

Lord Bridges of Headley MBE
Chair, Lords Economic Affairs Committee
House of Lords
London
SW1A 0PW

T +44 (0)7767 005 626
E Sam.Beckett@hmtreasury.gov.uk

8 April 2024

Dear Lord Bridges,

Following my appearance alongside the Chancellor at the Lords Economic Affairs Committee on 19th March, I wanted to write to you with more detail on the fiscal framework and in particular additional metrics that are considered alongside the fiscal rules.

The government's approach to operating fiscal policy is set out in the Charter for Budget Responsibility. The Treasury's objectives for fiscal policy are to ensure sustainable public finances, economic growth and stability, value for money for the taxpayer, a strong balance sheet, and intergenerational fairness. The UK's fiscal rules are the means by which fiscal policy objectives are attained, by providing a medium-term anchor to support sustainable public finances. The fiscal rules target debt and borrowing as a percentage of GDP, and are assessed by the independent Office for Budget Responsibility (OBR), the UK's independent forecaster. This approach is consistent with previous sets of fiscal rules the UK has had and is in line with international best practice.

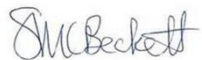
Alongside the fiscal rules, the Charter for Budget Responsibility includes a commitment to consider 'wider data, analysis and evidence on the affordability of public debt and the strength of the public sector balance sheet'. In particular, we monitor Public Sector Net Worth (PSNW) and Public Sector Net Financial Liabilities (PSNFL). The OBR produces forecasts for these two metrics which are included in its Economic and Fiscal Outlook (EFO) alongside an assessment of the affordability of national debt and performance against the fiscal rules. At each fiscal event, the government reports on these metrics in its Budget and Autumn Statement documents.

Going further, at Autumn Statement 2023 the government published for the first time a comprehensive assessment of its provisions, financial guarantees, insurance contracts and contingent liabilities. These liabilities do not appear in the debt and borrowing metrics that are targeted by our fiscal rules, but they do create fiscal risks for the government. It is therefore important that they are understood and managed well. This level of transparency goes beyond accounting requirements to provide the public and Parliament with detailed information on the Government's risk exposure.

Looking at fiscal sustainability over a longer timeframe, the OBR is required to produce an annual Fiscal Risks and Sustainability (FRS) report which monitors risks and the long-term sustainability of the public finances, which the government then responds to at a subsequent fiscal event. The most recent report was published in July 2023 and the government response was published alongside Autumn Statement 2023; I have attached a copy of both reports. This approach demonstrates the government's commitment to thoroughly assessing and actively mitigating fiscal risks. It also improves fiscal transparency to Parliament and the public.

Please do not hesitate to get in touch if you have any questions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'SMBeckett'.

Sam Beckett

Chief Economic Adviser, HM Treasury Second Permanent Secretary and Head of the Government Economic Service