



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Richard Hughes
Chair
Office for Budget Responsibility
102 Petty France
London
SW1H 9AJ

29 July 2024

Dear Richard,

Forecast commission and outcome of spending audit

I am writing to inform you about the statement I am making to Parliament today setting out the Treasury's public spending audit and the actions I am taking to ensure that this situation will never happen again.

Economic stability is the cornerstone of our mission to grow the economy. Economic stability requires sound money and respecting our economic institutions. I am committed to a strong, independent Office for Budget Responsibility (OBR), as shown by taking rapid action to introduce a fiscal lock in law so the OBR cannot be sidelined.

In line with usual practice, I would like the OBR to prepare an economic and fiscal forecast for a Budget on 30 October. We will also inform the Treasury Committee once it is established for this Parliament and I will announce the date publicly to Parliament today.

I expected to inherit a challenging economic and fiscal picture, but since I have come into office, what officials have told me about the scale of spending pressures in 2024-25 relative to funds held against them has come as a deeply unwelcome surprise. I will set out the details in a statement to Parliament where I am also announcing some immediate actions to manage down those pressures. The Treasury will continue to work with departments to reduce them further in the run up to Budget, where I will set out policies that are consistent with meeting our robust fiscal rules. I asked my officials to be open in engaging with you on the results of the spending audit and I committed to welcome your continued scrutiny of our plans through the Budget process.

I am clear that this can never be allowed to happen again. I am therefore also announcing today key reforms which strengthen the spending framework and which we will confirm in an updated *Charter for Budget Responsibility* at Budget, including:

- A new commitment to conduct spending reviews every two years and set departmental plans for a minimum duration of three years of the five-year forecast, so that detailed plans are set out in advance and remain up to date.

- Changing the *Charter* to require the Treasury to provide the OBR with an assessment of aggregate pressures against departmental expenditure limits for the current and following financial year.
- Confirming that the OBR can interrogate this assessment of pressures and request further information required to make an assessment of whether the government is likely to underspend or overspend against those departmental limits in aggregate. Those underspends or overspends will be included in the OBR forecast.
- Establishing a new Office of Value for Money with an immediate focus on identifying areas where we can reduce or stop spending.

I know that you are conducting a review of into the preparation of the DEL forecast in the March 2024 EFO and I would welcome any suggestions you have for further improvements you feel are necessary to ensure this never happens again.

Yours Sincerely



RT HON RACHEL REEVES MP
Chancellor of the Exchequer