

Office for
**Budget
Responsibility**

**Review of the March 2024 forecast for
departmental expenditure limits**

October 2024

Foreword

On 29 July the Chair of the Office for Budget Responsibility, Richard Hughes, informed the Clerk to the Treasury Select Committee of the House of Commons of his initiation of a review into the preparation of the forecast for departmental expenditure limits (DEL) in its March 2024 *Economic and fiscal outlook (EFO)*. His letter stated that:

“The review will assess the adequacy of the information and assurances provided to the OBR by the Treasury regarding departmental spending and report to Baroness Sarah Hogg, Chair of the OBR’s Oversight Board, and Dame Susan Rice, Chair of the OBR’s Risk Committee.”

While welcoming *“the important actions announced today by HM Treasury to improve the transparency and credibility of their institutional arrangements for forecasting, planning, and controlling...DEL”*, Mr Hughes made it clear that the review would come to its own conclusions *“as to the adequacy of these measures for our purposes as forecasters”*.

The main focus of the review has been on the information provided and procedures followed to enable the OBR to incorporate in its March 2024 *EFO* a forecast for DEL in 2024-25, which is consistent with the OBR’s obligations under the *2011 Budget Responsibility and National Audit Act, Charter for Budget Responsibility*, and supporting documents.

The review needed to be concluded in time for the OBR’s next forecast on 30 October 2024 both to provide assurance about the revised DEL forecast for 2024-25 and allow for a number of its recommendations to be reflected in its preparation. We congratulate the team at the OBR (and their counterparts in the Treasury) on concluding this review expeditiously and objectively. Having reviewed their conclusions with them in detail, we confirm that we endorse their proposals for improving procedures in the future.

It is important to emphasise the limits of this exercise.

It was not (and should not be taken to be) a full review of the performance of the Treasury or any other part of the system of government. For example, whether the process for producing Estimates for Parliament is satisfactory for its purpose is not for us to say.

Nor is it part of the OBR’s responsibilities to set departmental spending limits itself. The OBR’s forecasts always have been, and always must be, based on government’s stated policy.

Much changes every year between March and July, and especially so when it encompasses a general election leading to a change of government and associated policies. Decisions on public sector pay, and/or how the costs of pay increases are to be met, may have a significant impact. Moreover the effect of decisions taken late in the previous year may only become evident over time.

So even a substantial subsequent adjustment in the overall total for DEL is not conclusive evidence that the numbers the OBR used in March were inappropriate at the time.

However, the net spending pressures highlighted in July would, if accommodated, have represented the largest year-ahead overspend of DELs except in the worst year of Covid costs. The size of this variance inevitably raised the question of whether the Treasury and the OBR engaged sufficiently on the issues before the March forecast and, even within the limits of what was known at the time, made sufficient allowance for the pressure on DEL limits.

The Treasury has obligations, spelt out in its *Framework document* and *Memorandum of Understanding* with the OBR as participants in the *EFO* preparation process. These are to provide the OBR with the information it needs to forecast properly, and by their own admission the Treasury did not provide the OBR with all information available to them. In addition, exchanges with the OBR on the DEL forecast were less formal and less detailed than in other areas of the forecast, as a result of a historic track record of year-ahead DEL spending outturn coming in close to budgeted limits. This may have led the OBR to be insufficiently aware of the underlying spending pressures or challenging about how they were to be funded.

The conclusion reached by the OBR is that, had the information that has since been shared by the Treasury been made available to them at the time of the March Budget,

“... a materially different judgement about RDEL spending in 2024-25 would have been reached. The underspend assumption of £2.9 billion would very likely have been dropped, and so there would have been a materially higher DEL forecast for 2024-25 in the March 2024 EFO. However, it is not possible to judge now exactly how much higher.”

This is because, without rewriting history on the basis of greater pre-forecast information and challenge, it is not possible to judge how much of the £9.5 billion additional pressures identified from the information provided by the Treasury for this review, as existing at the time of the challenge panel in February, would have been absorbed and offset by other savings. However, the OBR would unquestionably have given more pointed warnings in the *EFO* about the policy choices that would have to be made.

In terms of lessons learned, these events raise a number of questions.

First, whether the OBR's discussions with the Treasury were sufficiently focused on the DEL numbers it was providing for the coming year – 2024-25 – as distinct from the years beyond, about which the OBR did give clear warnings in its March forecast.

Second, whether the style of interaction between Treasury and OBR and the degree to which the Treasury shares information on spending pressures with the OBR, and the use of the OBR's limited resources on this aspect of the forecast all need to change.

We welcome the proposals in the review for more complete sharing of information by the Treasury and for its formal sign-off, greater challenge by the OBR prior to the conclusion of its discussions,

and independent meetings with the Finance Directors of spending departments. Greater clarity about the cut-off point for the provision of information should also help to avoid misunderstandings about the extent of pressures and how new policies are to be funded.

We also support the proposal for greater clarity about the OBR's freedom to estimate either an underspend or an overspend of DEL limits for inclusion in its forecast to be embedded in forthcoming legislation. This review should help to emphasise the OBR's responsibility to reach its own central estimate of the likely level of DEL spending.

Where negotiations over public sector pay have not been concluded in time for the consequences to be reflected in the forecast, or where it is not clear how pay settlements will be financed, there will continue to be a degree of uncertainty about this element of the public spending forecast. We welcome proposals for a more forensic economic analysis of the impact of public sector pay in the *EFO*, but this will always remain an area of difficulty. On this and other aspects of the public spending forecast subject to uncertainty as to government policy, the OBR will continue to preface its *EFO* with a summary of outstanding risks in its forecasts.

Going forward, we believe that the greater degree of transparency and formality proposed in the review for the OBR's discussions of public expenditure with the Treasury will help to ensure the appropriate degree of arm's length challenge on the one side and the provision of all necessary information on the other. That is not to say that it will, necessarily, result in the OBR coming to substantially different views about levels of under or overspending against the Treasury's DEL plans in future forecasts, or that it will avoid the need for in-year adjustments, big or small, in the future. But it will enable both sides to reflect further on the adequacy of the information provided.

To date, the OBR has focused most of its resources on the economic forecast and on forecasting tax revenue and welfare spending. The changes detailed in this report will now require greater resources be devoted to delivering independent judgements on the departmental expenditure side as well, with implications for the OBR's overall level of resources.



Baroness Hogg



Dame Susan Rice

Non-executive members of the Office for Budget Responsibility

Review of the March 2024 forecast for departmental expenditure limits

Introduction

- 1 The Office for Budget Responsibility's (OBR's) previous five-year forecast for the around 40 per cent of public expenditure that falls within departmental expenditure limits (DEL) was set out in the March 2024 *Economic and fiscal outlook (EFO)*, which was published alongside the Spring Budget on 6 March 2024.
- 2 On 29 July 2024, HM Treasury published a document entitled *Fixing the foundations: Public spending audit 2024-25*. This document set out an estimate of £21.9 billion of net spending pressures over and above the DEL budgets set by the Treasury for the current financial year, 2024-25, at the time of the Spring Budget in March. The OBR was made aware of these estimates at a meeting with the Treasury during the previous week. The Treasury document also set out its plans for further managing down these pressures over the remainder of the financial year.
- 3 As this potentially represented one of the largest year-ahead overspends against departmental spending forecasts outside of the pandemic years, the OBR initiated a review into the preparation of the DEL forecast in the March 2024 *EFO*.¹ The objective of the review was to assess the adequacy of the information and assurances provided to the OBR by the Treasury regarding departmental spending and to identify any improvements necessary to enhance the transparency and ensure the credibility of the process for forecasting DEL. The review reported to Baroness Sarah Hogg, Chair of the OBR's Oversight Board, and Dame Susan Rice, Chair of the OBR's Audit and Risk Committee.
- 4 This document contains the findings and recommendations of that review. It covers:
 - the **legal framework** within which the OBR prepares its forecasts (from paragraph 5);
 - an explanation of **departmental expenditure limits** (from paragraph 7);
 - a description of how our **forecasts for non-DEL spending and receipts** are prepared (from paragraph 9);

¹ Letter from Richard Hughes to the Treasury Select Committee on the OBR review of the March 2024 forecast for departmental expenditure limits, 29 July 2024.

- how this compares with how **forecasts for DEL** have been prepared up until now (from paragraph 13);
- an examination of the **historic performance of year-ahead DEL forecasts** (from paragraph 20);
- a analysis of the **impact of the 2022 inflation shock on the real value of the DEL budgets set in the 2021 Spending Review** (from paragraph 22);
- a description of the **information that was provided to the OBR by the Treasury on DEL in 2024-25 at the time the March 2024 EFO was prepared** (from paragraph 25);
- an account of the **additional information that has subsequently been provided to the OBR by the Treasury about the extent of net pressures on DEL budgets in 2024-25** (from paragraph 28); and
- a set of **conclusions and recommendations** to improve the transparency and credibility of the DEL forecasting process (from paragraph 31).

Legal framework

- 5 The OBR's remit for forecasting is set out in two pieces of legislation: the *Budget Responsibility and National Audit Act 2011* (the 'Act'), which is the primary legislation that gives the OBR its core duties; and the *Charter for Budget Responsibility* (the 'Charter'), which is secondary legislation that provides more detail on those duties. These are supplemented by a non-legislative *Memorandum of Understanding* (the 'MoU') between the OBR, HM Treasury (HMT), the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC), which sets out in more detail how the various bodies which collectively produce the forecasts should work together.²
- 6 Together these legal and supporting documents set out six principles for the OBR forecast that are relevant to this review of the preparation of the March 2024 DEL forecast for 2024-25:
 - **Forecasts must be independent.** The Act states that the OBR "*must, on at least two occasions for each financial year, prepare fiscal and economic forecasts.*" It also states the OBR "*has complete discretion in the performance of its duty*" to prepare those forecasts "*objectively, transparently and impartially*". The Charter elaborates that this discretion encompasses "*the methodology by which the OBR produces its forecasts, assessments, and analyses*" and "*the judgements made in developing these forecasts.*"
 - **Forecasts must be conditioned on government policy.** Where the government has policies, the Act states that the forecasts need to "*have regard to those policies*". The Charter clarifies both that: "*it shall be for the government to determine policy*"

² Latest versions of all three documents are available on the OBR website under *Legislation and related material*.

decisions” and that it will “explain its policy decisions to the OBR to enable the OBR to deliver its duties on a basis that is consistent with government policy”. Forecasts therefore need to be consistent with policy as explained to OBR by the government.

- **Forecasts must be up to date.** The Charter requires that the forecast “be based on all government decisions and all other circumstances that may have a material impact on the fiscal outlook.” This requires the OBR to have access to the latest information about the pre-measures outlook for government spending and receipts and cost of government policy measures at the time the EFO is published.
- **Forecasts must be central.** This comes from the duty placed on the OBR by the Act to prepare “an assessment of the extent to which the fiscal mandate has been, or is likely to be, achieved.” The Charter then clarifies the latter as meaning an assessment of “whether the Government’s fiscal policy is consistent with a greater than 50% chance of achieving or exceeding the fiscal mandate”. The OBR must therefore produce an economic and fiscal forecast where it judges the risks around it to be evenly distributed, with a 50 per cent chance of outturn being higher or lower.
- The OBR must **report on the risks around the central forecast.** The OBR must first understand risks in order to evaluate whether, conditional on government policy, the forecast is central. And second, the OBR needs to understand risks in order to meet the Act’s requirement that its EFOs and other reports explain “the main risks which the Office considered to be relevant”.
- In order to fulfil the above obligations placed on its forecast, the Act gives the OBR a **right to information**; in particular that “the Office has a right of access ... to all government information which it may reasonably require for the purpose of the performance of its duty”. The MoU also requires government departments to proactively provide relevant information to the OBR: “It will be the responsibility of Treasury, DWP and HMRC officials to alert the OBR in a timely manner to forecast issues... e.g. if a forecast judgement or policy costing appears to be off-track”.

Departmental expenditure limits

7 The fiscal forecasts included in EFOs comprise forecasts for public sector expenditure, revenue, borrowing, debt, and other relevant fiscal aggregates. The Treasury divides the approximately £1.2 trillion in public expenditure into two distinct categories for budgetary control and management purposes:

- **Departmental expenditure limits (DEL)**, which are broken down into to multi-year nominal spending ceilings that are set for each government department at the conclusion of periodic spending reviews. DEL covers about 40 per cent of total public spending.
- **Annually managed expenditure (AME)**, which includes expenditure that is outside the control of central government (such as local authority spending), driven by demand

(such as welfare spending), or essentially non-discretionary (such as debt interest payments). AME covers the remaining approximately 60 per cent of total public spending.

- 8 DEL is further divided into resource DEL (RDEL), which covers day-to-day spending, and capital DEL (CDEL), which covers investment spending.³ RDEL accounts for around 80 per cent of total DEL and CDEL for the remaining 20 per cent. The preparation of RDEL forecasts is the focus of this review. In our March 2024 *EFO*, we projected RDEL to be £430 billion in 2024-25.

Forecasting receipts and annually managed expenditure

- 9 Before considering how DEL is currently forecast, it is useful to consider how the other two main elements of the public finances, tax receipts and AME, are forecast. Both are mostly forecast using models that are owned and operated by the relevant department: so most tax models are owned by HMRC and most welfare ones by DWP. The models are calibrated based on current government policy in areas such as rates and allowances for tax, or entitlement and indexation arrangements for welfare benefits. From the latest outturn data, these models typically project the relevant transactions based on changes in relevant economic determinants, for example forecasts of earnings and employment are the key drivers of income tax receipts. These economic parameters are provided by the OBR to departments.
- 10 The outputs of the models are shared with, and scrutinised by, OBR staff. Departments typically present results to the OBR in a series of 'challenge panels'. In these meetings, experts on the particular area of receipts or AME will present the latest forecast numbers and analysis on the performance of the model. This will include investigating how the latest outturn data compares to the model's estimates and any concerns the analysts may have about the path of the forecast, including, for example, anticipated future changes in behaviour.
- 11 Based on the challenge panel discussions, and its own analysis, the OBR may ask for changes to the modelling assumptions. In the run-up to each fiscal event, these conversations and model changes continue over the multiple rounds of the 'pre-measures' forecast (that is, before the effects of new policies are incorporated into the 'post-measures' forecast).
- 12 New policies are treated in a parallel process. This policy costing process is run by the Government, which provides information to the OBR on potential new policies. Subject to receiving sufficient information, the OBR will state whether it agrees with the costing and determine the impact of the new policy on both its fiscal and economic forecasts. Typically, this is an iterative process whereby the Treasury submits some information and then responds to OBR questions or suggestions for improvements. For most policies this process

³ The OBR forecast is of a subset of RDEL called public sector current expenditure (PSCE) in RDEL, which represents that expenditure recognised as current expenditure in the public finances. For brevity we refer to 'PSCE in RDEL' as just 'RDEL' in this review.

concludes with OBR 'certifying' the costing which the OBR then includes in the post-measures forecast.

Forecasting departmental expenditure limits

- 13 The forecast for DEL differs from other areas of receipts and spending in a number of ways. Most importantly DEL totals are not derived 'bottom-up' from models that the government runs and that are populated using parameters from the OBR's economic forecast. Instead, the Treasury communicates to the OBR a set of 'top-down' nominal spending totals for each year of the forecast period separated into resource DEL and capital DEL spending. This difference reflects the nature of the DEL policy and control regime compared to the policy regime for tax and welfare. As explained above, overall DEL and departmental limits are set by the Treasury in nominal terms and then the control framework aims to manage actual spending within those limits. For tax and welfare, policy is implemented by setting parameters, such as tax rates and thresholds, which then interact with economic drivers to determine the actual level of nominal receipts or spending in any year.
- 14 Some years of the forecast period will be subject to a 'spending review'. In these years the total spending estimates are the sum of detailed limits set by the Treasury for each department, plus a central reserve to meet unforeseen events. Beyond the spending review years, no such detailed breakdown exists, and the forecast consists of just two numbers: one for total RDEL and one for total CDEL. The Treasury may explain how those totals have been calculated (usually by setting a growth assumption for some version of DEL spending) but provides no detail of how this spending would be allocated among departments.
- 15 In accordance with the duty for the forecast to be consistent with government policy, the OBR bases its DEL forecast on the totals supplied by the Treasury. But the approach has evolved over time. In the OBR's early forecasts, the policy was interpreted as the intent to spend a certain amount of money, and so the DEL totals supplied by the Treasury were simply incorporated into the forecast. However, once DEL budgets have been set for individual departments, they usually act as an upper limit on the spending of that department. And experience suggests that, during spending review years, departments tend to slightly underspend against their final RDEL totals by around 1.7 per cent.
- 16 In order to fulfil the requirement to produce a central forecast, the OBR decided, in its December 2012 forecast, that it was therefore appropriate to introduce an 'underspend' assumption for DEL.⁴ Initially an underspend was assumed to exist across all years of the forecast. But in the November 2023 forecast, the OBR recognised that the incentives to underspend only existed in years where spending review totals were in place, and so moved to recording no underspend beyond the years covered by spending reviews.
- 17 Evidence to calibrate the level of underspending was provided to the OBR by the Treasury and discussed at challenge panels. Normally the evidence base becomes firmer as the relevant financial year approaches. So, for example, when discussing potential DEL

⁴ Prior to this, differences against DEL totals were only estimated for in-year spending.

underspends in the November 2023 *EFO*, total spending for the financial year 2023-24 was known with some certainty based on half a year of expenditure outturn data, whereas the picture for 2024-25 was less certain as departments would not have completed business planning.

- 18 Discussions with the Treasury and other departments also inform the OBR's assessment of risks to the DEL forecast. In the March 2024 *EFO*, near-term risks included a discussion of compensation payments for victims of the Post Office Horizon scandal and for recipients of infected blood products. These were included as risks because final compensation plans were not yet available and so no estimates could be included in the central forecast. Beyond the current Spending Review period, the *EFO* also discussed the risks to the Government's stated plans for the overall path of DEL by showing how existing government commitments to growth in spending on 'protected' departments implied real cuts to all other departments of between 2.3 and 3.6 per cent per year.⁵ This analysis also showed how, when the time came to allocate spending totals out to departments in spending reviews, the RDEL envelope was usually increased: by an average of £39 billion and £32 billion a year respectively at the most recent November 2015 and October 2021 Spending Reviews.
- 19 As DELs are nominal spending limits set by the Treasury, any changes in those overall RDEL and CDEL totals are treated as a change in policy. The treatment of DEL policy changes differs from receipts and AME policies as, unless there are non-DEL consequences, no formal costing process is undertaken. Instead, changes to DEL spending enter the forecast in at least three different ways, with varying levels of transparency. All three routes may occur in a single forecast, often with little clarity on individual elements. The policy may be:
- **Offset by spending reductions elsewhere**, either within the department or by exchanges of DEL limits between departments. In this case there is no overall change to DEL and so no fiscal impact and therefore nothing would be recorded in the OBR's forecast or shown on the government's Budget 'scorecard' (the list of policies and their cost produced by the Treasury at a fiscal event).
 - **Paid for by an allocation from the Treasury reserve**. In this case, the overall DEL total has also not changed (there is instead a transfer within DEL from the reserve to a departmental budget) but the resulting reduction in the reserve may lead the OBR to reassess its underspend assumption. This means there may be forecast impacts, but they would not be directly attributed to a specific spending decision.
 - **Paid for by an increase in total DEL**. This would lead to a fiscal impact which the forecast would record as driven by a policy change. There might also be a reconsideration of the underspend. Government may or may not choose to present this on its policy 'scorecard' (the list of policies presented at a fiscal event) and may or may not provide detail about the changes in plans.⁶

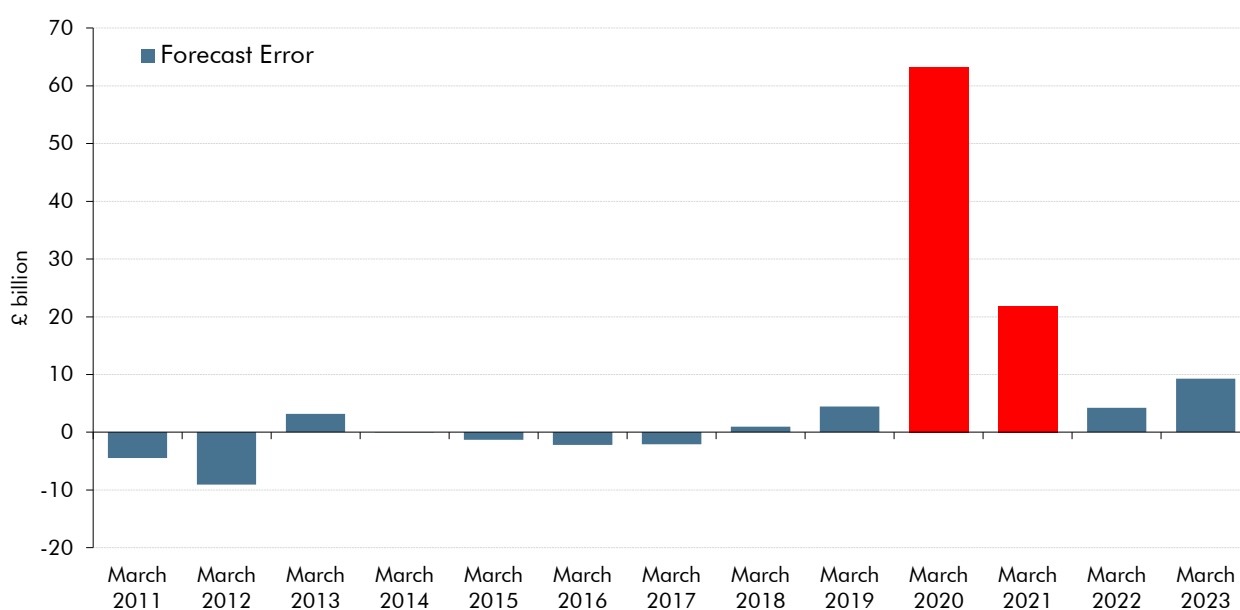
⁵ See Box 4.2: *The Government's post-Spending Review departmental spending plans*, from our March 2024 *EFO* for full details.

⁶ Where policies change but the government chooses not to present them on its scorecard, the OBR will include details in its own 'scorecard' and associated policy database.

Historic performance of DEL forecasts

20 The incentives within the Treasury’s DEL control framework mean that, in the absence of changes in policy, outturn spending on RDEL for spending review years is likely to be slightly below the total set by government. This is why the OBR has since 2012 assumed there will be an underspend against the DEL totals. This section looks how this assumption has performed historically for year-ahead RDEL forecasts.⁷ Chart 1 shows that, for most of the period since the OBR has been producing forecasts, the assumption that outturn RDEL would be close to, and on average slightly below, the RDEL control total set by the Treasury performed well. In the nine years leading up to the pandemic, the average difference between our year-ahead forecast and outturn was £1.2 billion (0.3 per cent).

Chart 1: Year-ahead differences between forecast and outturn RDEL growth



Source: OBR

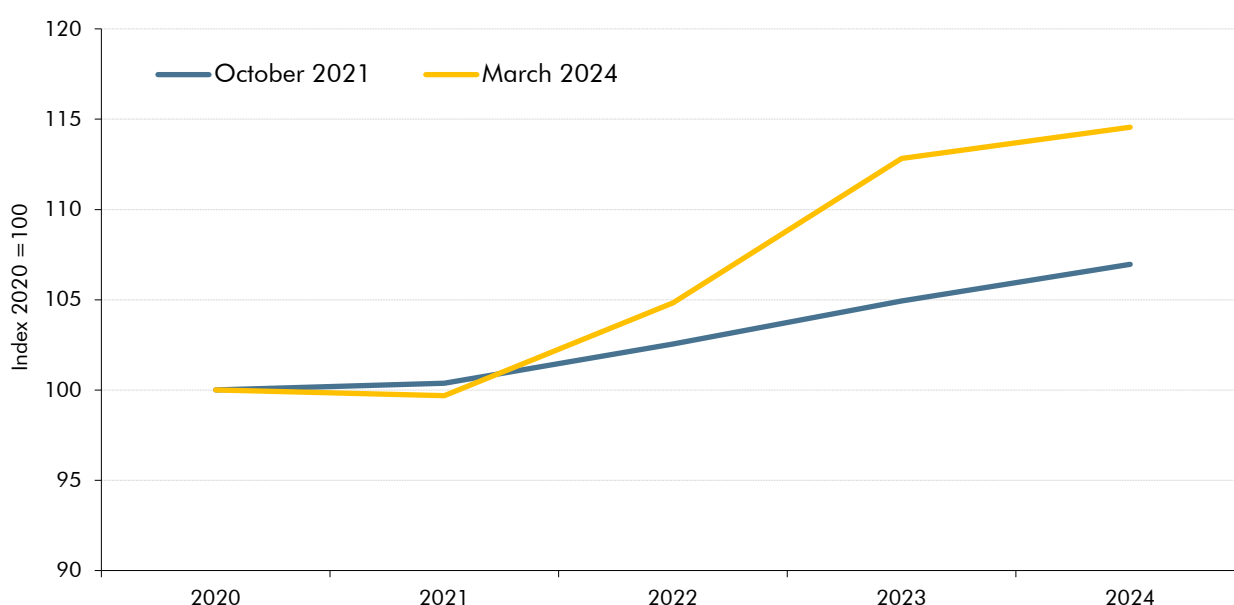
21 Financial years 2020-21 and 2021-22 saw unusually large overspends against the year-ahead RDEL forecast, of £63.3 billion and £21.9 billion respectively, due to the impact of the pandemic and large in-year policy responses by the Government, in the form of additional resources for the NHS and for certain other government departments. Smaller but still significant overshoots in 2022-23 and 2023-24 are also largely explained by in-year policy responses by the Government, this time in response to higher-than-expected inflation triggered by the spikes in global energy prices following the Russian invasion of Ukraine.

⁷ The following analysis compares our forecasts for growth in RDEL to growth in RDEL outturn to abstract from DEL classification changes. See: OBR, *The OBR's forecast performance*, August 2023.

Inflation and the 2021 Spending Review

22 The 2021 Spending Review set DEL budgets for each main government department for the financial years 2022-23, 2023-24, and 2024-25. After those DEL limits were set in October 2021, substantial pressures on departmental budgets arose partly due to inflation outturns being much higher than expected at the time. As Chart 2 shows, price levels as indicated by the GDP deflator (the broadest measure of whole-economy inflation), were expected to rise by a little under 7 per cent in 2024-25 compared to 2021-22. But by the March 2024 forecast this expectation had more than doubled to over 14 per cent.

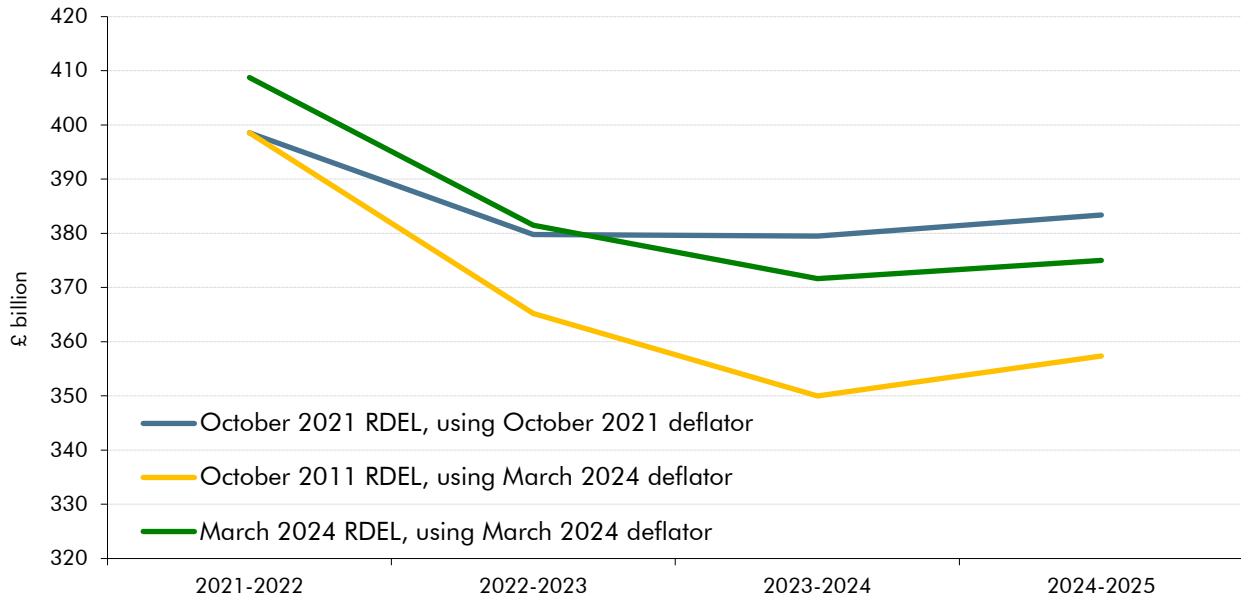
Chart 2: October 2021 and March 2024 GDP deflator forecast



Source: OBR

23 Higher-than-expected inflation significantly eroded the real value of the DEL limits set in nominal terms in the October 2021 Spending Review. Chart 3 shows that, before taking account of additions to DEL in subsequent fiscal events (yellow line), the real value of RDEL budgets set in October 2021 was reduced by £14.6 billion (3.8 per cent) in 2022-23, £29.5 billion (7.8 per cent) in 2023-24, and £26.0 billion (6.8 per cent) in 2024-25 based on the inflation outlook in March of this year. Additions to RDEL budgets in subsequent fiscal events alleviated some, but not all, of this squeeze on real spending power by the time of the March 2024 Budget. Based on RDEL budgets included in the March 2024 *EFO* (green line), the real value of RDEL spending was £1.7 billion (0.4 per cent) higher in 2022-23 than planned for in October 21 (although £6 billion of the boost was to fund support for household energy bills), but £7.8 billion (2.1 per cent) lower in 2023-24, and £8.3 billion (2.2 per cent) lower in 2024-25.

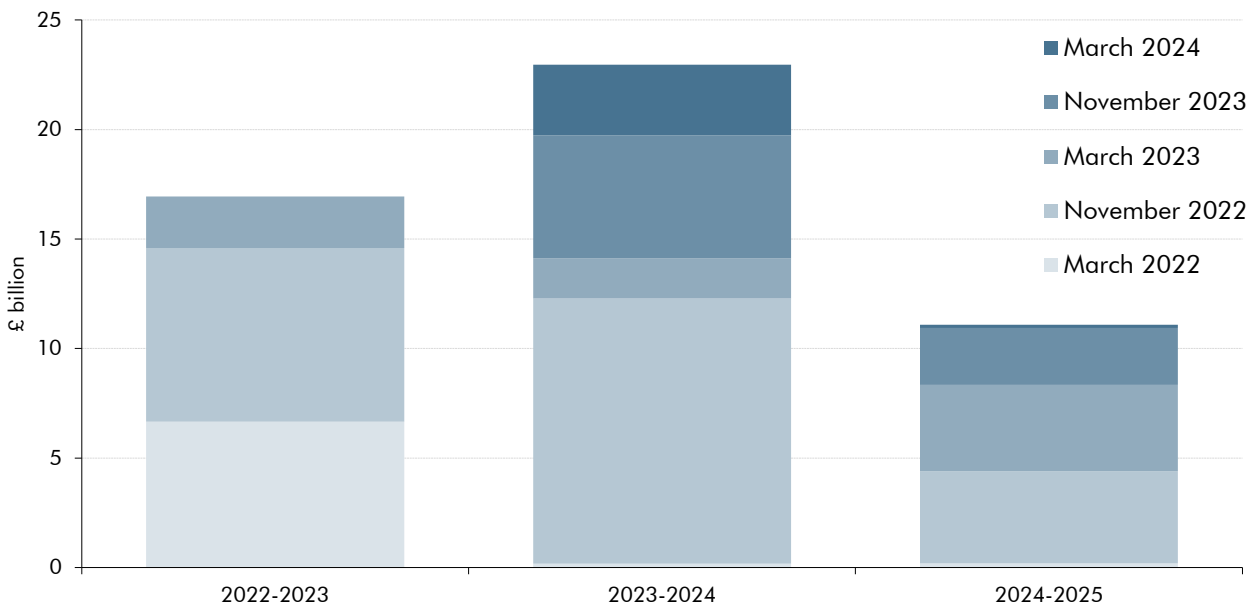
Chart 3: Successive RDEL forecasts October 2021 to March 2024 (2021-22 prices)



Source: OBR

24 The nominal additions to RDEL made by the Treasury in the years following the October 2021 Spending Review were significantly front-loaded. As shown in Chart 4, £17 billion was added to RDEL budgets in 2022-23 and £23 billion in 2023-24 over five subsequent fiscal events. However, only £11 billion was added to RDEL 2024-25 by the time of the March 2024 Budget. The 2024-25 DEL totals provide the starting point for the post-Spending Review spending growth assumptions for the remaining five years of the forecast. At the time, these were for RDEL to grow by 1 per cent in real terms and for CDEL to be flat in cash terms from their 2024-25 levels.

Chart 4: Successive increases in nominal RDEL total



Source: OBR

The March 2024 EFO forecast for RDEL in 2024-25

- 25 In the November 2023 EFO, RDEL spending in 2024-25 was forecast to be £435.5 billion, which represented a £2.9 billion underspend against the RDEL limit set by the Treasury of £438.4 billion. By the March 2024 EFO, the RDEL limit had reduced by £5.2 billion, but £5.1 billion of this was due to a Treasury decision to move business rates relief out of DEL and into AME spending, meaning that the forecast for overall departmental spending was essentially unchanged at £430.2 billion for 2024-25.
- 26 In the run-up to the March 2024 EFO, OBR and Treasury interactions on the DEL forecast for 2024-25 followed the established 'top-down' approach described above. On the basis of the information and analysis presented to OBR at the time of the 8 February DEL challenge panel with the Treasury, the OBR decided to leave the underspend unchanged at £2.9 billion, so leaving the estimate of RDEL spending for 2024-25 at £430.2 billion. The Treasury analysis presented to the OBR at that time advised an unchanged assumption and pointed to a range of supporting evidence for this assumption, including:
- Despite it being the peak year for inflation, RDEL in 2023-24 looked on track to slightly underspend on the totals assumed in our November 2023 EFO. Based on the preliminary outturn data available at the time of the forecast, we increased our 2023-24 underspend from £2.9 billion to an underspend of £4.7 billion.
 - Relative to November 2023, inflation expectations for 2024-25 had fallen. This meant that real spending growth in 2024-25 had risen to 0.9 per cent in the March 2024 EFO, up from 0.4 per cent at the previous forecast.
 - Pay pressures within 2023-24 included a £1,500 one-off payment for most civil servants that would not be repeated in 2024-25. The Treasury at that time also expected pay recommendations from the Pay Review Bodies to be closer to the Spending Review assumptions than occurred in 2022-23 and 2023-24. The Spending Review had assumed 2 per cent pay awards for 2024-25.
 - The Treasury analysis at the time also set out that reprioritisation and savings efforts undertaken to manage pressures within 2023-24 left departments in a stronger position to manage 2024-25 pay pressures.
- 27 In the period after the 8 February challenge panel meeting, the Treasury decided to allocate £3.5 billion from the reserve at the Budget to the NHS and local authorities to relieve pressures in 2024-25. This was not discussed with the OBR, and it does not appear on the Treasury's scorecard of Budget measures as it was a reallocation within total DEL.

Information subsequently provided about RDEL in 2024-25

28 In July 2024, the Treasury published *Fixing the foundations*, which included a table setting out an estimated £21.9 billion of unfunded net pressure on the RDEL plans for 2024-25 published in the March 2024 OBR forecast.^{8,9} In response to this, as set out above, this review was initiated to assess the adequacy of the information and assurances provided to the OBR by the Treasury regarding departmental spending for the March 2024 EFO. To do this, on 2 August the review team asked the Treasury to set out and explain whether these pressures were known at the time of the March 2024 EFO forecast was being prepared.

29 In response, the Treasury provided an estimate of additional pressures within RDEL, above the March Budget forecast, that were known to the Treasury at the time of the February challenge panel. The Treasury response set out that these amounted to £9.5 billion in 2024-25 (Table 1). This analysis was not provided to the OBR at the time of the March Budget. The Treasury response explained that this represented a much greater difference between gross pressures identified and the resources set aside in the reserve than at other fiscal events since the October 2021 Spending Review. The Treasury response also stated that estimates at the time were that changes to departmental spending policies would need to be made in order to either reduce expenditure pressures or make offsetting savings so that DEL could remain within the level assumed in the March 2024 EFO forecast in the financial year ahead. However, no such measures were identified, announced, or taken at the time of the March Budget. The Treasury's response stated that its advice to the OBR at the time of the March Budget that a £2.9 billion RDEL underspend should still be assumed for 2024-25 was conditioned on the assumption that such changes would subsequently be implemented during 2024-25.

⁸ Presented in Table 1 of *Fixing the foundations: public spending audit 2024-25*, July 2024.

⁹ *Fixing the foundations* describes the categories of pressure that produce the gross departmental pressure. To arrive at an estimate of net pressure, the published reserve and an estimate of 'fallaway' – the Treasury's assessment of how much resource DEL pressures will reduce over the course of the financial year – are subtracted, and the OBR's underspend ('allowance for shortfall') is added on to give pressures in excess of the OBR forecast.

Table 1: Treasury estimates of 2024-25 RDEL pressures at the time of the February challenge panel

	2024-2025 (post-Barnett) (£ billion)
Resource DEL pressure by category	
Normal Reserve claims	5.9
Pay - 2024-25 awards	2.3
Pay overhang from previous awards	2.8
Health (excluding pay pressures)	2.7
Asylum and illegal migration	5.8
New policy commitments	1.6
Rail - passenger services and maintenance	1.7
Ukraine - military and civilian support	1.1
Total departmental gross pressure	23.8
Published Reserve	-12.7
Total pressure above reserve, before fallaway assumption	11.1
Treasury fallaway assessment	-4.6
Total pressure above Spring Budget 2024 Resource DEL plans before Allowance for Shortfall	6.5
OBR Spring Budget 2024 Allowance for Shortfall	2.9
Total pressure above Spring Budget 2024 Resource DEL plans after Allowance for Shortfall	9.5

30 The Treasury response also stated that, in the weeks between the February challenge panel and the March Budget, the size of known pressures increased. The size of the reserve to meet those pressures was reduced by £3.5 billion following the decision mentioned above to allocate extra money to the NHS and local authorities. This information was also not shared with the OBR prior to the closure of the forecast and publication of the March *EFO*.

Conclusions and recommendations

31 Up until the March 2024 forecast, the processes for forecasting levels of RDEL spending during spending review periods had been largely successful. This was not the case in the March 2024 *EFO*. The Treasury did not share information with the OBR about the large pressures on RDEL, about the unusual extent of commitments against the reserve, or about any plans to manage these pressures down at the challenge panel. Further information that came to light after this meeting, but before the forecast was published, about pressures on baseline RDEL budgets and the implications of policy decisions announced at the Budget, was also not sufficiently shared.

32 The view of the OBR is that, had this information been made available, a materially different judgement about RDEL spending in 2024-25 would have been reached. The underspend assumption of £2.9 billion would very likely have been dropped, and so there would have been a materially higher DEL forecast for 2024-25 in the March 2024 *EFO*.

- 33 However, it is not possible to judge now exactly how much higher. If the OBR had been presented with the full extent of pressures during the preparations of the March forecast, further questions would have been asked to enable an assessment of the Treasury's plans to manage down pressures and find offsetting savings to stay within the DEL budgets for 2024-25. That assessment did not take place and so it is not possible to judge how it would have concluded. But the possibility of reductions being found is signalled by the current Government having subsequently in its July statement set out plans to ask departments to absorb £3.2 billion of pay pressure and by raising its fallaway assessment.
- 34 The judgement the OBR made in March 2024 for a small underspend relative to the 2024-25 DEL limit has subsequently been revealed as too optimistic given the pressures known, but not shared, by the Treasury at the time. To ensure that this issue is not repeated in future the Treasury needs to provide information to the OBR necessary to allow a more disaggregated and transparent approach to forecasting DEL. And the OBR needs to use this information to scrutinise DEL spending in a manner closer to the approach used to forecast receipts and AME.
- 35 To implement these changes the Treasury and the OBR have agreed to take a series of actions that will enhance the credibility and transparency of the process for forecasting DEL. These are needed to ensure that sufficient information is shared and interrogated to produce a genuinely central estimate; to increase transparency on the assumptions underlying that estimate; and to understand and communicate the risks around that estimate. The review recommends that:
- **Recommendation 1:** The OBR should be explicitly allowed to forecast DEL overspends as well as underspends.
 - **Recommendation 2:** The Treasury should provide to the OBR an economic classification of DEL for all years covered by the forecast at each *EFO*, so that this can be incorporated in each *EFO* in a manner consistent with our economy forecast.
 - **Recommendation 3:** The Treasury should provide the OBR with a departmental breakdown of DEL prior to each forecast, with accompanying text highlighting the risks to particular departmental settlements.
 - **Recommendation 4:** The Treasury should provide and explain to the OBR all material forecast-to-forecast changes in departmental allocations, including transfers from the reserve in the spending review years.
 - **Recommendation 5:** The Treasury should supply to the OBR a quarterly report on the size of, commitments from, and pressures on the reserve, in addition to reports at the start and end of every forecast.
 - **Recommendation 6:** The Treasury should provide the OBR with an account of how any DEL policies announced since the last forecast are funded, either as additions to total

DEL, via transfers from the reserve, or through specifically identified savings in existing DEL budgets.

- **Recommendation 7:** The Treasury should update the OBR on any changes to its assessments throughout the forecast process up to publication, so the forecast and *EFO* document can reflect the best information available.
- **Recommendation 8:** The written DEL submission to the OBR in each forecast should be signed off by a member of the Treasury Board.
- **Recommendation 9:** The OBR will meet with departmental Finance Directors at each event to discuss departmental spending plans and pressures.
- **Recommendation 10:** The information provided under the above recommendations may be published by the OBR in the *EFO* or other reports, in a manner consistent with the *Memorandum of Understanding*.

A Log of substantive exchanges between the OBR and the Treasury in the preparation of this review

Following the publication of the Treasury's *Fixing the Foundations* document and the initiation by the OBR of a review into the preparation of the March 2024 DEL forecast on 29 July 2024, the substantive engagement between the OBR and the Treasury on this topic was as follows:

- 2 August: The OBR sent initial questions on RDEL spending in 2024-25 to the Treasury.
- 23 August: The Treasury sent responses to the OBR's initial questions.
- 3 September: The OBR met with Treasury officials to discuss emerging findings and recommendations.
- 9 September: The OBR sent follow-up questions on RDEL spending to the Treasury.
- 24 and 27 September: The Treasury sent responses to the OBR's follow-up questions.
- 7 October: The OBR sent a draft of the review report to Treasury officials for factual comments.
- 11 October: The Treasury sent factual comments on the draft review report to the OBR.
- 11 October: The OBR met with Treasury officials to discuss the report.
- 17 October: The OBR sent a final version of the review to the Cabinet Office to clarify propriety issues around the publication of the review.
- 28 October: The OBR sent the final version of the review to the Treasury for information in line with agreed pre-release arrangements.
- 30 October: The OBR sent the review to the Treasury Committee and Comptroller and Auditor General and published the final version of the review.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial statements. This includes not only sales and purchases but also expenses, income, and transfers between accounts.

Next, the document outlines the process of reconciling bank statements with the company's records. It stresses the need to identify and explain any discrepancies, such as outstanding checks or bank errors, to ensure that the books are in balance. Regular reconciliation is presented as a key practice for preventing fraud and detecting errors early.

The document also covers the classification of assets and liabilities. It provides guidance on how to categorize different types of property, equipment, and debts, ensuring that they are reported correctly on the balance sheet. This section highlights the importance of using consistent accounting methods to allow for meaningful comparisons over time and across different periods.

Finally, the document discusses the preparation of financial statements, including the income statement, balance sheet, and statement of cash flows. It provides a step-by-step guide to calculating each component and ensuring that the numbers are accurate and supported by the underlying data. The document concludes by emphasizing the role of these statements in providing a clear and concise overview of the company's financial health and performance.