HM Treasury

Fixing the foundations

Public spending audit 2024-25

CP 1133

July 2024

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Public spending audit 2024-25

Presented to Parliament by the Chancellor of the Exchequer
by Command of His Majesty

July 2024

CP 1133

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CORRECTION SLIP

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Correction 1

Footnote 17, page 7

The date the government laid Main Estimates has been corrected to 17 July in the first sentence of the footnote.

The text previously read: The government laid Main Estimates for 2024-25 before Parliament on **18 July**, the earliest available opportunity after the General Election and considerably later than the usual timetable.

The text now reads: The government laid Main Estimates for 2024-25 before Parliament on **17 July**, the earliest available opportunity after the General Election and considerably later than the usual timetable.

Correction 2

Paragraph 43, bullet point 11, page 11

The savings numbers for cancelled transport programmes in 2025-26 have been changed to account for Barnett consequentials. This is consistent with the numbers underpinning transport savings in 2025-26 in Table 2: Immediate savings.

The text previously read: The government is cancelling the A303 Stonehenge tunnel and the A27 schemes. These are low value, unaffordable commitments which would have cost **£587 million** next year. The government will also cancel the Restoring Your Railway programme, saving **£76 million** next year.

The text now reads: The government is cancelling the A303 Stonehenge tunnel and the A27 schemes. These are low value, unaffordable commitments which would have cost **£698 million** next year. The government will also cancel the Restoring Your Railway programme, saving **£85 million** next year.

Contents

Executive summary

1. On 8 July, the Chancellor of the Exchequer announced that she had instructed Treasury officials to undertake a rapid audit of public spending. This document sets out the outcome of the audit, the immediate action the government is taking in response, and the long-term measures being introduced to restore public spending control.

2. The audit carried out by the Treasury shows that the forecast overspend on departmental spending is expected to be £21.9 billion above the resource departmental expenditure limit (RDEL) totals set by the Treasury at Spring Budget 2024.[1,2]

3. The government is taking action to address the pressure by: (i) identifying immediate savings to manage the pressure; (ii) setting out a clear process to the autumn and the Spending Review for reducing the pressure further; and (iii) making reforms to the spending and fiscal frameworks to prevent this happening again.

Immediate action on spending pressures

4. The government is announcing £5.5 billion worth of savings in 2024-25, bringing the in-year pressures down to £16.4 billion.

5. This £21.9 billion, that the government has already reduced to £16.4 billion, is an estimate of the pressure. It is not an estimate of how much additional funding might be allocated to departments going forwards, or an estimate of how much additional government borrowing may be required this year.

6. Economic stability is a priority for the government. That is why it has prioritised being transparent and timely in announcing the scale of these pressures. By making £5.5 billion of immediate savings, the government is taking decisions to begin to tackle these pressures.

The path to the Budget and Spending Review

7. This is a significant downpayment, but these decisions alone will not be sufficient. The government is setting out further steps to tackle the spending pressures that remain and to take the difficult decisions necessary to secure the public finances.

8. These decisions will be set out in the Budget on 30 October. This will confirm the government's fiscal policy alongside a forecast from the Office for Budget

[1] RDEL represents the day-to-day ("current") running costs of public services, grants, and administration.
[2] This figure accounts for the OBR's Allowance for Shortfall – the OBR's forecast of underspends. See Table 1 for an explanation of how this has been calculated.

Responsibility (OBR).[3] The Chancellor will take further difficult decisions across tax and spending.

9. These decisions will confirm how the government's robust fiscal rules will be met: bringing the current budget into balance so that day-to-day costs are met by revenues and getting debt falling as a share of the economy by the fifth year of the forecast.

10. The Budget will confirm the full details and OBR-certified costings for the government's priority tax commitments that will close loopholes and help sustainably fund the government's priorities. Further technical details of a number of these reforms including to the taxation of independent schools, abolition of the non-domicile regime and extension of the Energy Profits Levy have been set out by the Exchequer Secretary to the Treasury.

11. The Chancellor is launching a multi-year Spending Review to conclude in Spring 2025. The Chief Secretary to the Treasury will write out to departments with details of the Spending Review shortly. The government will use the Spending Review to change the way public services are delivered by embedding a mission-led approach, driving forward public service reform and making the best use of technology to better deliver services. The Spending Review will set spending plans for a minimum of three years of the five-year forecast period. Departmental expenditure limits for 2025-26 will be set alongside the Budget in October, which will also confirm control totals for 2024-25.

Strengthening the fiscal framework to ensure this never happens again

12. Legislation has already been introduced to guarantee that all fiscally significant announcements are subject to an independent assessment by the OBR through the Budget Responsibility Bill.

13. In addition, the government is announcing a series of changes that will fundamentally strengthen the spending framework and ensure that such unfunded pressures should never arise again. These will increase certainty and transparency and prevent spending decisions being repeatedly delayed. They ensure that there will always be medium-term departmental spending plans which the OBR will be able to assess aggregate pressures against.

[3] At the Budget, the OBR will provide an updated AME forecast, which will recognise the expected costs of Annually Managed Expenditure (AME), including the cost of compensation payments arising from the recommendations of the Infected Blood Inquiry.

Public spending audit

14. On 8 July, the Chancellor announced that HM Treasury officials had been instructed to conduct an audit of public spending for 2024-25.

15. This audit has been done rapidly and identified a substantial forecast overspend of £21.9 billion[4] above the resource departmental expenditure limit (RDEL) totals set by the Treasury at Spring Budget 2024.

16. The sources of this pressure are outlined in this chapter, which include:

a. unfunded policy announcements;

b. the impacts of inflation;

c. recent events, such as the invasion of Ukraine; and

d. public sector pay.

Timing of the Spending Review, and approach to adjusting budgets in 2022-23, 2023-24, and 2024-25

17. Departmental expenditure limit totals set by the Treasury at Spring Budget 2024 were insufficient to meet the spending pressures facing departments.

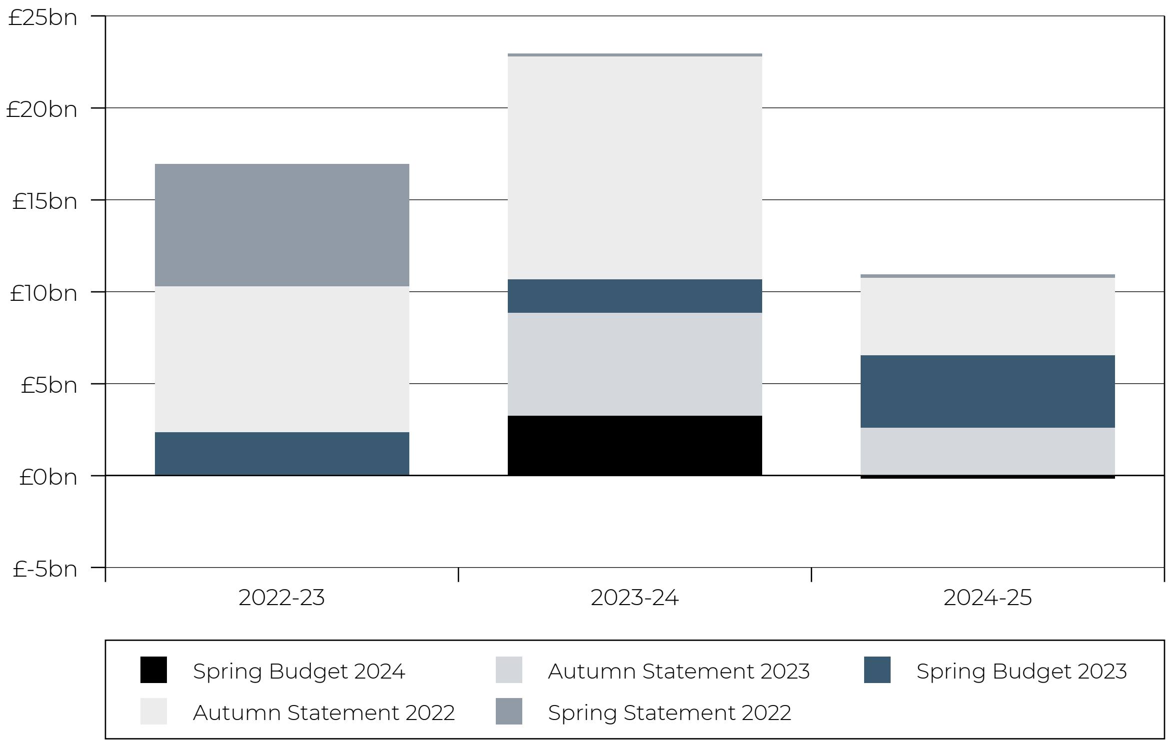
18. There has not been a spending review since 2021. As a result, departmental budgets for 2024-25 have not been systematically re-planned on the basis of an up-to-date assessment of spending pressures in the last three years. Departmental budgets for the years after 2024-25 have also not yet been set.

19. In the absence of a spending review, some individual departmental budgets (including for the health service, defence, and education) have been increased across several fiscal events but not consistently across all years.

20. Since Spending Review 2021 (SR21), cash increases in forecast RDEL[5] due to policy changes by the government at fiscal events totalled £16.9 billion in 2022-23, £23.0 billion in 2023-24, and £10.8 billion in 2024-25 (see Chart 1).

[4] Including the £2.9 billion Allowance for Shortfall forecast by the Office for Budget Responsibility.
[5] Cash increases in forecast RDEL due to policy changes at fiscal events refer to Public Sector Current Expenditure in RDEL, which is the OBR's measure of RDEL.

Chart 1: Adjustments to RDEL for Policy Measures since Spending Review 2021



Source: OBR Policy Measures Database and HMT Calculations. "RDEL" refers to PSCE in RDEL

21. Most pressures on public spending funded in 2023-24 could reasonably be expected to recur in 2024-25, and many of the underlying pressures, such as those driven by public sector pay and the asylum system, have increased in size this year compared to last year. However, departmental budgets were increased by £12.2 billion less in 2024-25 than in 2023-24. This contributes to the significant spending pressure the government faces this year.

Unfunded policy announcements

22. A number of unfunded policy decisions made since SR21 have increased pressures on public spending in 2024-25 by a total of £2.6 billion. These included:

- Extending the Household Support Fund to September 2024, which was announced at Spring Budget 2024 at an estimated cost in 2024-25 of £500 million.
- The Advanced British Standard, which was announced in October 2023 at a cost of £260 million in 2024-25.
- Additional bus services support and the extension of the £2 bus fare cap until December 2024, which was announced as part of Network North in October 2023 at an estimated cost in 2024-25 of £250 million.

Impacts of inflation

23. Departmental budgets for 2024-25 were set at SR21,[6] in cash terms, but inflation has been significantly higher than forecast at the time. At SR21 the OBR forecast that the cumulative increase in prices as measured by the GDP deflator over that three-year period would be around 7%. In reality, cumulative inflation over the first two years was around 13% and is forecast to be 15% over all three years.[7] Inflation spiked to its highest level in over 30 years.[8]

24. This has placed considerable pressure on departmental budgets, which have not been systematically reset to account for the impact of inflation. This means 2024-25 total departmental spending (TDEL) budgets are at least £15.0 billion lower in real terms compared to SR21 plans[9].

Pressures on public spending due to recent events

25. In addition to pressures from inflation and pay, recent events have increased pressures significantly on public spending since SR21, including:

- **Military assistance to Ukraine** – The UK has committed £3 billion of military assistance to Ukraine in 2024-25 including £1.5 billion RDEL, in response to its invasion by Russia.
- **Asylum** – Asylum seeker arrivals, and the costs associated with supporting them in the UK, have exceeded SR21 forecasts. As a result spending on asylum support has increased seven-fold in the last three years, with asylum and immigration resulting in a pressure of £6.4 billion in 2024-25. The Rwanda migration partnership and Illegal Migration Act would have caused these spending pressures to continue rising even faster than before.
- **Rail services** – Pressures have emerged on rail finances, primarily due to the weaker-than-expected recovery in passenger demand following the COVID-19 pandemic, leading to a pressure of £1.6 billion in 2024-25.

26. These events have all taken place against a challenging fiscal backdrop, with public debt at its highest level since the early 1960s.[10]

Public sector pay

27. At SR21 the government set overall budgets in cash terms on an assumption that pay for public sector workforces would increase by around 3%, 2%, and 2% respectively in the three years covered.

28. Pay for most frontline public sector workers including NHS staff, teachers, police, armed forces and prison officers is set based on recommendations from independent Pay Review Bodies (PRBs). These recommendations have responded to higher levels of wage growth across the wider economy and so actual pay

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[6] These budgets were set with reference to the OBR's forecast for the GDP deflator, which measures the change in prices across the domestic economy. This measure better reflects the inflationary pressures which departments face than other measures of price inflation, such as Consumer Prices Index (CPI) inflation.
[7] Outturn data from ONS. SR21 figures calculated from Economic and Fiscal Outlook – October 2021, OBR, latest forecast from Economic and Fiscal Outlook – March 2024, OBR.
[8] GDP deflator, Quarterly National Accounts, ONS, June 2024.
[9] In 2024-25 prices, HMT calculations based on Economic and Fiscal Outlook – October 2021, and Economic and Fiscal Outlook – March 2024, OBR.
[10] Public Sector Finances June 2024, ONS, July 2024.

awards across PRB workforces increased by an average of 5% in 2022-23, and 6% in 2023-24.[11]

29. This – alongside some exceptional pay increases agreed outside the PRB process and pay awards across the Civil Service – has meant that public spending on pay is expected to be around £11-12 billion higher across central government departments in 2024-25 than it was projected to be at SR21, even before accounting for 2024-25 pay awards.[12]

30. The PRBs' 2024-25 recommendations – requested in December 2023 by the previous government – then came in materially above the 2% funding departments were provided for at SR21. The previous government did not provide any indication of what was set aside in budgets for pay in its written evidence to the PRBs.

31. Most recommendations are in the 5-6% range and above the funding provided to departments. They are broadly in line with the average expected pay settlement in the wider economy.[13] This follows a trend of falling public sector pay relative to the private sector, with the Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) showing that median annual pay in the public sector grew by 7 percentage points less than median annual pay in the private sector between 2011 and 2023[14] and Institute for Fiscal Studies (IFS) analysis[15] from 2022 showing that the public-private sector pay differential was less favourable in 2021-22 than at any point in the 30 years preceding it.

32. In considering its response to these recommendations, the government carefully considered:

a. The cost of the pay awards to the taxpayer; and,

b. The costs of industrial action (including to public service outcomes and the wider economy) that might be expected if the recommendations were rejected; against

c. The benefits from improved recruitment, retention and motivation of public sector workers, on the back of public sector pay having fallen relative to the private sector in recent years; and,

d. The potential impacts of these pay awards on inflation.

33. In view of these factors, the government has decided to accept the headline pay recommendations in full. Further details on the implications of decisions made on public sector pay for 2024-25, and how the decision was reached are set out in the Annex.

34. The 2024-25 pay awards for PRB workforces, alongside a 5.0% award to the delegated Civil Service grades (whose 2024-25 pay award is also due), create an estimated further pressure of £9.4 billion in 2024-25 on top of what the last government set aside for pay.[16]

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[11] All public sector pay award decisions available on gov.uk.
[12] This has largely been absorbed by departments, and therefore does not feature in table 1.
[13] The Bank of England report in their Monetary Policy Report from May 2024 that the latest Agents' intelligence suggests that pay settlements will average 5½% across 2024 – Monetary Policy Report, Bank of England, May 2024
[14] 'Annual Survey of Hours and Earnings (ASHE)', ONS, March 2024. Median pay, across all employees. ASHE data is recommended by the ONS as the principal source of data for comparing public and private sector pay due to its large sample size and coverage of the entire United Kingdom
[15] Public spending, pay and pensions, IFS, October 2022.
[16] Total cost above provision in departmental plans for the 2024-25 PRB workforces, delegated Civil Service Grades and associated workforces.

35. The pay year for most PRB workforces begins on 1 April. In recent years the PRB process has delivered awards around six months late, because previous governments chose to delay the process. This government intends to restore confidence in the PRB process.

36. As a first step the government will seek to return the process to a timeline which sees pay awards announced as close to the start of the pay year as possible and will start by remitting the PRBs for the 2025-26 pay round in September, three months earlier than for this pay round.

The results of the 2024-25 audit

37. As part of the audit, the Treasury has worked closely with departments to assess the scale of the 2024-25 pressure on their RDEL budgets (as published at Spring Budget 2024). The Treasury expects capital (CDEL) pressures to be managed through existing budgets this year and has therefore focused the spending audit on RDEL.

38. Based on this audit, the government estimates a pressure of £21.9 billion against the plans set out for departments at Spring Budget 2024.[17] Table 1 outlines the drivers of the pressure.

[17] The government laid Main Estimates for 2024-25 before Parliament on 17 July, the earliest available opportunity after the General Election and considerably later than the usual timetable. These Estimates were prepared before the General Election, and the government was forced to lay them unchanged in order to allow them to be voted on before the summer recess. This was necessary to avoid departments experiencing cash shortages over the summer. The pressures set out in this document represent a more realistic assessment of DEL spending. As usual, departmental spending limits will be finalised at Supplementary Estimates.

Table 1: 2024-25 RDEL pressures by category

Resource DEL pressure by category[1]	2024-25[2]
Normal Reserve claims[3]	£8.6bn
Pay – 2024-25 awards[4]	£9.4bn
Pay – overhang from previous awards[5]	£2.2bn
Health (excluding pay pressures)	£1.5bn
Asylum and illegal migration	£6.4bn
New policy commitments[6]	£2.6bn
Rail – passenger services and maintenance[7]	£2.9bn
Ukraine – military and civilian support[8]	£1.7bn
Total departmental gross pressure	**£35.3bn**
Spring Budget 2024 Reserve	-£9.2bn
Treasury fallaway assessment[9]	-£7.1bn
Total pressure above Spring Budget 2024 Resource DEL plans, before Allowance for Shortfall	**£19.0bn**
OBR Spring Budget 2024 Allowance for Shortfall[10]	£2.9bn
Total pressure above Spring Budget 2024 Resource DEL Plans, after Allowance for Shortfall[11]	**£21.9bn**

[1] It was agreed that some of the 2024-25 pressures would be funded by switching Capital DEL to Resource DEL. This additional Resource DEL spending is a pressure on the Resource DEL Reserve.
[2] All numbers include Barnett consequentials.
[3] Reserve claims that meet Consolidated Budgeting Guidance parameters as unforeseen, unavoidable and unaffordable; as well as technical adjustments (e.g. classification changes).
[4] Total cost above provision in departmental plans for the 2024-25 PRB workforces, delegated civil service grades and associated workforces.
[5] Resource DEL pressure above provision in departmental plans for 2024-25 resulting from 2023-24 pay awards.
[6] New policy commitments announced since Spending Review 2021 assumed to be funded from the Reserve.
[7] £1.6bn for rail passenger services and £1.3bn for rail maintenance.
[8] Resource DEL support for Ukraine this year includes £1.5bn for military support and £0.2bn for civilian support. The total military support package this year is £3bn, including £1.5bn Capital DEL.
[9] HMT's assessment of how much Resource DEL pressures will reduce and underspends will emerge over the course of the financial year.
[10] At each fiscal event, the OBR publishes an estimate of how much the government will underspend against its DEL plans, called the Allowance for Shortfall (AfS). To show total pressure against the OBR Spring Budget 2024 forecast, the Resource DEL AfS (£2.9bn) needs to be added to gross pressures.
[11] Totals may not sum due to rounding.

Immediate action on spending pressures

39. The government is taking immediate steps to address the pressures identified in the audit by cancelling unfunded policy announcements made by the last government and taking the difficult decisions it avoided.

40. This document sets out the savings that have been identified. Together these will deliver £5.5 billion savings in 2024-25 rising to £8.1 billion in 2025-26. The specific savings measures are set out in Table 2:

Table 2: Immediate savings (£ millions)

Department	Savings	2024-25	2025-26
All	Savings in departments to fund pay pressures[1]	-3,150	-3,150
	of which: reduce administration budgets by 2%	*-225*	*-225*
	of which: stop all non-essential spending on communications	*-50*	*-50*
	of which: stop all non-essential spending on consultancy in 2024-25 and halve spending on consultancy from 2025-26	*-550*	*-680*
DWP	Target Winter Fuel Payments at recipients of Pension Credit and certain other means-tested benefits from winter 2024-25[2]	-1,400	-1,500
HO	End the Rwanda migration partnership and remove retrospection of the Illegal Migration Act	-800	-1,400
MHCLG	Cancel the Investment Opportunity Fund and other small projects	-70	-50
DHSC[3]	Do not proceed with adult social care charging reforms	-30	-1,075
DfT	Review the transport infrastructure portfolio, cancel A303 Stonehenge tunnel and the A27 schemes, and end the Restoring Your Railways programme	0	-785
DfE	Cancel the Advanced British Standard	0	-185
	Total[4]	**-5,455**	**-8,145**
HMT	*Memo: NatWest retail offer*[5]	*-100 to -450*	

[1] 2024-25 savings assumed to be maintained in cash terms in 2025-26. 2025-26 budgets will be subject to Spending Review decisions.
[2] Winter Fuel Payments are classified as Annual Managed Expenditure (AME). Estimated savings sensitive to forecast take up of Pension Credit. Final savings will be certified by the OBR at the Budget taking account of any behavioural response.
[3] In addition, the government is reviewing the New Hospital Programme. Savings from this programme will be subject to this review.
[4] Totals may not sum due to rounding. Excludes savings from NatWest retail offer.
[5] Costs associated with a NatWest retail offer are not included in current forecast. This figure reflects the avoidance of a future loss of income from share sales should a retail offer take place. It assumes a retail offer of £1bn – £3bn in size, with a package of incentives for retail investors that equates to a discount to market price of between 10-15%. It does not take account of any other potential costs involved in such an offer or any discounts associated with potential institutional sales. For these purposes the offer is assumed to take place in and costs apportioned to 2024-25.

41. The immediate savings identified reduce the pressure from £21.9 billion to £16.4 billion in 2024-25. This is just the first step. As is usual, the government will continue to manage down the pressure and will take further decisions across tax and spending at the Budget.

42. Departmental budgets for 2024-25 will be confirmed at the Budget, alongside the OBR forecast. Final departmental expenditure limits will be set out at Supplementary Estimates in the usual way.

Immediate savings

43. The government is taking immediate action to manage the pressures revealed in the audit. These total £5.5 billion in 2024-25 and £8.1 billion in 2025-26, and include:

- **Making sure that departments absorb at least £3.2 billion of the public sector pay pressure this year**. The Treasury will work closely with departments to identify savings to fund pay. To achieve this, the Treasury will help departments to bear down on waste and drive efficiency, including by:
    - **Taking immediate action to stop all non-essential government consultancy spend in 2024-25 and halve government spending on consultancy in future years**. This will save £550 million in 2024-25 and £680 million in 2025-26. To help departments do this and make value for money decisions about how to resource work the civil service headcount cap announced by the previous administration will be lifted.
    - **Delivering administrative efficiencies across government** – the Treasury will implement a 2% saving against government administration budgets, cutting down on waste while prioritising the frontline. This will save £225 million in 2024-25.
    - **Reducing communications and marketing budgets** – the government will review the hundreds of millions spent each year across government on communications and marketing campaigns, with a view to making reductions.
    - **Continuing to dispose of surplus public sector estates**, raising money for public services and enabling assets to be put to productive use where the government can increase their social value and drive greater value for money.
- **Targeting Winter Fuel Payments**. Winter Fuel Payments will be targeted from winter 2024-25 at households in England and Wales with someone aged over State Pension age receiving Pension Credit, Universal Credit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. They will continue to be worth £200 for eligible households, or £300 for eligible households with someone aged over 80. This will better target support for heating costs at those who need it, while all pensioners will benefit from the government's commitment to maintain the triple lock for the basic and new State Pension in this Parliament. Winter Fuel Payments are devolved in Scotland and Northern Ireland.
- The government wants those entitled to Pension Credit to claim it. The government will bring together the administration of Pension Credit and Housing Benefit as soon as operationally possible, so that pensioner households receiving Housing Benefit also receive any Pension Credit that they are entitled to. The Department for Work and Pensions will continue to work with partners to encourage take-up alongside their own communication campaigns and to support people with their Pension Credit claims.

- **Stopping the Rwanda migration partnership.** This will create savings on flights and payments to Rwanda, and removing retrospection of the Illegal Migration Act will allow the government to process asylum seekers and reduce use of hotels.
- **Cancelling the Investment Opportunity Fund.** This was announced at Autumn Statement 2023 but has yet to support any projects.
- **Not proceeding with adult social care charging reforms**. The previous government committed to introduce these in October 2025 but did not put money aside for them. The reforms are now impossible to deliver in full to previously announced timeframes.
- **Reviewing the previous government's transport commitments.** This will ensure our transport infrastructure portfolio drives economic growth and delivers value for money for taxpayers. The government is cancelling the A303 Stonehenge tunnel and the A27 schemes. These are low value, unaffordable commitments which would have cost £698 million next year. The government will also cancel the Restoring Your Railway programme, saving £85 million next year. Individual Restoring Your Railway projects will be able to be reconsidered through the Transport Secretary's review.
- **Cancelling the Advanced British Standard.** The government will cancel the unfunded commitment to additional teaching hours, which would have cost almost £1 billion a year in the medium term. The government will continue to fund more and better maths teaching, additional funding to support young people resitting maths and English GCSEs, and teacher recruitment and retention incentives in 2024-25 and 2025-26.
- **Reviewing the New Hospital Programme and the previous government's '40 hospitals by 2030' commitment.** The government will put the programme on a more sustainable footing, following persistent delays and overruns, and recognising delivery and market constraints. The government is undertaking a full and comprehensive review of the programme while continuing to deliver the most advanced and most urgent hospitals to a realistic timeframe.

Restoring public spending control

44. The government is committed to delivering economic stability based on sound money. The spending audit commissioned by the Chancellor has revealed the scale of the spending pressures in 2024-25. Alongside immediate savings, the Chancellor is also setting out a clear plan to restore public spending control. This plan has three steps.

45. First, the government is initiating a process for identifying further savings. The government will set out its fiscal plans at a Budget on 30 October in the usual way, alongside a full economic and fiscal forecast from the OBR. This Budget will confirm departmental control totals for 2024-25.

46. Second, the government is launching a multi-year Spending Review which will conclude in the spring. The Spending Review will restore spending control in the medium term, setting spending policy in line with the government's wider fiscal strategy.

47. Third, the government is implementing reforms to the spending framework and improving the transparency of the information Treasury shares with the OBR to ensure that this situation does not repeat itself.

48. The pressure revealed by the audit does not therefore represent an announcement of the government's tax, spending or borrowing plans.

A path to the autumn

49. The savings set out are the first step the government is taking to manage down the 2024-25 pressure. The Chancellor has been clear that departments should, as is usual, make every effort possible to continue to manage down their pressures.

The Spending Review

50. The Chancellor has launched a multi-year Spending Review which will set spending plans for a minimum of three years of the five-year forecast period. The Spending Review process will bring spending back under control.

51. The Spending Review will conclude in spring 2025. Departmental expenditure limits for 2025-26 will be set alongside the Budget in October, to provide departments with necessary certainty.

52. This Spending Review will take a mission-led, reform-driven and tech-enabled approach to improving public services.

Strengthening the fiscal framework to ensure this never happens again

Framework reforms

53. The government is announcing a series of changes that will fundamentally strengthen the fiscal and spending frameworks and ensure that such unfunded pressures cannot arise again.

54. These will increase certainty and transparency and prevent spending decisions being repeatedly delayed. They ensure that there will always be medium-term departmental spending plans which the OBR will be able to assess aggregate pressures against. A revised Charter for Budget Responsibility which confirms the detail of these reforms will be published alongside the Budget.

55. The Charter will set out the government's reforms to the framework, including committing to:

a. A minimum frequency and duration of Spending Reviews;

b. Improving the transparency of the information the Treasury shares with the OBR, particularly on the in-year position; and

c. Formalising the OBR's power to forecast overspend against departmental expenditure limits in aggregate.

56. One significant underlying cause of the spending pressures outlined in this document was the failure to hold regular spending reviews to re-plan departmental spending in the face of shocks. Instead, there has been no spending review since 2021. This means budgets are largely based on macroeconomic assumptions which are three years out of date, and departmental planning horizons have shrunk to less than one year.

57. To prevent this happening again, the government will update the Charter for Budget Responsibility to require spending reviews to be held every two calendar years, and with a minimum duration of three years of the five-year forecast period to ensure public services are always planned over the medium term. This will improve value for money, the planning of public expenditure and provide greater budgetary certainty.

58. The OBR forecast in March 2024 for 2024-25 was based on the departmental expenditure limits originally set at SR21, and the OBR was not aware of the scale of the significant spending pressures outlined in this document.

59. The government will ensure that this never happens again, by changing the Charter for Budget Responsibility to require the Treasury to share with the OBR its assessment of pressures against departmental expenditure limits for the current and following financial year. The OBR can interrogate this assessment 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.

60. When combined with the reforms to ensure regular spending reviews with minimum planning horizons, this will ensure future OBR forecasts are always based on detailed departmental spending plans reaching into the medium term, and that the OBR is able to make an assessment of whether potential spending pressures mean departments are likely to overspend against those plans.

61. The government is introducing a "fiscal lock" in legislation through the Budget Responsibility Bill. This will require that fiscally significant announcements are subject to an independent assessment by the OBR. This will ensure there is always proper scrutiny of the government's fiscal plans.

62. To support economic stability, the government is committed to one major fiscal event a year, giving families and business due notice of tax and spending changes.

63. The government remains committed to robust fiscal rules: bringing the current budget into balance so that day-to-day costs are met by revenues and getting debt falling as a share of the economy by the fifth year of the forecast.

Making sure government spending delivers value for money

Office for Value for Money

64. The government will ensure that it places value for money at the heart of its spending decisions. To do this, the government will establish a new Office for Value for Money (OVfM), led by an independent chair reporting directly to the Chancellor and Chief Secretary to the Treasury who will be appointed in due course.

65. The OVfM will have two primary roles. First, to provide targeted interventions, working with Treasury and departments, so that value for money governs every decision government makes. Second, to recommend system reforms to ensure any changes support the government's missions and deliver value for money.

66. The OVfM will be a time-limited multidisciplinary team, based in the Treasury, and will take a task and finish approach to its activities. Following the conclusion of the Spending Review next year, the Office will evaluate the effectiveness of systems reforms, and its impact on the wider spending architecture. Its vision is to leave a legacy of concrete, embedded improvements to the value for money ecosystem to minimise the risk of poor value for money in future.

Achieving value for money in asset sales

67. As part of a commitment to fiscal discipline, it is important that the government seeks to ensure value for money when disposing of assets. The government intends to fully exit its shareholding in NatWest, resolving one of the last remaining legacy issues from the financial crisis. However, it will do this in a way that delivers value for money for taxpayers that funded these interventions. A retail share sale would not be value for money relative to other options for disposing of shares and so will not go ahead. The substantial size of incentives needed to attract investors in such offers can cost hundreds of millions of pounds, depending on the extent of the discount and how many shares are offered. Instead, the government will continue to use existing disposal methods to deliver value for money sales and expects a full exit to be achieved by 2025-26, subject to market conditions. This will secure the best outcome for the taxpayer and wider public services.

Reforming the public sector and welfare system

68. Public service performance is at a historic low. Prisons are over 99% capacity[18] and Crown Court backlogs are at a record high[19] – with victims waiting up to two years for cases to come to court.[20] In the health system, the elective care backlog is 7.6 million, with more than 300,000 people waiting more than a year for treatment.[21] A&E performance against the four hour target averages is at 75%, down from 85-90% pre-COVID-19.[22] In local government, in 2024, 19 local authorities needed Exceptional Financial Support to set a balanced budget,[23] with spending on social care increasing to 54% of councils' general service expenditure.[24]

69. Through the Spending Review process, the government will take forward work on a number of priority themes, including a greater focus on long-termism, investment in prevention, managing demand, and increasing devolution and local integration of services.

70. Increasing demand driven by demographic changes is set to further increase pressure on these services. Reform will be crucial in ensuring that the government can deliver better public service outcomes within a challenging fiscal context.

Mission-led public services

71. The government will change the way public services are delivered by embedding a mission-led approach. This will support preparations for the Spending Review, where the government will ensure departments are working together to deliver key priorities in a more effective and efficient way.

72. Missions are about much more than how public funding is allocated; they are about using all the tools at the government's disposal to drive change and reform to improve outcomes. Mission boards will drive collaboration, delivering robust performance management practices that track progress and outcomes.

Reform-driven public services

73. The government will take action to improve public service outcomes. This includes developing a 10-year health plan to change and modernise the NHS, with the first step launched through an independent external assessment of the current state of the system led by Lord Darzi of Denham. Another example is the government's commitment to transform the system for supporting children and young people with special educational needs and disabilities, in order to build an inclusive system that delivers better outcomes and is financially sustainable.

74. The government is committed to a more empowered, accountable and sustainable local government system, which will support strong public services. The government will use the Spending Review to improve how different tiers of government work together. This will include consolidating funding streams for local authorities into the Local Government Finance Settlement and rolling out integrated settlements for further Mayoral Combined Authorities that can show exemplary management of public money. The government will also work

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[18] 'Adult Male Prison Population and Capacity Release', Ministry of Justice, July 2024.
[19] 'Criminal court statistics quarterly', Ministry of Justice, March 2024
[20] 'Criminal court statistics quarterly', Ministry of Justice, March 2024
[21] 'Referral to treatment waiting times', NHS England, May 2024
[22] 'A&E Attendances and Emergency Admissions', NHS England
[23] Exceptional financial support for local authorities for 2024-25, MHCLG, February 2024.
[24] Local authority revenue expenditure and financing England: 2022 to 2023, MHCLG. Excludes policing, schools and the Better Care Fund, June 2024.

with councils to overhaul the local audit system as a crucial part of repairing the foundations of local government and ensuring taxpayers get better value for money.

75. The government is committed to tackling tax non-compliance, including from fraud and tax avoidance, to ensure everyone pays their fair share. The government will increase HMRC's compliance staff, invest in HMRC's resources and technology infrastructure, and make legislative changes to tackle tax non-compliance and raise revenue. The government will also carry out an urgent programme of work to ensure welfare spending is sustainable, including by supporting people into work. The Work and Pensions Secretary will also assess levels of fraud and error in the welfare system, and consider how to bring that down ahead of the Budget.

76. The government is considering how to reduce the cost of politics and government over the long-term. This includes bearing down on departmental administration budgets and reviewing the size of the House of Lords, including by removing hereditary peers, to ensure that the costs associated with the Lords are proportionate.

77. The government will also ensure that ministers demonstrate responsibility and restraint with their pay and allowances. To support this, the government will consider tightening eligibility on severance payments to ministers leaving office to cut costs and to ensure value for money. This will include linking severance payments to time served, thereby ending the possibility of ministers receiving payments when they could have served a single day in office. The government will also explore options to withhold severance payments to ministers who have not met the standards expected of them.

Tech-enabled public services

78. The government will focus on improving the productivity of the public sector to deliver high quality public services and achieve value for money.

79. The government will create the conditions for successful digital adoption in the public sector by addressing legacy IT and utilising cloud services and data sharing. This will allow the public sector to realise the opportunities of Artificial Intelligence (AI) and improve public service outcomes.

80. The Artificial Intelligence Opportunities Action Plan, announced by the Department for Science, Innovation and Technology,[25] will set out a roadmap for government to capture the opportunities of AI to enhance growth and productivity and deliver better services for the public.

81. Better data and digital infrastructure will enable a move to more personalised public services that meet people's needs, improving user satisfaction and efficiency. This new approach will transform public services by giving people more choice and control over the services they use.

Reforming infrastructure delivery

82. The government will launch the National Infrastructure and Service Transformation Authority (NISTA) which will drive more effective delivery of infrastructure across the country and support the delivery of a 10-year infrastructure strategy.

[25] AI expert to lead Action Plan to ensure UK reaps the benefits of Artificial Intelligence, DSIT, July 2024.

Workforce reforms

83. The government has accepted the recommendations of the independent Pay Review Bodies (PRBs) for 2024-25. This will ensure that UK public services can recruit, retain and motivate the people they need. It provides a basis for government and those working in the public sector to work together to reform and repair UK public services.

84. These pay awards provide the foundation on which workforce reform can be delivered over the Parliament. This will be a key theme for the Spending Review, with a particular focus on:

a. **NHS workforce**. The government is committed to training the NHS staff needed to get patients the care they need on time and will reform the way care is delivered, including a greater focus on community and preventative care. This will include enhancing medical training to create a more productive workforce by equipping doctors with both generalist and specialist skills to treat patients with increasingly complex care needs. In 2022-23, the NHS spent £9.3 billion on agency and bank staff.[26] While agency spend is now falling, the government and NHS England will review ways to go further and faster to rapidly reduce the costs of temporary staffing.

b. **Police**. The government is committed to tackling waste through the Police Efficiency and Collaboration Programme. The programme will set nation-wide standards for procurement and establish shared services and specialist functions to drive down costs.

c. **Teachers**. The Secretary of State for Education will work with the schools' sector on how to make the most effective use of the workforce, particularly in the context of changes in demographics with pupil numbers decreasing in primary schools.

d. **Armed forces**. The government will fundamentally overhaul the way the Ministry of Defence operates, through the Defence Secretary's work on the Defence Operating Model. This will break down the barriers to productive working through a new central productivity portfolio, expose ineffective procurement practices, and reduce duplication and bureaucracy across defence – enabling the Armed Forces to be more productive.

e. **Civil service**. The government will develop a strategic plan for a more efficient and effective civil service, including bold options to improve skills, harness digital technology and drive better outcomes for public services. The civil service will also be required to make efficiencies through reducing use of consultants and making sure back-office functions are as streamlined as possible. The government will move away from capping civil service headcount to an approach that ensures departments consider overall value for money in resourcing decisions.

[26] 'NHS England Financial Performance Report', NHS England, Q4 2022-23.

Annex: responding to the 2024-25 Pay Review Bodies' recommendations

1. The government is committed to the independent Pay Review Body (PRB) process as the means for setting pay. The PRBs weigh up a number of factors when forming their recommendations, including recruitment, retention and affordability. The PRB process is independent and seeks input from both workforces and the government. The integrity of this system – including the expectation that the government will honour the recommendations – means it plays an essential role in ensuring smooth industrial relations.

2. In considering its response to the PRBs' recommendations for 2024-25 pay awards, the government carefully considered:

a. The cost of the pay awards to the taxpayer;

b. The costs of industrial action (including to public service outcomes and the wider economy) that might be expected if the recommendations were rejected;

c. The benefits from improved recruitment, retention and motivation of public sector workforces, given that public sector pay has fallen relative to the private sector in recent years; and

d. The potential impacts of these pay awards on inflation.

Costs from industrial action

3. Industrial action in the public sector has had significant impacts on public services, with disproportionate impacts on the most vulnerable in society, the public finances and the economy. Recent industrial action across the NHS has resulted in direct costs to the Exchequer, affected patient care, and had adverse economic consequences.

a. **Direct fiscal cost**: a total of £1.7 billion of funding was provided to NHS England to mitigate against the direct cost of industrial action in 2023-24 and ease pressures on hospitals. This was provided through a combination of reprioritised Department of Health and Social Care funding and new funding from HM Treasury.[27] This includes the cost to cover shifts and lost pay efficiencies, whilst subtracting salary savings across those staff on strike.

b. **Impact on patient care**: industrial action has had a significant impact on elective care and placed services under increased pressure. Over 1.5 million appointments have been rescheduled to date (as of July 2024)[28] due to strike action from December 2022 to March 2024. NHS England analysis

[27] '2023 To 2024 revised financial directions to NHS England', DHSC, March 2024.
[28] 'NHS faces fresh strike disruption amid heat health warnings', NHS England, June 2024.

estimates that the waiting list could have fallen by an extra 430,000 since December 2022 without industrial action.[29]

c. **Direct economic impacts**. ONS GDP data covering previous strike days highlights lost activity across the health sector. In July 2023, one of the main contributors to the fall in monthly output was the human, health and social work activities sub-sector, which fell by 1.2%. This was attributed to a 2% fall in the human health activities industry amidst strike action from healthcare workers (senior doctors, radiographers and junior doctors).[30]

d. **Indirect economic impacts.** There are also likely to be indirect economic effects from the impact of industrial action on health outcomes. The NHS elective waiting list in England reached a record high of 7.8 million in September 2023 up from 4.6 million in December 2019, in part exacerbated by industrial action.[31] Over a similar period, ill-health related inactivity has increased sharply and has been the leading reason for rising economic inactivity, standing at a near-record 2.8 million people in the three months to May 2024.[32] Analysis by the National Institute of Economic and Social Research has highlighted that the record size of healthcare waiting lists has likely contributed to the increase in ill-health related inactivity.[33]

4. School teachers' strikes have also affected students and parents, with economic impacts.

a. **Effects on students**: The Department for Education estimates that strike action taken by school teachers across 2023 led to over 25 million school days being lost.[34] The loss of school days also has longer run impacts on children's attainment, particularly if repeated over a sustained period.

b. **Direct economic effects**: School closures and lost days of schooling directly translate into GDP impacts, as they reduce output for the education sector. GDP data highlights this loss of activity, for example in July 2023, amidst teacher strikes, monthly output in the education sector fell 1.7%.[35]

c. **Wider economic effects**: There are broader and significant economic effects from parents having to take time off work to care for children who are unable to attend school during strike days, reducing output across a wide range of sectors. According to ONS survey data, 59% have to work fewer hours or are unable to work at all if schools close due to strikes.[36] If 10% of the 25 million lost school days led to a parent having to take a day off work for childcare, that would equate to 2.5 million working days lost, worth around £900 million in lost output to the economy.[37]

[29] Based on NHS supplementary statistics and published IA analysis.
[30] 'Monthly GDP low level industry dataset', ONS, May 2024.
[31] 'Referral to treatment waiting times', NHS England, May 2024.
[32] INAC01 SA: Economic inactivity by reason (seasonally adjusted), ONS, July 2024.
[33] NIESR UK Economic Outlook Spring 2024, Box B, May 2024.
[34] School closures during the 2023 teacher strikes – GOV.UK (www.gov.uk)
[35] Monthly GDP low level industry dataset, ONS, July 2024.
[36] 'The Impact of strikes in the UK: June 2022 to February 2023', ONS, March 2023 June 2022 to February 2023.
[37] Based on 2.5 million parent working days lost at 8 hours per day, using the ONS average hourly productivity figure for 2023 of £44.64, Output per hour worked, ONS, May 2024.

Benefits from improving recruitment and retention

5. The PRBs' recommended awards are broadly in line with the average expected pay settlement in the wider economy.[38] Pay growth in the private sector provides an important benchmark when considering the recruitment and retention impacts from pay awards.[39]

6. Recruitment and retention has deteriorated across many public sector workforces since 2011, with previous governments having capped or frozen pay on multiple occasions. ONS' Annual Survey of Hours and Earnings (ASHE) shows that median annual pay in the public sector grew by 7 percentage points less than median annual pay in the private sector between 2011 and 2023.[40]

7. The PRBs' recommendations are calibrated to support recruitment and retention of their workforces. This has benefits for the taxpayer and the users of these services.

a. **Improved public services outcomes**: retaining experienced teachers is key to boosting teaching quality,[41] which evidence suggests is the single most important in-school factor affecting pupil outcomes.

b. **Reduced reliance on expensive temporary staffing, particularly in the NHS**: In 2022-23, the NHS spent £9.3 billion on temporary staffing due to workforce shortfalls.[42]

c. **Reduced turnover and so recruitment costs**: Over the medium-term, improved retention will result in savings associated with recruiting and training new personnel. For example, it costs an estimated £92,000 to recruit and train an infantry soldier and between £500,000 and £600,000 to train and pay for a Service person to become a Corporal air engineer.[43]

[38] Monetary Policy Report, Bank of England, May 2024.
[39] Assessing the impact of pay and financial incentives in improving shortage subject teacher supply, National Foundation for Education Researchers (NFER), 2022.
[40] Median pay, across all employees. ASHE data, March 2024.
[41] 'Does Teaching Experience Increase Teacher Effectiveness?', Learning Policy Institute, June 2016.
[42] NHS England Financial Performance Report, NHS England, Q4 2022-23.
[43] Internal Ministry of Defence (MoD) analysis.

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This document can be downloaded from www.gov.uk

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