



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

3 December 2013

Mr Robert Chote
Chair
Office for Budget Responsibility
20 Victoria Street
London
SW1H 0NF

John Robert,

As you will be aware, the Government intends to introduce a welfare cap at Budget 2014. I intend to set out at the Autumn Statement 2013 the details of how the cap will function in practice and the accountability mechanisms that will be part of the welfare cap's framework. In keeping with the Memorandum of Understanding (MoU) between the Treasury and the Office for Budget Responsibility (OBR), I am writing to seek your confirmation of the OBR undertaking additional responsibilities related to the welfare cap.

Credibility is essential to any fiscal constraint and, as such, I believe that the OBR should have a role in assessing the Government's performance against the cap and opining on whether the relevant spending is forecast to stay within the cap. I propose that the OBR assess the Government's performance against the cap at each Autumn Statement. As part of this assessment the OBR would produce a forecast for welfare spending in scope of the cap in its Economic and Fiscal Outlook (EFO).

The cap will feature a "forecast margin" above the level of the cap that will allow for small fluctuations in the forecast without corrective action being required. However, this margin should not be used to make discretionary changes to welfare policy that drive spending above the level of the cap. I would like the OBR to assess whether any changes in welfare spending above the cap are caused by movements in the forecast or by discretionary policy changes in a manner consistent with the treatment of the scorecard in the current forecasting process.

In order to facilitate open and constructive debate about welfare spending I believe that increased transparency is required. To that end, I believe that once a year the OBR should prepare and publish information on the trends in and drivers of welfare spending within the cap. This report should consider both sources of error compared to the previous forecast, and longer-term trends in welfare spending.

From time to time the Government may decide to switch spending between Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). Where these changes place spending in or out of the scope of the welfare cap, the OBR should certify any changes that impact the level of the cap.

In order to provide a framework for the welfare cap the Government will amend the Charter for Budget Responsibility sometime after Budget 2014. I believe that the existing Memorandum of Understanding (MoU) between the OBR, the Treasury and the Department of Work and Pensions (DWP) makes adequate provision for the cooperation and information sharing necessary to undertake these requests. You have my assurance that the Treasury and DWP will continue to provide the OBR with whatever material is necessary.

The Treasury will take account of the resource implications of these changes in setting the OBR's future multi-annual budget.

Bob White,

George

GEORGE OSBORNE