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FISCAL INSIGHT

# AUTUMN BUDGET 2024

Issued 25 November 2024

This Fiscal Insight analyses Chancellor Rachel Reeves's first Budget, presented to Parliament on 30 October 2024, and the accompanying October 2024 Economic and Fiscal Outlook (EFO), published by the independent Office for Budget Responsibility (OBR). A copy of the Autumn Budget 2024 Red Book can be found at this link and the October 2024 EFO can be found here.

Our analysis concludes that while the Autumn Budget has addressed immediate weaknesses in the public finances, they are still fragile in the medium term, and unsustainable in the long term.

**Headlines**

- Chancellor replaces inherited austerity plan with a more realistic path for public spending.
- Effective reversal of previous government's tax cuts on top of typical post-election tax rises.
- Higher borrowing used to fund public investment.

**Significant revision to current financial year**

- Estimated full-year deficit revised up to **£127bn or 4.5% of GDP, £40bn over budget**.
- Higher debt interest and £22bn 'black hole' pushing up spending in this and future years.
- Additional funding for local government staves off bankruptcies in the short term.

**Budget for 2025/26**

- Further boost to current spending and investment ahead of three-year Spending Review.
- Receipts **£1,229bn** (41.7% of GDP) - spending **£1,335bn** (45.3%) = deficit **£106bn** (3.6%).
- Per capita receipts **£1,475** - spending **£1,600** = a deficit of **£125 per person per month**.

**Fiscal outlook to 2029/30**

- Fiscal deficit projected to fall to **£71bn or 2.1% of GDP** by the end of the decade.
- Gradual contraction in public spending as a share of GDP from 2026/27 onwards.
- Net debt projected to reach **£3.0trn** by March 2027 and approach **£3.4trn** by March 2030.

**Conclusions**

- Post-election tax rises were inevitable, but these were bigger than usual.
- Badly designed fiscal rules replaced, but flaws still exist.
- Lack of ambition to reform the tax system is a major disappointment.
- Difficult decisions remain for both taxes and public spending.
- Public finances remain fragile; no sign of a long-term fiscal strategy.



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**Magic money tree turns out to require higher taxes**

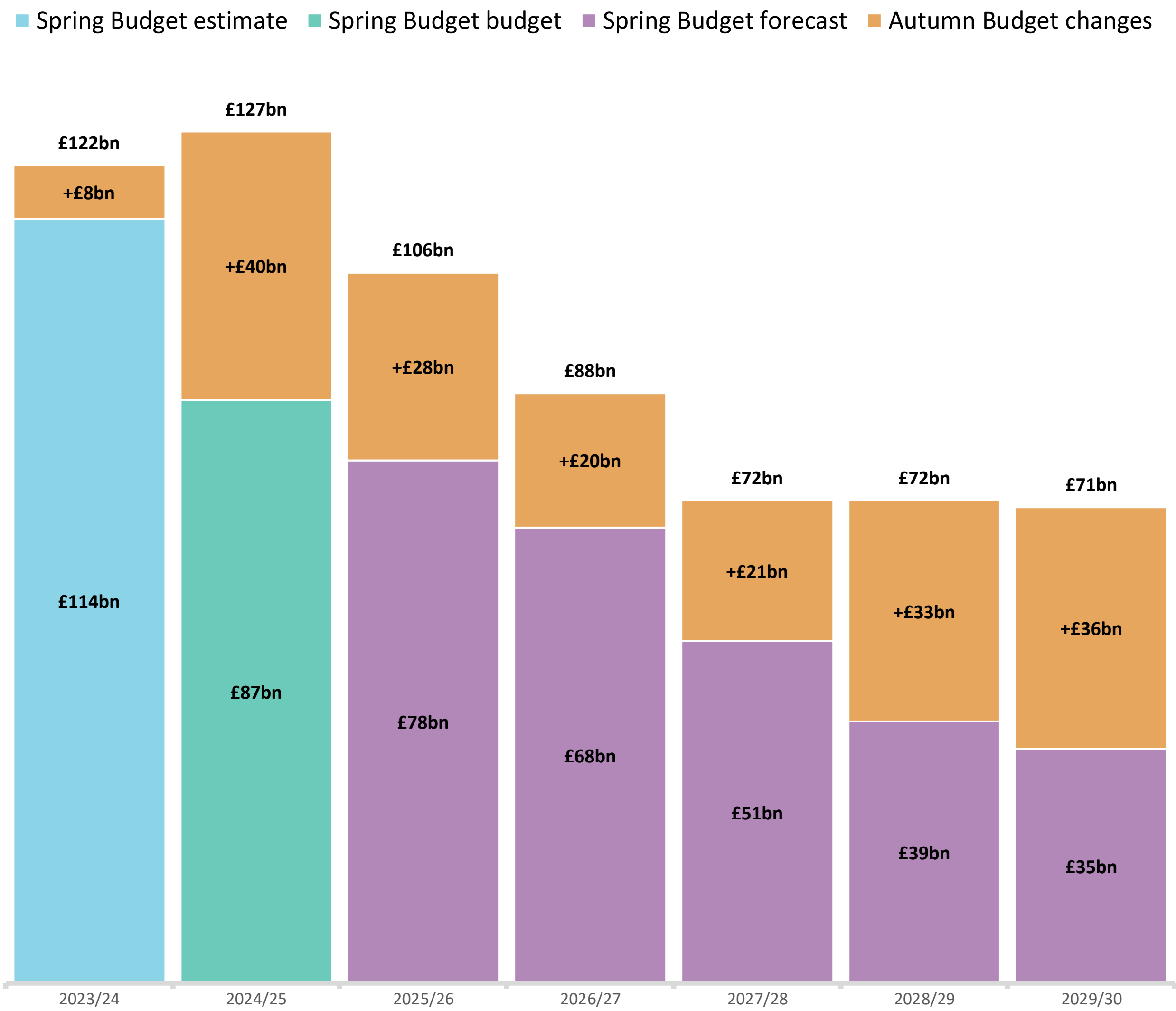
*"Chancellor Rachel Reeves used her first Budget to upgrade the medium-term outlook for the public finances from 'weak' to 'fragile', raising taxes over the next five years to avoid the austerity that was embedded into the spending plans she inherited from the previous government.*

*"As expected, borrowing will be higher following the change in the Chancellor's debt rule, which we were pleased to see given that it increases her ability to invest, as we had called for. The Chancellor's 'stability rule' will limit the amount she can put into raising public investment, so the government must get a grip on major capital expenditure programmes to get value for money.*

*"Despite the extra money for both day-to-day spending and public investment, budgets will remain tight with some very difficult choices still to be made in next year's Spending Review. The Chancellor will also be aware that there remains a lot more to do over the course of the Parliament to address the long-term fiscal challenges facing the UK."*

**Alison Ring OBE FCA CPFA**
Director, Public Sector and Taxation

**Figure 1 – Autumn Budget 2024 projected fiscal deficit**




Sources: HM Treasury, *Autumn Budget 2024*; OBR, *Economic and Fiscal Outlook, October 2024*.

## THE AUTUMN BUDGET 2024

The primary purpose of the Autumn Budget is to present the government's plans for receipts, spending and borrowing in the coming financial year to Parliament, in this case for the period starting on 1 April 2025 and ending on 31 March 2026 (2025/26).

The Autumn Budget also involves an update to the estimates for the current financial year (2024/25), medium-term economic and fiscal projections from the OBR covering the period up to 31 March 2030, and a revised financing remit for the Debt Management Office. HM Treasury has published a series of consultations on tax measures included in the Autumn Budget, as well as on a corporate tax roadmap and business rates reform, among other potential developments.

This Autumn Budget included a one-year spending round setting departmental budgets for 2025/26, ahead of the next three-year Spending Review in the spring, which will cover 2026/27, 2027/28 and 2028/29. This will provide further detail on how the government plans to fund public services over the rest of the Parliament.

### FISCAL DEFICIT

Table 1 sets out the latest estimates for the fiscal deficit in the current financial year, the budgeted numbers for the Budget year, and forecasts for the remainder of the five-year medium-term forecast horizon. These numbers are all subject to change, especially in later years where there is more time for the economy to improve or deteriorate, and for new policy decisions to be made. They are prepared in accordance with statistical standards[1], which are materially different from accounting standards such as International Financial Reporting Standards (IFRS).

**Table 1 – Autumn Budget 2024 forecast fiscal deficit**

| | 2024/25 Estimate £bn | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn |
|---|---|---|---|---|---|---|
| Receipts | 1,149 | 1,229 | 1,291 | 1,346 | 1,390 | 1,440 |
| Current expenditure | (1,204) | (1,256) | (1,296) | (1,335) | (1,381) | (1,430) |
| **Current (deficit) surplus** | **(55)** | **(27)** | **(5)** | **11** | **9** | **10** |
| Net investment | (72) | (79) | (83) | (83) | (81) | (81) |
| **Fiscal deficit** | **(127)** | **(106)** | **(88)** | **(72)** | **(72)** | **(71)** |
| | | | | | | |
| *Receipts/GDP* | *40.8%* | *41.7%* | *42.2%* | *42.5%* | *42.4%* | *42.4%* |
| *Current expenditure/GDP* | *(42.8%)* | *(42.6%)* | *(42.4%)* | *(42.2%)* | *(42.1%)* | *(42.1%)* |
| ***Current (deficit) surplus/GDP*** | ***(2.0%)*** | ***(0.9%)*** | ***(0.2%)*** | ***0.3%*** | ***0.3%*** | ***0.3%*** |
| *Net investment/GDP* | *(2.5%)* | *(2.7%)* | *(2.7%)* | *(2.6%)* | *(2.5%)* | *(2.4%)* |
| ***Fiscal deficit/GDP*** | ***(4.5%)*** | ***(3.6%)*** | ***(2.9%)*** | ***(2.3%)*** | ***(2.2%)*** | ***(2.1%)*** |

Sources: HM Treasury, *Autumn Budget 2024*; OBR, *Economic and Fiscal Outlook, October 2024.*

The Autumn Budget uses significant tax rises in 2025/26 and 2026/27 to fund a higher level of current spending than planned by the previous government, together with more borrowing to fund public investment. The consequence is a higher current deficit of £55bn in 2024/25, which is expected to fall to £27bn in 2025/26 and then a small surplus of £10bn or 0.3% of GDP in 2029/30. A fiscal deficit of £127bn or 4.5% of GDP in 2024/25 should fall to £106bn or 3.6% of GDP in the budget year, before reducing to £71bn or 2.1% in 2029/30.

This is a more realistic path for public spending and investment than the austerity plans of the previous government that many commentators believed were unachievable.

[1] The UK National Accounts, prepared in accordance with the European System of Accounts (ESA 10).

However, it is still a far from generous budget in terms of public spending or investment. While there is additional funding for public services and investment in the next couple of years, this is to be followed by a gradual decline over the rest of the forecast period.

The fall in current expenditure as a share of GDP is unlikely to be deliverable given the current state of public services, with the Chancellor expected to use any improvements in forecasts over the next two to three years to top up funding if she can. Otherwise, further tax rises might be required, although not to the same extent as in this fiscal event.

## BORROWING AND DEBT

Table 2 sets out the plans for borrowing and debt over the five-year forecast period. Public sector net debt is expected to increase from an estimated £2,836bn on 31 March 2025 to a projected £3,361bn on 31 March 2030, while net debt/GDP will fall from 98.4% to 97.1%.

**Table 2 – Autumn Budget 2024 forecast borrowing and headline debt**

| | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn | Five-year Total £bn |
|---|---|---|---|---|---|---|
| **Borrowing to fund fiscal deficits** | **106** | **88** | **72** | **72** | **71** | **409** |
| Borrowing to fund net lending[2] | 17 | 19 | 18 | 18 | 18 | 90 |
| Borrowing to fund working capital[3] | 31 | 23 | 25 | 25 | 24 | 128 |
| NatWest share sales | (4) | - | - | - | - | (4) |
| **Net borrowing** | **150** | **130** | **115** | **115** | **113** | **623** |
| Term Funding Scheme settlements | (73) | (25) | - | - | - | (98) |
| **Increase in net debt** | **77** | **105** | **115** | **115** | **113** | **525** |
| Opening net debt | **2,836** | 2,913 | 3,018 | 3,133 | 3,248 | **2,836** |
| **Public sector net debt** | **2,913** | **3,018** | **3,133** | **3,248** | **3,361** | **3,361** |
| | | | | | | |
| ***Borrowing to fund fiscal deficits*** | ***3.6%*** | ***2.9%*** | ***2.3%*** | ***2.2%*** | ***2.1%*** | ***13.1%*** |
| *Borrowing to fund net lending* | *0.6%* | *0.6%* | *0.6%* | *0.5%* | *0.5%* | *2.8%* |
| *Borrowing to fund working capital* | *1.0%* | *0.7%* | *0.7%* | *0.8%* | *0.7%* | *3.9%* |
| *NatWest share sale* | *(0.1%)* | - | - | - | - | *(0.1%)* |
| ***Net borrowing/GDP*** | ***5.1%*** | ***4.2%*** | ***3.6%*** | ***3.5%*** | ***3.3%*** | ***19.7%*** |
| *Term Funding Scheme settlements* | *(2.5%)* | *(0.8%)* | - | - | - | *(3.3%)* |
| *Effect of increases in GDP* | *(4.1%)* | *(3.3%)* | *(3.4%)* | *(3.4%)* | *(3.5%)* | *(17.7%)* |
| ***Change in net debt/GDP*** | ***(1.5%)*** | ***0.1%*** | ***0.2%*** | ***0.1%*** | ***(0.2%)*** | ***(1.3%)*** |
| *Opening net debt/GDP* | ***98.4%*** | *96.9%* | *97.0%* | *97.2%* | *97.3%* | ***98.4%*** |
| ***Public sector net debt/GDP*** | ***96.9%*** | ***97.0%*** | ***97.2%*** | ***97.3%*** | ***97.1%*** | ***97.1%*** |

Source: OBR, *Economic and Fiscal Outlook, October 2024.*

The government needs £623bn over five years to fund the deficit, fund net lending by the government and fund working capital requirements, net of sales of NatWest shares. The resulting increase in net debt is £525bn after deducting the cash-neutral settlement of Bank of England Term Funding Scheme liabilities from the recovery of the related loans made to high street banks.

[2] £57bn to fund student loans (£92bn loans less £35bn in repayments) and £33bn to fund net lending to businesses and individuals.
[3] £48bn to fund an increase in tax and other receivables, £39bn for student loan interest accruals, £23bn in timing of premiums and discounts on debt issues, £28bn to unwind quantitative easing, and £4bn for guarantee write-offs, less a £14bn increase in payables.

Net borrowing over the five years is equivalent to 19.7% of annual GDP, offset by 3.3% for the Term Funding Scheme and 17.7% from the 'inflating away' effect of inflation and economic growth increasing the denominator in the debt to GDP ratio.

The consequence is a reduction of 1.3 percentage points in the net debt to GDP ratio over five years once inflation and economic growth is taken into account, although this is an effective increase of 2.0 percentage points in net debt if the cash-neutral Term Funding Scheme settlements are excluded.

## FINANCING

Table 3 highlights how the government not only needs to borrow to finance the deficit and other cash needs of the public sector, but also needs to raise money to repay existing debts as they fall due. This almost doubles the total that needs to be raised from debt investors to £1,241bn over the five years between 1 April 2025 and 31 March 2030.

**Table 3 – Autumn Budget 2024 forecast financing**

| | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn | Five-year total £bn |
|---|---|---|---|---|---|---|
| **Net borrowing** (from Table 2) | **150** | **130** | **115** | **115** | **113** | **623** |
| Refinancing of existing debt | 165 | 142 | 109 | 147 | 75 | 638 |
| Financing and other adjustments | (15) | (16) | 9 | 12 | (10) | (20) |
| **Gross financing requirement** | **300** | **256** | **233** | **274** | **178** | **1,241** |

Sources: HM Treasury, *Autumn Budget 2024*; Debt Management Office, *Remit Revision October 2024.*

As an illustration of how these sums will be raised, the £312bn[4] (not shown in the table) that the Debt Management Office and National Savings & Investments plan to borrow in the current financial year comprises:

- £255bn (82% of the gross financing requirement this year) from issuing fixed-interest gilts[5];
- £33bn (11%) from issuing index-linked gilts[6];
- £10bn (3%) in National Savings & Investments deposits from the public;
- £3bn (1%) from increasing the stock of Treasury bills[7], and £9bn (3%) yet to be determined; and
- £2bn from coinage and reserves.

The relatively small proportion of index-linked gilts compared with recent decades reflects both a reduction in expected demand from institutional investors and a change in treasury strategy to reduce the relative size of the low-inflation hedge that index-linking provides, despite consumer price inflation (CPI) dropping to 2% this year.

The smaller proportion of long fixed-interest gilts to be issued is perhaps more understandable (19% compared with 27% in the existing debt portfolio) given the expectation that interest rates and yields will reduce significantly in the next year or two. It is likely that the Debt Management Office will increase the proportion of long fixed-interest gilts that it issues in the later years of the forecast period, assuming interest rates fall as predicted.

One challenge for the Debt Management Office will be competition from the Bank of England as the latter disposes of gilts purchased as part of quantitative easing. These are expected to add an additional £240bn to the £1,241bn being asked of debt investors, potentially increasing the yield on new gilts that debt investors will demand, and therefore the effective interest rate that will be payable.

[4] Comprising £177bn in net borrowing (£127bn, £15bn and £39bn to fund the deficit, net lending and working capital requirements respectively, less £4bn proceeds from the sale of NatWest shares) and £140bn to refinance existing debt less £5bn in adjustments.
[5] £104bn short fixed-interest gilts (maturities less than 7 years), £92bn medium (7 to 15 years), £59bn long (15 to 50 years).
[6] Typical maturities of 15 to 50 years.
[7] Typical maturities of one, three or six months.

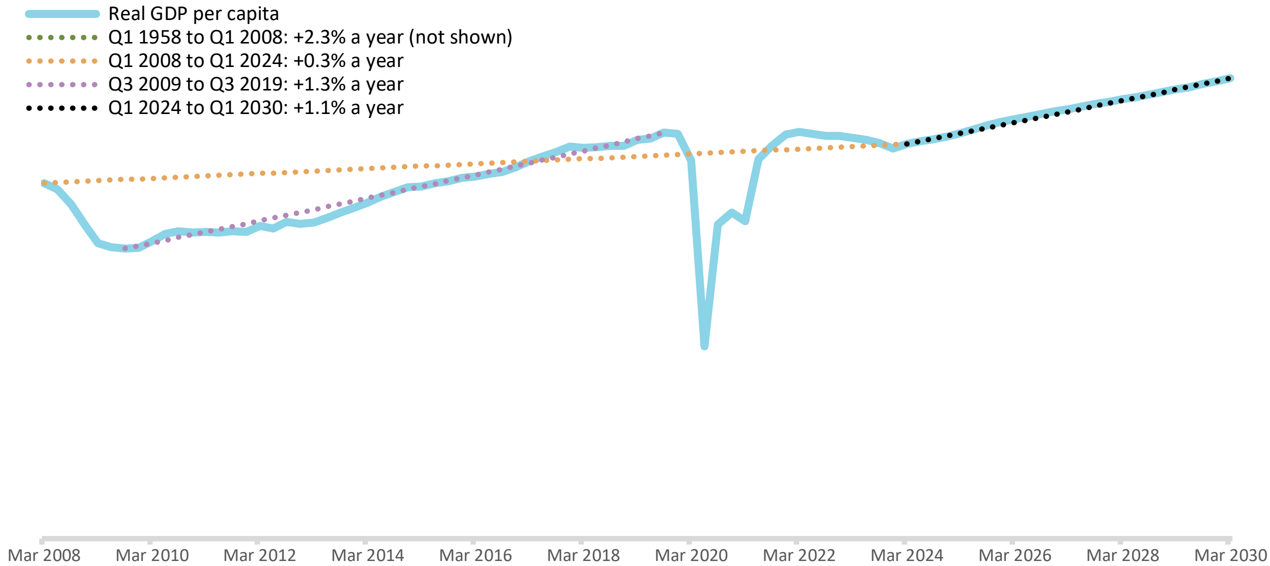
## ECONOMIC AND FISCAL CONTEXT

The Autumn Budget 2024 follows more than a decade and a half of weak economic performance since the financial crisis, including the austerity years, the turmoil of the pandemic, a cost-of-living crisis, and low growth over the last couple of years despite record levels of net inward migration.

This is illustrated by Figure 2, which highlights how economic activity per person grew by an average of just 0.3% a year over the 16 years to March 2024, before being predicted to grow by 1.1% a year over the period to March 2030.

While the forecast rate of per capita growth of 1.1% a year is an improvement, it is still less than the 1.3% seen during the austerity years and significantly lower than the 2.3% annual average achieved in the 50 years prior to the financial crisis.

**Figure 2 – Real GDP per capita**




Source: OBR, *Economic and Fiscal Outlook, October 2024.*

The weak level of growth over the last 16 years has combined with a massive increase in public indebtedness. This has seen net debt rising from £467bn or 33.5% of GDP in March 2005 to an estimated £2,700bn or 97.8% of GDP in March 2024.

Long-term fiscal challenges include a projected 25% increase in the number of pensioners over the next 20 years as more people live longer, in contrast with a 9% projected rise in the working age population over the same period. This will put significant pressure on the budgets for pensions and pensioner-related benefits, health services and adult social care.

The OBR predicted in September 2024 that public sector net debt could rise to between 274% and 324% of GDP by 2074 if the public finances stay on their current path.

The OBR also projected that taxes would increase from an estimated 36.4% of GDP in 2024/25 to 38.2% of GDP in 2029/30, which would be their highest level since 1948. This is despite a reduction in the proportion of spending on public services outside of health, social care and education of around a half over the last 50 years, with poor performance and service quality an increasing issue across both central and local government.

At the same time, the plans for public spending that the Chancellor inherited from the previous government were viewed by many commentators as unrealistic. Significant cuts in the budgets of unprotected departments and local government never seemed practically achievable given the current poor state of many public services, ranging from prisons to potholes.

Similarly, a planned cut of one-third by the previous government in public investment as a share of national income also did not seem credible given the importance of investment to economic growth. It was therefore always likely that there would need to be tax rises and more borrowing in the first post-election Budget, irrespective of which party won power.

## CHANGES SINCE THE SPRING BUDGET

Table 4 sets out the changes between the OBR's Spring Budget 2024 forecast and its October 2024 forecast prepared for the Autumn Budget 2024.

**Table 4 – Autumn Budget 2024 fiscal deficit changes from Spring Budget 2024**

| Fiscal deficit | 2024/25 Estimate £bn | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn |
|---|---|---|---|---|---|---|
| Forecast revisions (see below) | (20) | 1 | 8 | 10 | 5 | |
| Tax measures (see below) | 1 | 25 | 35 | 39 | 40 | 42 |
| Current spending measures | (23) | (42) | (44) | (47) | (49) | (47) |
| Public investment measures | (2) | (18) | (23) | (26) | (27) | (25) |
| Indirect effects of decisions | 4 | 5 | 5 | 2 | (2) | (6) |
| **Net change to forecast deficit** | **(40)** | **(29)** | **(19)** | **(22)** | **(33)** | **(36)** |
| Spring Budget forecast deficit | (87) | (77) | (69) | (51) | (39) | (35) |
| **Autumn Budget forecast deficit** | **(127)** | **(106)** | **(88)** | **(73)** | **(72)** | **(71)** |
| | | | | | | |
| Higher receipts | 1 | 16 | 16 | 15 | 10 | |
| Higher debt interest | (14) | (10) | (4) | (1) | 2 | |
| Higher other spending | (7) | (5) | (4) | (4) | (7) | |
| **Forecast revisions** | **(20)** | **1** | **8** | **10** | **5** | |
| | | | | | | |
| Employer national insurance increase | - | 24 | 24 | 24 | 25 | 26 |
| Other tax measures | 1 | 1 | 11 | 15 | 15 | 16 |
| **Tax measures** | **1** | **25** | **35** | **39** | **40** | **42** |

Source: OBR, *Economic and Fiscal Outlook, October 2024.*

With tax increases being used to fund most of the additional current spending, the main driver of the increase in the size of the deficit is investment. This is now expected to increase to 2.7% of GDP in 2025/26 and 2026/27 before declining to 2.4% of GDP in 2029/30, in place of the previous government's plan to cut investment as a share of GDP to 1.7% by 2028/29.

Upward revisions to the estimated cash size of the economy since March 2024 benefit the forecast for tax and other receipts, more than offsetting higher forecasts for debt interest costs and other spending from 2025/26 onwards.

Tax increases are expected to generate £42bn in additional tax receipts by 2029/30, while the Chancellor's decision to increase current spending is expected to incur an additional £47bn in that year.

Public investment should be £25bn higher in 2029/30 than was implied by the previous government's plans. This is the principal driver behind the higher path for the fiscal deficit and, therefore, the borrowing required to finance it.

The OBR has concluded that the stimulus effect of higher current spending on the economy (and therefore tax receipts) over the forecast period should more than offset the adverse effect of higher taxes in the first part of the forecast period. However, this should turn around in 2028/29 and 2029/30 as the effect of businesses cutting back in response to the tax rises builds up.

The benefit of additional public investment in boosting the size of the economy is in turn expected to outweigh this adverse effect from around 2032/33 onwards, but this is beyond the current Parliament and so doesn't score in the medium-term forecasts.

## THE CURRENT FINANCIAL YEAR AND THE £22BN 'BLACK HOLE'

Table 5 summarises the changes to the current financial year since the budget for receipts and spending was set in March 2024. It illustrates how the estimated deficit for the year is now expected to be £127bn, or 4.5% of GDP, £40bn or 1.4 percentage points of GDP more than was budgeted in March 2024.

**Table 5 – Updated estimate for the current financial year (2024/25)**

| | 2024/25 Budget £bn | Forecast revisions £bn | Tax decisions £bn | Spending decisions £bn | Indirect effects £bn | Other movements £bn | 2024/25 Estimate £bn |
|---|---|---|---|---|---|---|---|
| Income tax | 303 | 7 | - | - | 1 | - | 311 |
| VAT | 203 | (4) | 1 | - | 2 | - | 202 |
| Employer national insurance | 113 | 2 | - | - | - | - | 115 |
| Corporation tax | 101 | - | - | - | - | - | 101 |
| Employee national insurance | 56 | (3) | - | - | - | - | 53 |
| Other taxes | 240 | 2 | - | - | 1 | - | 243 |
| **Tax receipts** | **1,016** | **4** | **1** | **-** | **4** | **-** | **1,025** |
| Other receipts | 123 | 1 | - | - | - | - | 124 |
| **Current receipts** | **1,139** | **5** | **1** | **-** | **4** | **-** | **1,149** |
| | | | | | | | |
| Departmental spending | (459) | (6) | - | (23) | 1 | 3 | (484) |
| Welfare spending | (315) | (1) | - | 2 | - | - | (314) |
| Local government spending | (172) | - | - | (1) | - | (2) | (175) |
| Other current spending | (55) | - | - | (1) | 1 | (1) | (56) |
| Debt interest | (89) | (14) | - | - | (2) | - | (105) |
| Depreciation | (69) | (1) | - | - | - | - | (70) |
| **Current expenditure** | **(1,159)** | **(22)** | **-** | **(23)** | **-** | **-** | **(1,204)** |
| | | | | | | | |
| **Current deficit** | **(20)** | **(17)** | **1** | **(23)** | **4** | **-** | **(55)** |
| | | | | | | | |
| Gross investment | (136) | (4) | - | (2) | - | - | (142) |
| Depreciation | 69 | 1 | - | - | - | - | 70 |
| **Net investment** | **(67)** | **(3)** | **-** | **(2)** | **-** | **-** | **(72)** |
| | | | | | | | |
| **Fiscal deficit** | **(87)** | **(20)** | **1** | **(25)** | **4** | **-** | **(127)** |
| | | | | | | | |
| *Total receipts/GDP* | *40.9%* | *(0.2%)* | *-* | *-* | *0.1%* | *-* | *40.8%* |
| *Current expenditure/GDP* | *(41.6%)* | *(0.4%)* | *-* | *(0.8%)* | *-* | *-* | *(42.8%)* |
| ***Current deficit/GDP*** | ***(0.7%)*** | ***(0.6%)*** | ***-*** | ***(0.8%)*** | ***0.1%*** | ***-*** | ***(2.0%)*** |
| *Net investment/GDP* | *(2.4%)* | *(0.1%)* | *-* | *-* | *-* | *-* | *(2.5%)* |
| ***Fiscal deficit/GDP*** | ***(3.1%)*** | ***(0.7%)*** | ***-*** | ***(0.8%)*** | ***0.1%*** | ***-*** | ***(4.5%)*** |

Sources: HM Treasury, *October Budget 2024*; OBR, *Economic and Fiscal Outlook, October 2024.*
*Other current spending and other investment are net of intra-government eliminations.*

Tax and other receipts were increased by £10bn or 0.9% from £1,139bn to £1,149bn, although this was slightly lower as a share of national income as GDP was also revised upwards, comprising:

- £5bn from revisions to the forecast (primarily from the increase in estimated GDP);
- £1bn from tax decisions (including £0.5bn from VAT on private schools from January 2025); and
- £4bn in indirect effects on tax receipts, principally economic stimulus from the extra spending.

The estimate for current spending was increased by £45bn or 3.9%, from £1,159bn to £1,204bn, comprising £22bn in forecast revisions and a net £23bn from policy decisions.

The largest element of the former was £14bn in additional debt interest, reflecting the sensitivity of the public finances to changes in actual and forecast interest rates, while the £23bn added to departmental spending reflected the £22bn 'black hole' identified by the Chancellor, comprising:

- £11.6bn in inflationary pressures on pay;
- £6.4bn for asylum and refugees;
- £2.9bn for additional rail subsidies;
- £2.6bn in unfunded policy commitments by the previous government;
- £1.7bn for Ukraine and £1.5bn for the NHS; less
- £4.8bn in unused reserve and other contingencies within the budget.

Overall, the NHS received £10.5bn, defence £5.5bn, education £5bn and other departments £15.5bn before total offsetting reserves, contingencies and other adjustments of £13.5bn.

These increases were partly offset by welfare savings of £2bn that included £1.5bn relating to the abolition of winter fuel allowances for most pensioners.

There was extra money for local government, which may help stave off further bankruptcies for a while. Financial difficulties in some local authorities are severe and more money may be needed.

Other spending increased by just under £2bn for infected blood and Post Office compensation, offset by eliminations of £1bn before indirect effects and other items.

A consequential increase in debt interest of £2bn (£1bn from higher debt from the additional borrowing and £1bn from the impact on interest rates) was offset by £2bn in indirect effects.

Net investment increased by £5bn from £67bn to £72bn, comprising a £4bn forecast revision and £2bn in additional spending, less £1bn from a revised forecast for depreciation.

## THE BUDGET YEAR – 2025/26

Table 6 on page 10 analyses the year-on-year evolution between the latest estimates for receipts and spending for the current financial year ending in March 2025 and the budget year of 2025/26. The table illustrates how the Chancellor plans to use the £24bn anticipated to be generated by forecast economic growth of 2.0%, net of the £3bn effect of inflation, to reduce the fiscal deficit from an estimated £127bn in the current financial year to £106bn in 2025/26.

Net tax rises of £25bn comprise a £24bn increase in employer national insurance contributions, £1bn from improving tax collection, a £1bn increase in VAT on private schools, £1bn in higher capital gains tax, and £1bn from other tax rises, less a £3bn reduction from freezing fuel duties.

Policy decisions announced in the Autumn Budget are expected to add £21bn to departmental spending next year on top of the amounts added in the current financial year. These include:

- £6bn for the NHS, £2bn for education and £0.5bn for prisons and probation;
- £1bn for the Department for Work & Pensions and £0.5bn for HMRC to tackle fraud;
- £2bn for Scotland, Wales and Northern Ireland; plus
- £5bn to cover the additional national insurance contributions payable by public sector employers and a £4bn budget contingency.

Uprating of the state pension and other benefits in excess of inflation should add around £7bn to welfare spending in 2025/26 compared with 2024/25m, while above inflation council tax increases should facilitate an extra £1bn in local government spending.

Although an increase in current spending in real terms, it is a reduction from 42.8% to 42.6% of GDP, emphasising how this is not a generous settlement for the public sector despite the tax rises.

Public investment is expected to increase from £72bn to £79bn, principally because of a net £7bn increase in departmental investment, less a £1bn reduction in locally financed capital expenditure. While there is a more generous settlement for public investment, budgeted to increase from 2.5% to 2.7% of GDP in 2025/26, the OBR highlights the risk that it will be difficult to deliver in practice.

**Table 6 – Autumn Budget 2024 forecast evolution between 2024/25 and 2025/26**

| | 2024/25 Estimate £bn | Inflation £bn | Economic growth £bn | Fiscal drag £bn | Policy decisions £bn | Other movements £bn | 2025/26 Budget £bn |
|---|---|---|---|---|---|---|---|
| Income tax | 311 | 7 | 7 | 4 | 1 | (1) | 329 |
| VAT | 202 | 5 | 4 | - | 1 | 2 | 214 |
| Employer national insurance | 115 | 3 | 2 | - | 24 | 1 | 145 |
| Corporation tax | 101 | 3 | 2 | - | - | (1) | 105 |
| Employee national insurance | 53 | 1 | 1 | 2 | - | (3) | 54 |
| Other taxes | 243 | 6 | 5 | - | (1) | 5 | 258 |
| **Tax receipts** | **1,025** | **25** | **21** | **6** | **25** | **3** | **1,105** |
| Other receipts | 124 | 3 | 3 | - | - | (6) | 124 |
| **Total receipts** | **1,149** | **28** | **24** | **6** | **25** | **(3)** | **1,229** |
| | | | | | | | |
| Departmental spending | (484) | (12) | - | - | (21) | - | (517) |
| Welfare spending | (314) | (7) | - | - | (7) | 1 | (327) |
| Local government spending | (175) | (4) | - | - | (1) | 1 | (179) |
| Other current spending | (56) | (1) | - | - | 1 | 2 | (54) |
| Debt interest | (105) | (3) | - | - | - | 2 | (106) |
| Depreciation | (70) | (2) | - | | - | (1) | (73) |
| **Current expenditure** | **(1,204)** | **(29)** | **-** | **-** | **(28)** | **5** | **(1,256)** |
| | | | | | | | |
| **Current deficit** | **(55)** | **(1)** | **24** | **6** | **(3)** | **2** | **(27)** |
| | | | | | | | |
| Gross investment | (142) | (4) | - | - | (6) | - | (152) |
| Depreciation | 70 | 2 | - | - | - | 1 | 73 |
| **Net investment** | (72) | **(2)** | **-** | **-** | **(6)** | **1** | **(79)** |
| | | | | | | | |
| **Fiscal deficit** | **(127)** | **(3)** | **24** | **6** | **(9)** | **3** | **(106)** |
| | | | | | | | |
| *Total receipts/GDP* | *40.8%* | *-* | *(0.1%)* | *0.2%* | *0.9%* | *(0.1%)* | *41.7%* |
| *Current expenditure/GDP* | *(42.8%)* | *-* | *1.0%* | *-* | *(1.0%)* | *0.2%* | *(42.6%)* |
| ***Current deficit/GDP*** | ***(2.0%)*** | ***-*** | ***0.9%*** | ***0.2%*** | ***(0.1%)*** | ***0.1%*** | ***(0.9%)*** |
| *Net investment/GDP* | *(2.5%)* | *-* | *-* | *-* | *(0.2%)* | *-* | *(2.7%)* |
| ***Fiscal deficit/GDP*** | ***(4.5%)*** | ***-*** | ***0.9%*** | ***0.2%*** | ***(0.3%)*** | ***0.1%*** | ***(3.6%)*** |

Sources: HM Treasury, *Autumn Budget 2024*; OBR, *Economic and Fiscal Outlook, October 2024.*
*Other current spending is net of intra-government eliminations.*

## TAX MEASURES

The Chancellor announced a series of tax policy measures in the Autumn Budget, including:

- **Employer national insurance:** increase from 13.8% on salaries above £9,100 to 15.0% above £5,000 from 6 April 2025. Employment allowance increased from £5,000 to £10,500 and £100,000 eligibility threshold removed. First year veterans' relief is continued in 2025/26.
- **Capital gains tax:** increase from 10% (basic rate taxpayers) and 20% to 18% and 24% respectively from 30 October 2024, aligning with capital gains tax on residential property. Business asset disposal relief rate and investors' relief rate (to lifetime limit of £1m instead of £10m) increased from 10% to 14% from 6 April 2025 and to 18% from 6 April 2026.
- **Carried interest:** increase in capital gains tax rate from 28% to 32% from 6 April 2025, then replaced by income tax on 72.5% of the carried interest from 6 April 2026.
- **Inheritance tax:** personal pension pots to be subject to inheritance tax from April 2027. Increase from 0% to 20% for qualifying business property and agricultural property over a combined threshold of £1m and for eligible AIM shares from 6 April 2026.
- **Property transactions:** temporary first-time and non-first-time buyer thresholds of £425,000 and £250,000 to revert to £300,000 and £125,000 respectively from 6 April 2025. Additional stamp duty on second homes, buy-to-let and company purchases of residential property to increase from 3% to 5%, and single rate for companies buying dwellings above £500,000 to increase from 15% to 17%, from 31 October 2024.
- **Non-doms:** remittance basis abolished from 6 April 2025. No UK tax on foreign income and gains for first four years of residence. Overseas workday relief extended to four years.
- **Private schools:** 20% VAT to apply to private school fees from 1 January 2025. Private schools in England to lose charitable business rates relief from 1 April 2025.
- **Energy profits levy:** windfall tax increase from 35% to 38% from 1 November 2024 and then extended to 31 March 2030.
- **Visual effects (VFX):** Enhanced 39% rate from 1 April 2025 of audio-visual expenditure credit (AVEC) for film and high-end TV companies on UK VFX costs and exemption from the AVEC 80% cap on qualifying expenditure from 1 January 2025.
- **Company cars:** taxable benefit 'appropriate percentage' to increase by two and one percentage points in 2028/29 and by a further two and one percentage points in 2029/30 for zero-emission and for most other cars respectively. Tax on hybrid vehicles to rise, increasing incentives to own fully electric vehicles. Van benefit charge uprated by CPI from 6 April 2025.
- **Fuel duties:** a further one-year extension of the 5p cut; no retail price index rise in 2025/26.
- **Alcohol duties:** draught relief increased to reduce duty on an average pint by 1p.
- **Tobacco duties:** introduce flat rate vaping products duty of £2.20/10ml; and introduce an RPI+2% escalator for tobacco duty from 6 April 2025 to 5 April 2030, with additional 10% and further rises on 30 October 2025 and 1 October 2026.
- **Other duties:** increase vehicle excise duty first-year rate for non-zero-emission cars from 6 April 2025; increase air passenger duty from 6 April 2026, with a further 50% increase for private jets; uprate soft drinks industry levy annually by CPI from 1 April 2025, plus a backdated rise spread over five years for CPI since 2018.
- **Business rates:** freeze the small business multiplier for 2025/26 and extend 40% relief for retail, hospitality and leisure sectors from 1 April 2025, up to £110,000 per business.
- **Interest on unpaid tax:** increase from Bank of England base rate plus 2.5% to plus 4.0% from 6 April 2025.

A series of anti-avoidance measures have affected the rules around umbrella companies, employee ownership trusts, employee benefit trusts, the liquidation of limited liability partnerships, charitable tax reliefs, the transfer overseas of UK tax-relieved pension funds, close companies, company car schemes, and the registration of tax practitioners. There are also many other proposed changes to tax legislation including on crypto-asset reporting and reporting of benefits-in-kind through payrolls, in what was a highly technical budget from a tax perspective.

## NEW FISCAL RULES

Although the government does not have an explicit long-term fiscal strategy, it does have a medium-term strategic objective to stop public debt from rising faster than the size of the economy. This is embodied in fiscal targets that are intended to provide confidence to debt markets about the government's commitment to keeping the public finances under control.

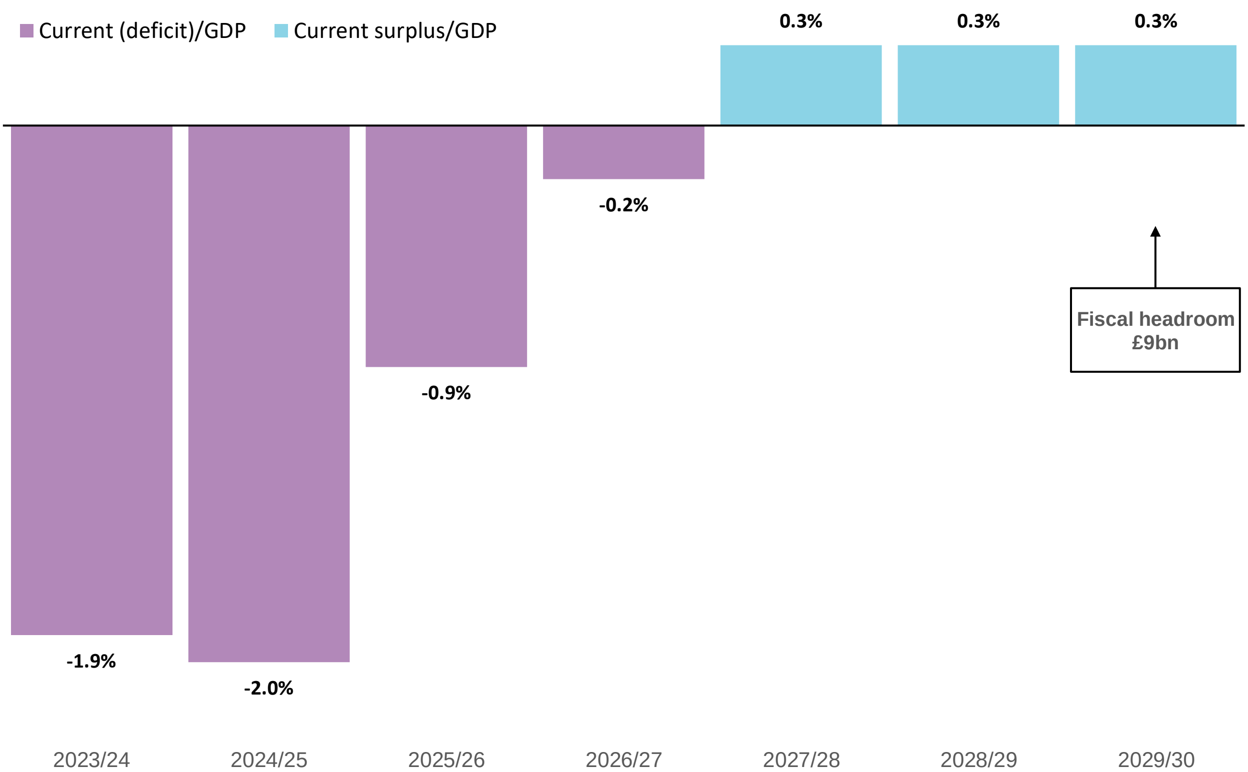
As anticipated, the Chancellor decided to adopt different fiscal targets than her predecessor.

The Chancellor has described her primary fiscal rule as a 'stability' rule as it targets a current budget surplus during the forecast period.

This is much tighter than the previous government's target to aim for a fiscal deficit below 3% of GDP. In theory, it prevents the government borrowing to fund current spending and reduces its incentive to balance the books by cutting investment. The old rule would have provided £31bn of headroom in 2029/30 (based on a fiscal deficit of 2.1% of GDP in 2029/30) instead of the headroom of £9bn calculated using the Chancellor's new fiscal rule as illustrated by Figure 3.

The Chancellor also announced that, over the next two years, she would move from targeting the fifth year of the fiscal forecast to the third year, with a slight relaxation to the stability rule to permit a current budget deficit of up to 0.5% of GDP. The reduction to three years is a major improvement as it significantly reduces the scope for 'playing with spreadsheets' to meet fiscal targets.

**Figure 3 – Autumn Budget 2024 current balance 'stability' rule**



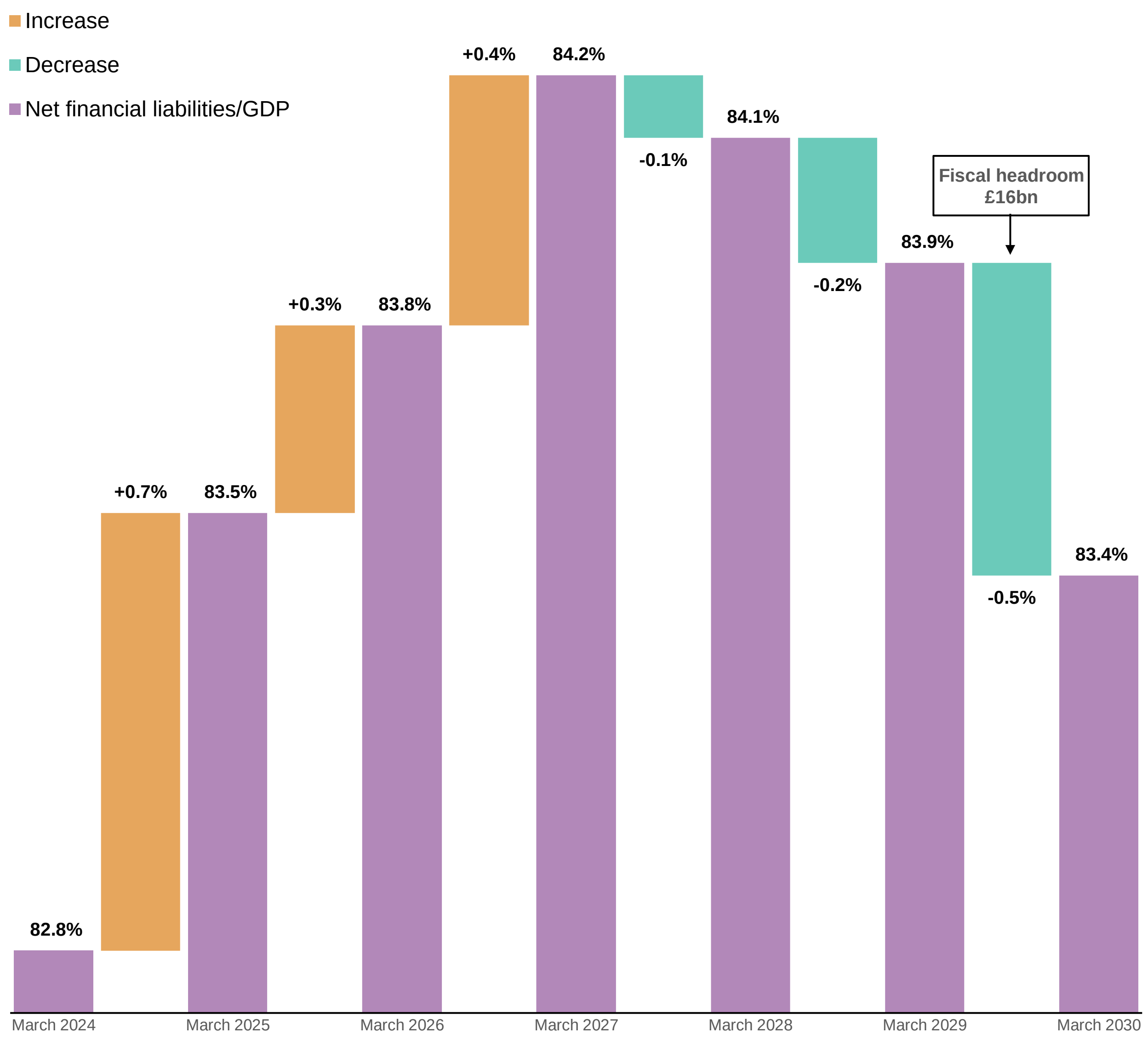

Sources: HM Treasury, *Autumn Budget 2024*; OBR, *Economic and Fiscal Outlook, October 2024*.

Her new debt 'investment' rule is looser than the previous debt rule. It retains the commitment to see debt start to fall during the five-year forecast period, but replaces the metric used to measure debt from the flawed measure of underlying debt (public sector net debt excluding Bank of England balances) with the (differently flawed) measure of public sector net financial liabilities.

The new metric encompasses a wider range of assets and liabilities than underlying debt, including Bank of England assets and liabilities (including Term Funding Scheme loans to high street banks), funded pension scheme assets and liabilities, student and business loans, the government's stakes in NatWest and the International Monetary Fund, tax and other receivables, and trade creditors and other payables.

As illustrated by Figure 4, the difference between the forecast for net financial liabilities and missing the fiscal target in 2029/30 is just £16bn. This is relatively small in the context of a forecast of £1,511bn for total public spending in that year and public sector net debt of £3,361bn.

**Figure 4 – Autumn Budget 2024 debt 'investment' rule**




Sources: HM Treasury, *Autumn Budget 2024*; OBR, *Economic and Fiscal Outlook, October 2024*.

The OBR calculated at the time of the Spring Budget 2024 that the headroom using net financial liabilities would have been £62bn between 2027/28 and 2028/29, but this was corrected to £42bn following the OBR's identification of an error in its calculations. Forecast revisions and rolling this forward to 2029/30 added £9bn to the corrected headroom, but £35bn was then absorbed by higher public investment and other policy decisions taken by the Chancellor to reduce it to £16bn.

Although an improvement over the flawed underlying debt measure that excluded losses on quantitative easing transactions that are recorded in both headline debt and net financial liabilities, there are still several issues with its use in a fiscal target.

This includes the incorporation of local authority and other funded pension scheme assets that would typically be excluded in a debt measure, bringing with it significant volatility from three-yearly actuarial valuations of pension liabilities and market movements in pension fund assets. In addition, many financial assets apart from student loans ((such as investments in foreign debt securities) are at face value rather than at their net realisable value, potentially overstating the amount at which they are recorded. Debt liabilities are also recorded at their face value, instead of the amount borrowed, causing net financial liabilities to be under- or over-stated (although this is also a flaw in the headline measure of public sector net debt).

## RISKS TO THE FORECAST

The OBR identifies a series of risks to its economic and fiscal forecasts. These include the possibility that inflation could start to increase again, significant uncertainty around the key drivers of economic growth in the medium-term (net migration, labour market participation and productivity), and the potential that interest rates could fall less slowly than expected.

The OBR also notes that its economic forecasts up until 2028 were slightly more positive than those of independent forecasters by around 0.1 percentage points a year on average.

The OBR comments that its forecasts are dependent on the amount collected in taxes rising to record highs, including a legal presumption that fuel duties will rise in line with retail price inflation – despite successive governments freezing fuel duties for 15 consecutive years.

The OBR is required to base its forecasts on government plans for departmental spending. This led it to flag major risks around the previous government's spending plans in the Spring Budget 2024 that were based on cutting unprotected departmental budgets by 3.2% a year, generally believed to be unachievable.

The substantial increases to departmental spending in the Autumn Budget 2024, as well as funding for infected blood and Post Office compensation schemes, have mitigated many of the OBR's concerns. However, the OBR notes that spending ambitions on defence (to reach 2.5% of GDP[8]) and international aid (to revert from 0.5% to 0.7% of GDP) remain unfunded, and comment on the tendency of governments to 'top up' spending reviews when departmental budgets are allocated.

Other commentators such as the Institute for Fiscal Studies have suggested that the OBR's projections imply cuts in some departmental budgets later in the forecast period despite the immediate boost to spending provided by the Autumn Budget. More money is therefore likely to be needed, especially once the government has set out a plan to reach 2.5% of GDP for defence spending, which it has committed to do within a year of taking office.

The OBR has also identified as a policy risk the trend of successive chancellors to allow borrowing and debt to rise when forecasts deteriorate, while using any upside in forecasts to fund additional spending or cut taxes. This trend tends to ratchet up borrowing as forecasts fluctuate up and down.

The OBR has highlighted potential risks to its forecasts as follows:

- A 1.3 percentage point higher level of interest rates across the forecast period would be enough to wipe out the fiscal headroom.
- A 0.5 percentage point improvement or deterioration in annual productivity growth would reduce or raise borrowing by £40bn in 2028/29.
- Varying the net migration assumption up or down by 200,000 a year could reduce or increase the deficit by £13bn a year by 2028/29 and debt by 2.5% of GDP by March 2029.
- A major spike in energy prices, with consequential implications for inflation and interest rates, could increase borrowing by £23bn a year.
- The benefit of the Autumn Budget's increase in public investment to potential economic output could (if sustained) vary between twice and half of the projected 1.4 percentage point improvement over the next 50 years.
- Yields from several tax rises, such as those on capital gains tax and inheritance tax, are highly uncertain given potential behavioural responses.
- Welfare spending over the next five years is dependent on a complex interaction of drivers across health, the economy and the operation of the benefits system and, therefore, could be significantly different from the forecast rise from 2.4% of GDP to 3.0% of GDP in 2029/30.

There is also the risk of recessions or other adverse economic events. These typically occur every decade or so and generally have the effect of reducing economic growth and increasing borrowing by material amounts.

[8] NATO set a target for its members to spend 2.0% of GDP on defence and security by 2024. According to NATO, the UK spent an estimated £61.5bn in 2023 on defence and security, equivalent to 2.28% of GDP.

## CONCLUSIONS

### POST-ELECTION TAX RISES WERE EXPECTED, BUT THESE WERE BIGGER THAN USUAL

In our Spring Budget 2024 Fiscal Insight we concluded that a combination of higher taxes, higher spending (but still involving some cuts to public services) and higher borrowing after the general election was probable, irrespective of which party won power. We were proved correct.

Tax rises are typical in the first Budget following a general election, especially when combined with the imminent Spending Review, which also usually result in more spending – and hence higher taxes. This was exacerbated by the unrealistic nature of the previous government's spending plans that it used to support tax cuts while technically still meeting its fiscal rules.

The Chancellor chose, in effect, to reverse the previous government's cuts to employee national insurance by increasing employer national insurance, in addition to the more typical tax rises that might be expected following a general election. She also flexed the fiscal rules to maintain public investment at or above 2.5% of GDP for the next four years, consistent with the government's ambitions for economic growth over the longer term.

### IMPROVED FISCAL RULES, BUT STILL FLAWED

The most positive change in the Chancellor's fiscal rules is the replacement of a maximum 3% target for fiscal deficits with a rule targeting a current budget balance. This means taxes and other receipts must raise enough to cover current spending. It is a much better rule than previously in that it reduces the temptation to use borrowing to fund day-to-day spending as well as the incentive to cut much-needed public investment to balance the books.

The planned reduction in both fiscal targets from five to three years is also an improvement as it reduces the scope for pencilling in unrealistic spending plans that will never be delivered. Together with the implementation of three-yearly Spending Reviews that are updated every other year, this provides a much firmer footing for forward-looking fiscal targets.

The change away from the flawed measure of underlying debt is welcome, especially as this was unnecessarily constraining public investment because of the flaws in its calculation. However, there are several issues in how its replacement measure of net financial liabilities is calculated (such as the inclusion of funded pension scheme assets and liabilities) that could potentially distort investment and borrowing decisions in the future.

There is also a wider debate to be had about whether short-term fiscal rules based on two specific metrics should be the primary basis for making fiscal decisions, especially in the context of changing demographics and the increasing costs of pensions, health and social care. While such metrics can be helpful, there is also a need for a more holistic approach to the performance of the economy and the evolution of the public sector balance sheet that cannot be distilled down into two numbers.

### LACK OF AMBITION TO REFORM THE TAX SYSTEM IS A MAJOR DISAPPOINTMENT

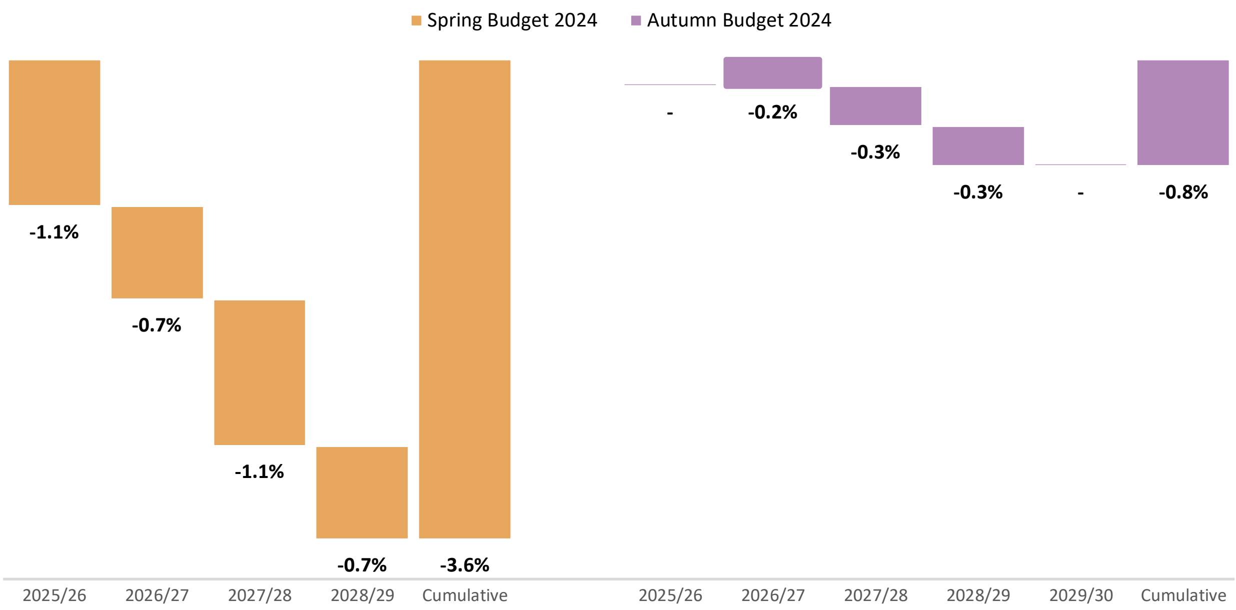
While there were positive signs about tax reform in the Autumn Budget, including a basic corporate tax roadmap and limited reform proposals for business rates, there appears to be little ambition so far to tackle the many deficiencies in what is generally agreed to be the most complicated tax code in the world.

Perhaps this was too much to wish for in the Chancellor's first Budget, but we hope that she will use the opportunity of future Budgets to set out more ambitious plans to reform and simplify the tax system.

One reform that we think might have helped to reduce the adverse reaction to the Autumn Budget from businesses would have been a phased approach to their introduction. For example, spreading the increase in employer national insurance over two years would have given businesses more time to adjust to what is a substantial increase in their costs, especially when combined with a rise in the minimum wage scheduled for the same day.

## DIFFICULT DECISIONS REMAIN FOR BOTH TAXES AND PUBLIC SPENDING

**Figure 5 – Spring v Autumn Budget 2024 forecast change in total managed expenditure as a % of nominal GDP**




Sources: OBR, *Economic and fiscal outlook, March 2024 and October 2024.*

According to the OBR's Spring Budget forecast, the spending plans set by the previous government implied a contraction in public spending (both current and investment) as a share of GDP of 3.6 percentage points over the four years to 2028/29, an ambition that was generally viewed as undeliverable.

As illustrated by Figure 5, the Autumn Budget plan is more realistic in its ambitions for controlling spending, but it still envisages a reduction in total managed expenditure in proportion to national income of 0.8 percentage points.

While it is possible that this reduction could be achieved, it would require significant efficiency gains or cuts in public services to be delivered in spite of the pressures on pensions, health and social care budgets as more people live longer, sometimes less healthy, lives.

In practice, the government will be hoping that economic growth will be higher than currently anticipated, providing additional tax receipts to maintain public spending at higher levels, as well as increasing the denominator used in comparing spending with the size of the economy.

The alternative is that additional funds will need to be found at some point over the next five years, implying tax rises later in the Parliament, albeit much less than those seen in the Autumn Budget.

### PUBLIC FINANCES REMAIN FRAGILE; STILL NO LONG-TERM FISCAL STRATEGY

Despite the increase in taxation and greater levels of public investment, the fiscal position remains fragile.

Public debt is at its highest level since the 1960s. There are substantial unfunded liabilities for public sector employee pensions, nuclear decommissioning, clinical negligence and other obligations. The government is committed to expanding the welfare state, particularly through the state pension triple-lock and promises to improve childcare provision. And, as the 'insurer-of-last-resort', the government is also exposed to the consequences of adverse events ranging from the effects of climate change, pandemics, energy shocks and international conflict to potential financial crises and (more prosaically) recessions.

At the same time, there is still no long-term fiscal strategy setting out how the government can avoid the prospect of net debt reaching 274% or 324% of GDP in 50 years' time as set out in the OBR's long-term fiscal projections based on current trends. While developing such a strategy could be politically unpalatable, it is difficult to see how we can address the poor state of our public finances without a more concrete plan to address those weaknesses.

# APPENDIX

## RECEIPTS BY YEAR

**Table 7 – Autumn Budget 2024 forecast receipts detail**

| | 2024/25 Estimate £bn | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn | *2025/26 to 2029/30 avg real %* |
|---|---|---|---|---|---|---|---|
| Income tax | 311 | 329 | 353 | 373 | 380 | 393 | *+2.5%* |
| VAT | 202 | 214 | 222 | 233 | 240 | 250 | *+2.0%* |
| Employer national insurance | 115 | 145 | 149 | 153 | 157 | 161 | *+0.8%* |
| Corporation tax | 101 | 105 | 108 | 112 | 117 | 122 | *+1.8%* |
| Employee national insurance | 53 | 54 | 56 | 58 | 60 | 62 | *+1.2%* |
| | | | | | | | |
| Council tax | 48 | 50 | 53 | 55 | 58 | 61 | *+3.1%* |
| Business rates | 32 | 34 | 37 | 38 | 39 | 40 | *+1.7%* |
| Capital gains tax | 16 | 23 | 22 | 25 | 28 | 31 | *+6.2%* |
| Fuel duties | 24 | 24 | 27 | 27 | 28 | 27 | *+1.0%* |
| Property transaction taxes | 14 | 16 | 19 | 21 | 23 | 25 | *+9.8%* |
| | | | | | | | |
| Alcohol duties | 12 | 13 | 14 | 14 | 15 | 16 | *+2.9%* |
| Environmental levies | 12 | 13 | 15 | 14 | 14 | 15 | *+1.5%* |
| Inheritance tax | 8 | 9 | 10 | 11 | 13 | 14 | *+10.4%* |
| Vehicle excise duties | 8 | 9 | 10 | 10 | 11 | 11 | *+3.0%* |
| Insurance premium tax | 8 | 9 | 9 | 9 | 10 | 10 | - |
| | | | | | | | |
| Tobacco duties | 9 | 9 | 9 | 9 | 9 | 9 | *-2.3%* |
| Air passenger duty | 4 | 5 | 5 | 6 | 6 | 6 | *+6.2%* |
| Customs duties | 5 | 5 | 5 | 5 | 5 | 5 | *+1.4%* |
| Stamp duty on shares | 4 | 4 | 5 | 5 | 5 | 5 | *+1.6%* |
| Apprenticeship levy | 4 | 4 | 4 | 4 | 5 | 5 | *+1.1%* |
| | | | | | | | |
| All other taxes | 35 | 31 | 30 | 32 | 30 | 31 | *-2.1%* |
| | | | | | | | |
| **Tax receipts** | **1,025** | **1,105** | **1,162** | **1,214** | **1,253** | **1,299** | ***+2.1%*** |
| | | | | | | | |
| Other receipts | 124 | 124 | 129 | 132 | 137 | 141 | *+1.0%* |
| | | | | | | | |
| **Total receipts** | **1,149** | **1,229** | **1,291** | **1,346** | **1,390** | **1,440** | ***+2.0%*** |
| | | | | | | | |
| *Tax receipts/GDP* | *36.4%* | *37.4%* | *38.0%* | *38.3%* | *38.2%* | *38.2%* | *+0.5%* |
| *Other receipts/GDP* | *4.4%* | *4.3%* | *4.2%* | *4.2%* | *4.2%* | *4.2%* | *-0.5%* |
| ***Total receipts/GDP*** | ***40.8%*** | ***41.7%*** | ***42.2%*** | ***42.5%*** | ***42.4%*** | ***42.4%*** | ***+0.4%*** |

**Table 8 – Autumn Budget 2024 forecast spending detail**

| | 2024/25 Estimate £bn | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn | *2025/26 to 2029/30 avg real %* |
|---|---|---|---|---|---|---|---|
| Departmental spending | 484 | 517 | 534 | 552 | 570 | 589 | *+1.3%* |
| Welfare spending | 314 | 327 | 340 | 349 | 361 | 378 | *+1.6%* |
| Local government spending | 175 | 179 | 183 | 189 | 194 | 200 | *+0.9%* |
| Other current spending | 56 | 54 | 55 | 54 | 58 | 57 | *+0.5%* |
| Debt interest | 105 | 106 | 109 | 113 | 118 | 123 | *+1.7%* |
| Depreciation | 70 | 73 | 75 | 78 | 80 | 83 | *+1.2%* |
| **Current expenditure** | **1,204** | **1,256** | **1,296** | **1,335** | **1,381** | **1,430** | ***+1.3%*** |
| | | | | | | | |
| Gross investment | 142 | 152 | 158 | 161 | 161 | 163 | *-0.2%* |
| Depreciation | (70) | (73) | (75) | (78) | (80) | (82) | *+1.2%* |
| **Net investment** | **72** | **79** | **83** | **83** | **81** | **81** | ***-1.6%*** |
| | | | | | | | |
| **Total managed expenditure** | **1,276** | **1,335** | **1,379** | **1,418** | **1,462** | **1,511** | ***+1.1%*** |
| | | | | | | | |
| *Current expenditure/GDP* | *42.8%* | *42.6%* | *42.4%* | *42.2%* | *42.1%* | *42.1%* | *-0.3%* |
| *Net investment/GDP* | *2.5%* | *2.7%* | *2.7%* | *2.6%* | *2.5%* | *2.4%* | *-3.1%* |
| ***Managed expenditure/GDP*** | ***45.3%*** | ***45.3%*** | ***45.1%*** | ***44.8%*** | ***44.6%*** | ***44.5%*** | ***-0.4%*** |

Sources: OBR, *Economic and Fiscal Outlook, October 2024*; ICAEW calculations.
Other current spending is net of intra-government eliminations.

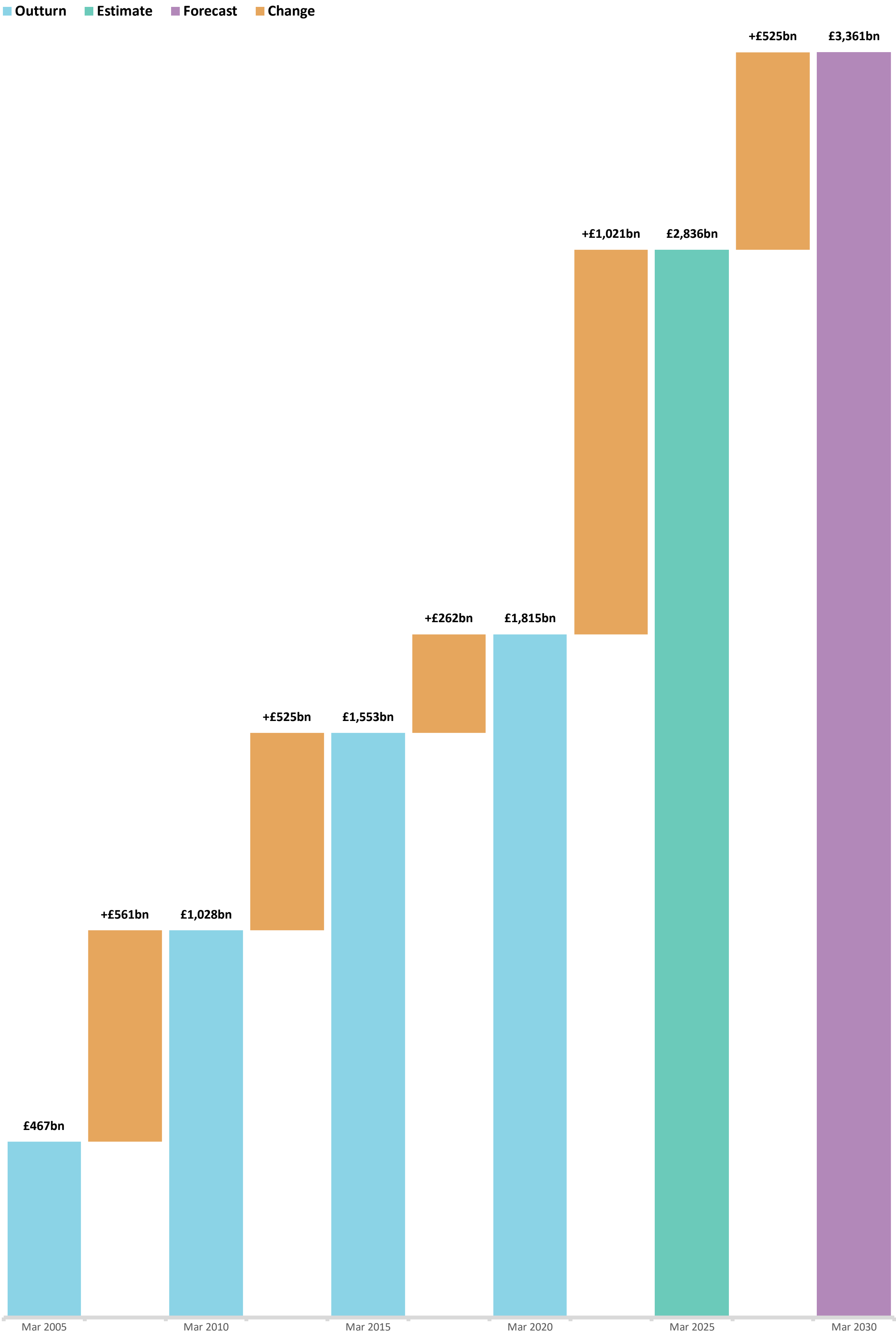
## FORECAST GDP AND GDP DEFLATOR BY YEAR

**Table 9 – Autumn Budget 2024 forecast GDP**

| | 2024/25 Estimate £bn | 2025/26 Budget £bn | 2026/27 Forecast £bn | 2027/28 Forecast £bn | 2028/29 Forecast £bn | 2029/30 Forecast £bn | *2025/26 to 2029/30 avg real %* |
|---|---|---|---|---|---|---|---|
| **GDP** | **2,815** | **2,950** | **3,059** | **3,167** | **3,279** | **3,397** | ***+1.6%*** |
| | **Index** | **Index** | **Index** | **Index** | **Index** | **Index** | |
| GDP deflator | 102.37 | 104.82 | 106.88 | 108.98 | 111.12 | 113.31 | - |

Sources: OBR, *Economic and Fiscal Outlook, October 2024*; ICAEW calculation.

**Figure 6 – Autumn Budget 2024 forecast: Public sector net debt over 25 years**




Source: OBR, *Public Finances Databank, October 2024*.

*This Fiscal Insight was written by Martin Wheatcroft FCA on behalf of ICAEW.*

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ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 13,500 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

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