, objectivity and transparency. The challenge for the OBR will be to sustain this very successful start. The key issues will be to ensure that it can maintain the right level and mix of skills and experience within the staff and members of the BRC and to ensure the effective maintenance and development of the forecasting infrastructure, such as the macroeconomic model. We will continue to monitor the outputs and operations within the OBR to ensure that we can provide guidance and challenge wherever necessary.
- 2.8 The governance arrangements of the OBR have only been in place since the middle of 2011. Over the coming year we will continue to develop the role of the Oversight Board and Audit Committee. Looking further ahead, we will commission a more detailed external review on the reports produced by the OBR within the preceding five-year period, before the end of 2015, as required by the Act.



Lord Burns



Kate Barker

Non-executive members of the Office for Budget Responsibility, 12 June 2012

3 Management commentary

Aims and objectives

3.1 The Office for Budget Responsibility (OBR) provides independent and authoritative analysis of the UK's public finances. We are a Non-Departmental Public Body and became a statutory body on 4 April 2011 following Royal Assent of the *Budget Responsibility and National Audit Act 2011*.¹ Prior to Royal Assent the OBR existed as a non-statutory body from 17 May 2010.

3.2 The *Budget Responsibility and National Audit Act 2011* requires the OBR to examine and report on the sustainability of the public finances. This is a broad remit which allows us to analyse the public finances from a multitude of angles. We have complete discretion to set our own work programme, subject to meeting the following core annual requirements and guidance set out in the *Act* and the accompanying *Charter for Budget Responsibility*:²

- the production of at least two fiscal and economic forecasts, in each case accompanied by an assessment of the extent to which the Government's fiscal mandate has been, or is likely to be, achieved. The *Charter* sets out that the Government intends to adopt the OBR's forecasts as the official forecasts for the annual Budget;
- an assessment of the accuracy of its previously prepared fiscal and economic forecasts; and
- an analysis of the sustainability of the public finances.

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

¹ <http://www.legislation.gov.uk/ukpga/2011/4/enacted>

² http://budgetresponsibility.independent.gov.uk/wordpress/docs/charter_budget_responsibility040411.pdf

- 3.4 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.

People and structure

- 3.5 The OBR is comprised of five members: the Budget Responsibility Committee (BRC) – Robert Chote (Chairman), Stephen Nickell and Graham Parker; and two non-executive members – Lord Burns and Kate Barker. Short biographies of the OBR members are provided below. The OBR currently employs a staff of 17 to provide analytical and corporate support, led by the Head of Staff – Tom Josephs.
- 3.6 The BRC is solely responsible for the delivery of the OBR’s core responsibilities set out in paragraph 3.2. 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. Further details on our governance structures are set out in Chapter 6.
- 3.7 Appointments to the BRC are made by the Chancellor of the Exchequer, with the agreement of the Treasury Select Committee. The Chair of the BRC is required to be consulted by the Chancellor of the Exchequer for appointments to the two other positions on the BRC. The non-executive members are nominated by the OBR and appointed by the Chancellor of the Exchequer. The initial appointments to the non-executive members’ positions were made by the Chancellor, in consultation with the Chair of the BRC.
- 3.8 Between May 2010 and October 2010 the interim OBR was led by a temporary BRC, chaired by Sir Alan Budd, alongside Geoffrey Dicks and Graham Parker.
- 3.9 Robert Chote was appointed by the Chancellor as the first permanent Chairman of the BRC after an open competition in October 2010. The two remaining permanent members of the BRC, Graham Parker and Stephen Nickell, were appointed by the Chancellor after an open competition in November 2010. These appointments were approved by the Treasury Select Committee. The OBR’s first non-executive members, Lord Burns and Kate Barker, were appointed in June 2011.

The Budget Responsibility Committee

Robert Chote, Chairman



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

He is a member of the Finance Committee of the University of Cambridge and a Governor of the National Institute for Economic and Social Research.

Professor Stephen Nickell CBE

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

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



Graham Parker CBE

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



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

Non-executive members

Lord Burns

Lord Burns is non-executive Chairman of Santander UK plc and a non-executive director of Banco Santander S.A. He is also Chairman of Channel Four Television Corporation. He is a former Chief Economic Adviser and Permanent Secretary to HM Treasury, Chairman of Marks and Spencer plc and Welsh Water, and Independent Adviser to the Secretary of State on the BBC Charter Review. Lord Burns is also Chairman of the Governing Body of the Royal Academy of Music.



Kate Barker CBE



Kate Barker is presently a Senior Adviser to Credit Suisse, and a non-executive director of Electra Private Equity plc, Taylor Wimpey plc and the Yorkshire Building Society. Previously, Kate Barker was a member of the Monetary Policy Committee of the Bank of England from 2001 until 2010. During this period, she also led two major policy reviews for the Government, on housing supply and on land use planning. Before joining the MPC she was Chief Economic Adviser at the CBI.

- 3.10 Appointments to the BRC will usually be for a period of five years and may be renewed once. Non-executive member's appointments will typically be for three years and may also be renewed once. Special arrangements are in place for the first appointed members of the OBR in order to ensure future appointments are staggered. The duration of contracts for members is set by the *Budget Responsibility and National Audit Act 2011* and further detail is provided within the *OBR and HMT Framework Document*.³

Members' contract lengths and expiry dates

Member		
Robert Chote	5 years	3 October 2015
Stephen Nickell	3 years	25 October 2013
Graham Parker	4 years	25 October 2014
Lord Burns	4 years	20 June 2015
Kate Barker	3 years	20 June 2014

³ http://budgetresponsibility.independent.gov.uk/pubs/obr_framework040411.pdf

Staff

- 3.11 The OBR currently has 17 permanent staff members. Members of staff are all civil servants and are currently all permanent employees of the OBR rather than seconded from other departments. All staff members report to and are accountable to Robert Chote as Chairman of the BRC. When the OBR was first established a number of our staff were transferred from HM Treasury under Cabinet Office guidelines. Since then our staff have been recruited on open competition from the wider Civil Service and other organisations.
- 3.12 The staff are led by the Head of Staff, Tom Josephs. There are currently five analysts working on the macroeconomic forecast, five working on the public finances forecast, and four working on policy costings, long-term fiscal sustainability and other analytical projects. Two members of staff work on the OBR's operations, finances, office management, website and the project management of the production of our reports and associated press events.

Advisory Panel

- 3.13 The OBR has established a seven-person panel of outside experts to give regular advice on its work programme and methods.
- 3.14 The members of the Advisory Panel are: Ben Broadbent, member of the Monetary Policy Committee at the Bank of England; Wendy Carlin, Professor of Economics at University College London; Carl Emmerson, Deputy Director at the Institute for Fiscal Studies; John Llewellyn, Principal at Llewellyn Consulting; Andrew Scott, Professor of Economics and Deputy Dean at the London Business School; Peter Spencer, Professor of Economics and Finance at the University of York; and Simon Wren-Lewis, Professor of Economics at Oxford University.
- 3.15 The Advisory Panel meets at least annually to discuss technical and methodological aspects of the OBR's work and is also consulted on an ad-hoc basis through the year. We will continue to review the frequency of these meetings as our work programme develops. Members of the panel are not involved in the production of the OBR's economic and fiscal forecasts. The members advise the OBR on a pro bono basis.

Achievements since our establishment

3.16 This is our first annual report covering our first year as a statutory body since April 2011. We first briefly summarise the main achievements of the non-statutory OBR in 2010-11.

Achievements in 2010-11

3.17 The OBR was established on a non-statutory and interim basis in May 2010 and published two forecasts, the June 2010 Pre-Budget Forecast and the June 2010 Budget forecast. Sir Alan Budd, the Chairman of the interim OBR, also provided recommendations for the construction of the permanent body to the Chancellor of the Exchequer.

3.18 The permanent OBR was formed in autumn 2010 with the appointment of Robert Chote, Graham Parker and Stephen Nickell to the BRC. We then published two further economic and fiscal forecasts, in our November 2010 and March 2011 *Economic and fiscal outlooks*. We also scrutinised the Government's costing of new policy measures in the October 2010 Spending Review and the March 2011 Budget. We published our first Briefing Paper: *Forecasting the public finances* in January 2011 and our first Discussion Paper: *What should we include in the Fiscal Sustainability Report?* in March 2011.

3.19 The publication over 2010-11 of four economic and fiscal forecasts and the certification of Government policy costings was a significant challenge requiring extensive analytical and presentational work. It also required close interaction with officials in a number of government departments, in particular HM Revenue and Customs, the Department for Work and Pensions and HM Treasury, which required considerable work on project management and planning. Over this period work began on agreeing a memorandum of understanding governing working arrangements between the OBR and these departments.

3.20 A number of the OBR's governance and operational arrangements were agreed in 2010-11. In October 2010 we agreed our four year budget settlement with HM Treasury. We moved out of temporary accommodation at the Treasury into permanent offices at 20 Victoria Street, London in December 2010. We also established our Advisory Panel in March 2011.

Achievements in 2011-12

3.21 The OBR became a statutory body on 4 April 2011 following Royal Assent of the *Budget Responsibility and National Audit Act 2011*. Alongside the Act, the OBR and HM Treasury published the *OBR and HMT Framework Document* which sets out our governance and financial management arrangements. We also jointly

published the *Memorandum of Understanding between OBR, HMRC, DWP and HM Treasury* which sets out the arrangements needed for effective working on the economic and fiscal forecasts.⁴ This covers each institution's key responsibilities, coordination of the forecast process, and the process for information sharing.

- 3.22 Our governance arrangements were finalised with the appointment of Lord Burns and Kate Barker as non-executive members in June 2011 and the first meeting of our Oversight Board and Audit Committee in September 2011.

Core responsibilities

- 3.23 In 2011-12 we fulfilled our statutory core responsibilities through the publication of the following reports:

- the Autumn 2011 and March 2012 *Economic and fiscal outlooks* set out our latest economic and fiscal forecasts and assessments of the likelihood that the Government will meet its fiscal mandate.⁵ In the autumn 2011 *EFO* we made a significant downgrade to our economic and fiscal forecast, reflecting the weakness of the economy since the 2008 recession. In response the Government reduced spending plans in the later years of the forecast period to ensure it remained on track to achieve its fiscal targets. In the March 2012 *EFO* we judged that the economic and fiscal outlook was broadly unchanged from November. In the March *EFO* we also scrutinised and certified all of the Government's Budget policy costings;
- our first *Fiscal sustainability report (FSR)* was published in July 2011.⁶ In this we set out long-term projections of tax and expenditure under current policy settings, which suggested that the public finances are likely to come under pressure over the longer term primarily as a result of an ageing population. We found that pressures on health spending from demography and productivity were a particular risk to long-term sustainability. We also assessed the additional information on public sector balance sheets provided by the first publication by the Government of the Whole of Government Accounts; and
- our first *Forecast evaluation report (FER)* was published in October 2011.⁷ It contained an assessment of how our *June 2010 Budget forecast* for the

⁴ http://budgetresponsibility.independent.gov.uk/pubs/obr_memorandum040411.pdf

⁵ <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/>

⁶ <http://budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2011/>

⁷ <http://budgetresponsibility.independent.gov.uk/forecast-evaluation-report-october-2011/>

preceding financial year compared to the latest published outturn. On the basis of this analysis it set out areas in which our forecasts could be improved and identified the local authority expenditure forecast as a particular risk.

- 3.24 An additional statutory responsibility which we have been given this year, as a result of the *Scotland Act 2012*, is to forecast Scottish receipts from a number of taxes – Scottish income tax, landfill tax, stamp duty land tax and aggregates levy – which the Government intends to devolve to the Scottish Parliament from April 2015 onwards.
- 3.25 We published a methodology note – *Forecasting Scottish taxes* – on 13 March this year which described how we would forecast Scottish tax receipts.⁸ We worked on this document with HMRC officials and with officials from the Scottish Government. We then published our first Scottish forecasts alongside the March *EFO* consistent with the main UK forecast it contains. We will update these forecasts at each subsequent *EFO*.

Wider analysis

- 3.26 We supplement our core outputs with wider analysis which supports our key objective of examining and reporting on the sustainability of the public finances. In 2011-12 we published two working papers, three briefing papers and started a monthly commentary on the ONS/HMT public sector finance release.⁹
- 3.27 Our briefing papers provide in-depth explanations on how we conduct our analysis.¹⁰ In April 2011 we published *Briefing paper No. 2 – Estimating the output gap* which explains how we estimate the output gap – one of the key variables in our economic and fiscal forecasts. In October 2011 we published *Briefing paper No 3 – Forecasting the economy* which describes the way our medium-term macroeconomic forecasts are put together.
- 3.28 Our working papers aim to inform discussion and take a detailed look into particular areas of interest which have important implications for our forecasts.¹¹ We produced our first two working papers in November 2011. *Estimating the UK's historical output gap* in which we used our cyclical indicators approach to estimate an output gap from 1972-2011. The estimates are broadly in line with

⁸ <http://budgetresponsibility.independent.gov.uk/pubs/Forecasting-Scottish-taxes.pdf>

⁹ <http://budgetresponsibility.independent.gov.uk/category/topics/monthly-public-finance-data/>

¹⁰ <http://budgetresponsibility.independent.gov.uk/category/publications/briefing-papers/>

¹¹ <http://budgetresponsibility.independent.gov.uk/category/publications/working-papers/>

those produced by external analysts using alternative approaches. *The long-run difference between RPI and CPI inflation* explains why we expect the long-run wedge between these two measures of inflation to be wider than previously assumed. This has implications for our public finances forecast as different measures of inflation are used to up-rate different parts of the tax and benefit system.

- 3.29 In April 2011 we began a monthly commentary on the ONS/HMT public sector finances release. In this we aim to explain the development of the public finances through the year whilst highlighting any special factors affecting the numbers and commenting on variations from our most recent forecasts.

Communications and stakeholder engagement

- 3.30 We launched our new website in April 2011 which provides access to all of our reports, additional data sets providing further detail on our forecasts, as well as details on our role, structure and staff, and management and financial information and disclosures. We will look to develop this further by providing additional data sets on the public finances over the coming year.
- 3.31 The BRC and OBR staff have made numerous presentations to a wide range of external audiences through the year both on the role of the OBR and on our analysis and forecasts. We have held a televised press conference after the publication of each *EFO*, and the *FSR*. Presentations have been given, among others, to: the Government Economics Service, the French Tresor, the Welsh Government, the Scottish Government, the Northern Ireland executive, the Top 200 group of civil servants, the Institute for International Finance in Washington DC, the German Embassy, the TUC, the Parliamentary Mainstream group of Conservative MPs, the Irish Fiscal Council, the David Hume Institute and business audiences in Belfast and Manchester. The Chairman also delivered the Royal Economic Society's annual public lecture in London and Birmingham.
- 3.32 We also engage widely with external analysts ahead of the production of our main reports in order to inform our internal work, though the judgements and conclusions of all our analysis are solely the responsibility of the BRC. As well as meetings with relevant analysts in government departments, this year we have engaged with external institutions including the Bank of England, the Financial Services Authority, the National Institute of Economic and Social Research, the Institute for Fiscal Studies, the Office for National Statistics and the National Audit Office. We have also held meetings with government economists in Wales and Scotland. We have discussed our analysis with experts from international organisations including the International Monetary Fund, the Organisation for Economic Cooperation and Development, and the European Commission.

- 3.33 We are accountable to Parliament primarily through appearances at the Treasury Select Committee which have been held after the publication of both of our EFOs, in November 2011 and March 2012. The transcripts can be found via our website.¹² The Chairman also appeared before the Scottish Parliament Finance Committee. We have also answered eight written Parliamentary questions this year, which can be found on our website.
- 3.34 We recently invited some of our stakeholders to provide feedback on our publications, communications and independence. The main messages from this feedback have been reflected in the non-executive members' assessment and Chairman's message in this report. We will further review the feedback that we have received in order to inform improvements to the content and structure of our publications and the way in which we work and communicate with our stakeholders.

Operations

- 3.35 2011-12 was the first full year of the OBR's operation as a statutory public body. Our financial management and oversight arrangements were established in the *Framework document* drawn up by the Treasury and agreed with the OBR. Key elements of the arrangements are described in Chapter 6. Our sponsor department is HM Treasury and we are funded via a delegated budget from the Treasury. The Chairman of the OBR is designated as the Accounting Officer responsible for the effective management of public funds.

Service agreements

- 3.36 We share our workspace and accommodation with the Attorney General's Office (AGO) at 20 Victoria Street. As part of this arrangement, we also pay a share of the cost of the AGO's service contracts for security and facilities management. Our IT infrastructure and maintenance is also delivered via the AGO network. We work together with the AGO to ensure that both departments continue to achieve value-for-money in the procurement of shared services.
- 3.37 As a small organisation, to ensure value-for-money, we contract administrative human resources, finance, accounting, procurement and payroll services from HM Treasury. These services are outlined within a Service Level Agreement (SLA) between HM Treasury and the OBR.

¹² <http://budgetresponsibility.independent.gov.uk/transparency/evidence-to-parliament/>

Finance performance measurables

- 3.38 As part of the Treasury Group the OBR is committed to the central government target of paying valid invoices within 5 days of receipt. In the reporting period 88 per cent of invoices which the OBR have received have been paid within the target time of five days. The OBR intends to continue to improve its performance against this objective over the following year.

Sickness absence

- 3.39 During the period ending 31 March 2012 the average number of working days lost due to sickness absence was 0.75 days per FTE.

Personal data incidents

- 3.40 There were no personal data related incidents for the period ending 31 March 2012.

Financial instruments

- 3.41 The OBR is not exposed to liquidity, interest rate or currency risk. Details of financial assets and liabilities are provided in the notes to the accounts.

Pension liabilities

- 3.42 Civil service employees of the OBR are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The details of this and pension liabilities are given in the accounting policy notes. Details of pension arrangements for office holders are contained in the remuneration report.

Register of interests

- 3.43 The OBR maintains a register of interests for office holders, which has been provided to the external auditors.

Sustainability

- 3.44 The OBR works with the Attorney General's Office to agree priorities for ensuring that the environmental impact of our building and operations are minimised. The 20 Victoria Street Sustainability Group has agreed a number of initiatives, which we hope will improve the sustainability of both our operations as well as reducing the overall shared cost of accommodation.

Financial summary

- 3.45 The OBR is funded via Grant-in-Aid from HM Treasury's supply estimate, which is subject to Parliamentary control. The OBR is separately identified on the face of the Treasury estimate. The OBR agreed a four year, flat cash funding allocation of £1.75 million per year with the Treasury at the time of the 2010 Spending Review.
- 3.46 The accounting period for the OBR's first year of operation commenced on 4 April 2011, when the legislation which created the OBR as a legal entity came into force, and ended 31 March 2012. In that period staff costs accounted for £1.25 million of expenditure and non-pay costs amounted to £0.46 million. The OBR's net expenditure for the period totalled £1.7 million.
- 3.47 The vast majority of our non-pay expenditure funds our share of the cost-sharing agreement with the Attorney General's office. The total cost to the OBR in 2011-12 under this agreement has been £340,000. This total includes our share of the building rent, service charges, council tax rates, utilities, security, maintenance, telephones, IT hardware and IT support.

Accounts direction

- 3.48 The financial statements have been prepared in accordance with a Direction issued by HM Treasury under Paragraph 18, Schedule 1 of the *Budget Responsibility and National Audit Act 2011*.

Going concern

- 3.49 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. The supply estimate for 2012-13 (*Supply and Appropriation (Anticipation & Adjustments) Act 2012*) indicates that the OBR will continue to receive funding support from HM Treasury.

Auditors information

- 3.50 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*. His certificate and report appear in Chapter 7. The audit fee charged was £22,000. The auditors received no fees for non-audit services. The auditors have been provided with all relevant audit information necessary to complete their audit and the Accounting Officer has taken all of the necessary steps to ensure that the auditors are aware of any relevant information.

4 Remuneration report

Members' remuneration

- 4.1 The table below reports the remuneration of each member of the Budget Responsibility Committee. Members' remuneration is set by the Treasury on appointment. Current members' letters of appointment, which include detailed remuneration arrangements, were published on the OBR website in April 2011. As stipulated in the letters of appointment, the BRC are not entitled to any bonus payments.
- 4.2 The non-executive members of the OBR do not receive any fees.
- 4.3 All of the members of the BRC are subject to the deduction of appropriate taxes via the PAYE system.

Fees and benefits of senior management (audited)

Name	Full year salary equivalent (£000)	2011-12	
		Amount paid in reporting period (£000)	Benefits in kind (nearest £100)
Robert Chote Chairman (04/04/11 onwards)	142	141	-
Stephen Nickell BRC member (0.6 FTE) (04/04/11 onwards)	69	68	-
Graham Parker BRC member (0.6 FTE) (04/04/11 onwards)	69	68	-

Pensions

- 4.4 As part of his contractual terms, Robert Chote receives a payment equivalent to 20 per cent of his annual fee into his personal pension scheme, which amounts to £28,400 on a full year equivalent basis.
- 4.5 The OBR does not pay into the Civil Service Pension Scheme on behalf of any of the members of the BRC.

Expenses

- 4.6 The OBR publishes a record of travel and subsistence expenses for BRC members on its website on a quarterly basis. The OBR has incurred a cost of £834 for Robert Chote's travel and subsistence expenses over the period. These figures do not include expenses which have been claimed and subsequently recovered from a third party. No other member of the OBR made any claims for expenses.

Staff remuneration

- 4.7 The OBR's staff are civil servants and pay arrangements are governed by the policy framework set out by the Cabinet Office and HM Treasury. Total pay cost for OBR staff members in 2011-12 was £903,000. This includes a pot of £17,750 for non-consolidated performance-related payments available to the OBR's non-senior civil service staff. The Oversight Board is responsible for overseeing the pay remit for OBR staff.

Pay relativity

- 4.8 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.
- 4.9 The remuneration of the highest-paid director in the OBR in the period to 31 March 2012 was £142,000 on a full year equivalent basis. This was 2.9 times the median remuneration of the workforce, which was £49,000. The median salary includes the full year equivalent salary of all staff in post as at 31 March 2012.
- 4.10 In 2011-12, no employees received remuneration in excess of the highest-paid director.
- 4.11 Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.



Robert Chote, Chairman

12 June 2012

5 Statement of Accounting Officer's responsibilities

- 5.1 Under Paragraph 18, Schedule 1 of the *Budget Responsibility and National Audit Act 2011*, HM Treasury has directed the Office for Budget Responsibility (OBR) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.
- 5.2 The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OBR and of its income and expenditure, changes in taxpayers equity and cash flows for the financial year.
- 5.3 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:
- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
 - prepare the accounts on a going concern basis.
- 5.4 The Accounting Officer of HM Treasury has designated the Chairman as Accounting Officer of the OBR.
- 5.5 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 the HM Treasury.



Robert Chote, Chairman

12 June 2012

6 Governance Statement

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

Governance structures

- 6.2 Corporate governance structures within the OBR are framed by the requirements of the *Budget Responsibility and National Audit Act 2011*, which sets out the legal duties of the OBR and the functions and broad governance structure of the Office. In support of the primary legislation, the *Office for Budget Responsibility and HM Treasury Framework Document*, available on our website, 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.
- 6.3 Our governance structure has been designed, where relevant, to be consistent with the principles of the *Corporate Governance Code of Good Practice for Central Government Departments*, published by HM Treasury.¹ Smaller non-ministerial bodies, such as the OBR, are encouraged to adopt the practices set out in the Code, which is primarily aimed at ministerial departments. We have reviewed our governance arrangements and are satisfied that they comply with the principles and practices set out in the Code.

The Oversight Board

- 6.4 The Act requires the Office to appoint five members, the three executive members of the Budget Responsibility Committee (BRC) and the two non-executive members. The five members of the OBR have established the OBR's Oversight Board, as required by the *OBR/HM Treasury Framework document*. Consistent with best practice the Oversight Board is chaired by one of the non-executive members, currently Lord Burns.

¹ http://www.hm-treasury.gov.uk/d/corporate_governance_good_practice_july2011.pdf

6.5 The Board's terms of reference are published on the OBR's website.² 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.

6.6 The first meeting of the Oversight Board took place in September 2011. All members attended the scheduled meetings of the Oversight Board over 2011-12. Minutes of the meetings are published on the OBR website.

The Audit Committee

6.7 The Audit Committee is a sub-committee of the Oversight Board. The Audit Committee consists of the two non-executive members and is chaired by Kate Barker. The terms of reference for the Audit Committee are published on the OBR website. Its function is to provide advice to the Oversight Board and the Accounting Officer on the appropriateness and adequacy of risk management, internal controls and governance arrangements.

6.8 The first meeting of the Audit Committee took place in September 2011. All members attended the two scheduled meetings of the Audit Committee over 2011-12. Minutes of all meetings of the Audit Committee are also published on the OBR website.

Executive management

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

Risk management

6.10 The main risks the OBR faces are around 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 which 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 less significant as the OBR is a small organisation with a small fixed budget which is primarily spent on staff and accommodation costs.

² <http://budgetresponsibility.independent.gov.uk/transparency/governance/>

- 6.11 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 closely involved in the identification of risks. There is clear ownership and responsibilities for managing risks.
- 6.12 The Head of Staff is responsible for compiling and maintaining a register of the key risks facing the organisation. All members of staff and the BRC are consulted in identifying these risks. The register is discussed in detail at each Board/Audit Committee meeting and a mitigation strategy has been agreed for each risk. I am responsible with the Head of Staff for ensuring the mitigation strategies are implemented and reporting back to the Board/Audit Committee. We also ensure that staff and the BRC are regularly consulted on any new risks.

Analytical risks

- 6.13 The key risks we face are related to the successful delivery of our core responsibility to produce independent and authoritative analysis of the sustainability of the public finances.
- 6.14 We are a small organisation and so it is important that we have appropriate skills and experience within the OBR staff and that we are able to draw on relevant external analysis, while ensuring the judgments we take are solely those of the BRC. I am assured that we currently have the resources we need to meet our objectives, and this is also the view of our non-executive members. The potential loss of experienced staff members, an increase in the demands placed on our staff and the effective maintenance and development of the forecasting infrastructure, such as the macroeconomic model, are risks that the Board and management of the OBR are focused on mitigating. To ensure we are open to external analysis we have set up an Advisory Panel and we consult widely with stakeholders and outside analysts, as set out in Chapter 3.
- 6.15 The disaggregated nature of the public finances forecast means we also require close and effective working with experts in a number of government departments. To mitigate the risks around this process we have agreed a *Memorandum of Understanding* with the key government departments involved in our work which sets out roles and responsibilities, coordination of the forecast process, and the process for information sharing. I chair a regular meeting of senior officials from the key departments to ensure effective working. If I have concerns around these working relationships I have recourse under the *Memorandum of Understanding* to raise issues with the relevant departmental Permanent Secretaries. I have not had any reason to raise any issues regarding these relationships under this mechanism so far.


- 6.16 It is central to our objective that our analysis and judgements are produced independently from Ministers and perceived to be so by the public. The *Memorandum of Understanding* 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. To date we have come under no pressure from Ministers, advisers or officials to change any of our conclusions.

Finance and operational risks

- 6.17 Our budget is small at £1.75 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 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.
- 6.18 Our financial management services are provided by HM Treasury. I have received assurance from the Treasury Group Director of Finance that he is content that the processes which are in place under the shared agreement are sound from their perspective and that we can be assured that they know of nothing which might be compromising our management of public funds.
- 6.19 We have appointed a qualified financial adviser who attends our Board and Audit Committee meetings. Our current financial adviser is also the Deputy Director of Finance at HM Treasury. In her capacity as our financial adviser she is accountable to me. This arrangement is operationally efficient and represents value-for-money given that the OBR contracts administrative finance services from HM Treasury. The Board considers an update report on our finances at each meeting. We asked Internal Audit to assess the internal procedures that we have established this year for processing financial transactions and monitoring the management accounts. They found that these are reasonably sound and made some suggestions for developments which we will take forward.
- 6.20 The key operational risks we face are the accidental loss or leak of confidential material, or the loss of IT services and/or access to our office space, ahead of delivery of our major reports. We have developed a business continuity plan and subscribe to back-up IT facilities and office space. We asked Internal Audit to assess these arrangements who found that they are reasonably sound and made some suggestions for developments which we will take forward. We have established a robust security policy to mitigate the risks of accidental loss or leak of confidential material.

Opinion on effectiveness of governance arrangements

- 6.21 This is our first year as a statutory body and so our structures and internal processes are still relatively new. The internal and external audit reports and the views of our non-executive members give me assurance that the structures and processes that we have developed are generally well designed and provide effective governance and risk management. We will take forward the recommendations for improvements that have been made and will continue to develop our governance and risk management as appropriate to meet the needs of our organisation.



Robert Chote, Chairman

12 June 2012

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

- 7.1 I certify that I have audited the financial statements of the Office for Budget Responsibility for the period ended 31 March 2012 under the Budget Responsibility and National Audit Act 2011. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Budget Responsibility Committee, Accounting Officer and auditor

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

Scope of the audit of the financial statements

- 7.3 An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Office for Budget Responsibility's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Office for Budget Responsibility; and the overall presentation of the financial statements. In addition I read all the

financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

- 7.6 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 2012 and of the net expenditure for the period then ended; and
 - the financial statements have been properly prepared in accordance with the Budget Responsibility and National Audit Act 2011 and HM Treasury directions issued thereunder.

Opinion on other matters

- 7.7 In my opinion:
- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Budget Responsibility and National Audit Act 2011; and
 - the information given in the Management Commentary for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

7.8 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 part of the Remuneration 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

7.9 I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

13 June 2012

National Audit Office

157-197 Buckingham Palace Road

Victoria

London SW1W 9SP

8 Financial statements

4 April 2011 – 31 March 2012

Statement of Comprehensive Net Expenditure

for the period ended 31 March 2012

	Note	2011-12 £000
Expenditure		
Staff costs	3.1	1,245
Other expenditure	4	460
		<u>1,705</u>
Income		
Other income	5	(1)
		<u>(1)</u>
Net expenditure		<u>1,704</u>

There were no items of other comprehensive expenditure.

Statement of Financial Position as at 31 March 2012

	Note	2011-12 £000
Current assets		
Receivables due within one year	7	31
Cash and cash equivalents	8	362
Total current assets		393
Current liabilities		
Payables due within one year	9	(252)
Total current liabilities		(252)
Net current assets		141
Assets less liabilities		141
Taxpayers' equity		
General fund		141
Total taxpayers' equity		141

The financial statements were approved on 12 June 2012.



Robert Chote, Chairman

12 June 2012

Statement of Cash Flows

for the period ended 31 March 2012

	Note	2011-12 £000
Cash flows from operating activities		
Net operating cost		1,704
Adjustment for non-cash transactions		-
Changes in working capital other than cash		(221)
Net cash outflow from operating activities		1,483
Cash flows from investing activities		
		-
Cash flows from financing activities		
Grant-in-Aid from HM Treasury		(1,845)
Net financing		(1,845)
Net increase in cash and cash equivalents in the period	8	362
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	8	362

Statement of Changes in Taxpayers' Equity

for the period ended 31 March 2012

	General Reserve £000
Balance at 4 April 2011	-
Grant-in-Aid from HM Treasury	1,845
Comprehensive expenditure for the year	(1,704)
Balance at 31 March	141

The notes on pages 34 to 41 form part of these accounts.

Notes to the Accounts

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

1. Statement of accounting policies

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM).¹ The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Office for Budget Responsibility for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Office for Budget Responsibility 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 2011, that have an effective date of application of 1 April 2011, or earlier.

The following standards, amendments and interpretations are issued but not yet effective for the financial year beginning 1 April 2011 and have not been adopted early:

- IAS 1 Presentation of financial statements (Other Comprehensive Income)
- IFRS 13 Fair Value Measurement
- IPSAS 32 Service Concession Arrangement

The Office for Budget Responsibility has reviewed the effects that new accounting standards are expected to have, and does not consider them to affect the existing disclosures subject to HM Treasury consultation on FReM application.

¹www.hm-treasury.gov.uk/frem_index.htm

1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention. As it is the first year of the Office for Budget Responsibility's operation as a separate entity from HM Treasury there are no comparative figures.

1.2 Tangible and intangible non-current assets

Property, plant and equipment and intangible non-current assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000.

Subsequently, assets are valued at historical cost less accumulated depreciation. This is a suitable proxy for fair value and is allowable per the FReM for those assets with short useful lives or low values. This includes assets held as fixtures and fittings, IT equipment and intangible non-current assets.

1.3 Depreciation

If the Office for Budget Responsibility were to have any fixed assets the charge for depreciation is calculated to write down the cost or valuation of fixed assets to their estimated residual values by equal instalments over their estimated useful lives, which are as follows:

Furniture, fixtures and fittings	Lesser of 5 to 10 years or outstanding lease term
Office and other non-IT equipment	3 to 5 years
Leasehold improvements	Over the lease term
Computer and telecom hardware, software and licences	3 to 10 years
Other plant and machinery	5 to 15 years

1.4 Financing

The Office for Budget Responsibility 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 Office for Budget Responsibility from HM Treasury in the financial year 2011-12 was £1,845,000. This total represents the cash requirement within the reporting period and the carry over of a cash balance into the following financial year.

1.5 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in note 3.2, cover the majority of past and present employees. The defined benefit scheme within the PCSPS is unfunded and is contributory. The Office for Budget Responsibility recognises the expected cost of future pension liabilities in a systematic and rationale basis over the period during which it

benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

1.6 Employee benefits

The Office for Budget Responsibility has provided for the cost of accumulating compensated absences. This is accounted for when an employee renders services that increase their entitlement to future compensated absences. It is calculated based on pay and Employers' National Insurance Contributions.

1.7 Financial instruments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Net Expenditure when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

Trade payables are recognised initially at fair value.

Cash and cash equivalents comprise cash in hand, demand deposits and other short term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.8 Leases

Leases are classified as either finance or operating leases in accordance with IAS 17 Leases. The distinction depends on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee. Leases in which a significant proportion of the risks and rewards of ownership are transferred to the lessor are classified as finance leases, other leases are classified as operating leases. The Office for Budget Responsibility has not entered into any finance lease arrangements. Operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease. In disclosure of future commitments, no account is taken of inflationary effects until these are informed to the Office for Budget Responsibility by the provider.

2. Statement of operating costs by operating segment

The operating segment analysis is reported in a manner consistent with the internal reporting provided to the Office for Budget Responsibility board. The

board has been identified as the chief operating decision maker, in accordance with accounting standards.

As at 31 March 2012, the Office for Budget Responsibility was reported internally as one segment.

3. Staff numbers and related costs

3.1 Analysis of total staff costs

	2011-12 Permanent staff £000
Wages and salaries	991
Social security costs	91
Other pension costs	163
Total costs	1,245

The costs disclosed above include those for one FTE under the category of 'other staff'. This has not been disclosed separately in order to protect the personal information of the individual.

3.2 Pension schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which the Office for Budget Responsibility is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2011-12, employers' contributions of £134,000 were payable to the PCSPS at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1,000 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent of

pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

Payments towards the pension costs of the Chairman were £28,000. The nature of these payments is disclosed in the remuneration report on page 17.

3.3 Average number of persons employed

The average number of full-time equivalent persons employed during the year was as follows:

	2011-12
	Number of staff
Directly employed (permanent)	17.5
Other	1
Total	18.5

4. Other expenditure

	2011-12
	£000
Accommodation costs	209
Printing and office services	86
IT costs	74
Contracted out services	34
External auditor's remuneration	22
Staff support and staff-related costs, including training and travel	18
Analytical consultancy provided by the Government Actuary's Department for input into the <i>Fiscal sustainability report</i>	17
Total	460

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

5. Income

The Office for Budget Responsibility has received income of £1,000 within the reporting period. This income relates to the reimbursement of travel and accommodation costs for employees of the Office for Budget Responsibility attending meetings on behalf of the organisation at the European Commission and Office for Economic Cooperation and Development (OECD).

6. Financial instruments

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

7. Receivables

	2011-12
	£000
Amounts falling due within one year	
Taxation and social security	20
Deposits and advances	1
Other receivables	10
Sub-total: Passing through the Statement of Comprehensive Net Expenditure	31
Total due within one year	31
Total due after more than one year	-
Total receivables	31
<i>Of which:</i>	
<i>Balances with other central government bodies</i>	30
<i>Balances with bodies external to government</i>	1

8. Cash and cash equivalents

	2011-12
	£000
Balance at 4 April	-
Net change in cash balances – inflow	362
Balance at 31 March 2012	362
The following balances were held at 31 March:	
Government Banking Service	362
Balance at 31 March 2012	362

9. Payables and other current liabilities

	2011-12
	£000
Amounts falling due within one year	
Taxation and social security	30
Other payables	16
Accruals	206
Total falling due within one year	252
<i>Of which:</i>	
<i>Balances with other central government bodies</i>	<i>141</i>
<i>Balances with bodies external to government</i>	<i>111</i>

There are no payables due after one year.

10. Commitments and Leases

The Office for Budget Responsibility has neither entered into any capital commitments nor any non-cancellable contracts.

The Office for Budget Responsibility leases its office space from the Attorney General's Office (AGO) by means of an agreement as set out within a Memorandum of Terms of Occupation. This covers both the provision of accommodation and office services. The agreement runs for a period of 6 years from 13 December 2010. Costs are assumed to be fixed over the remainder of the agreement. Obligations over the lease period comprise:

	2011-12
	£000
Accommodation	
Not later than one year	214
Later than one year and not later than five years	795
Later than five years	-
	1,009
Office services	
Not later than one year	120
Later than one year and not later than five years	446
Later than five years	-
	566

11. Related party transactions

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

The Office for Budget Responsibility has ongoing transactions with the Attorney General's Office (AGO) relating to an arrangement through which AGO recharges the Office for Budget Responsibility in respect of costs for accommodation and IT services.

The Office for Budget Responsibility had transactions with the Government Actuary's Department in relation to analytical consultancy provided in relation to the *Fiscal sustainability report*.

No board member, key manager or other related party has undertaken any material transactions with the Office for Budget Responsibility.

12. Events after the reporting period

There were no significant events after the reporting period.

13. Date authorised for issue

The financial statements were authorised for issue on 13 June 2012.

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.

The OBR is located at 20 Victoria Street, London SW1H 0NF

Website: <http://budgetresponsibility.independent.gov.uk/>

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