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FISCAL INSIGHT

SPRING BUDGET 2024

Issued 9 April 2024

This Fiscal Insight analyses the numbers in Chancellor Jeremy Hunt's Spring Budget presented to Parliament on 6 March 2024 and the accompanying March 2024 Economic and Fiscal Outlook (EFO) published by the independent Office for Budget Responsibility (OBR). A copy of the Spring Budget 2024 Red Book can be found at this link and the March 2024 EFO can be found here.

Our analysis concludes that the UK's public finances are in a weak position following this fiscal event.

Headlines

- Modest improvement in forecasts and small tax increases 'pay for' national insurance cut.
- Headroom of £9bn against the Chancellor's primary fiscal rule is tiny compared with risks.
- End of low-cost borrowing is hampering investment in infrastructure and public services.
- Weak economy, high debt, demographic challenges, underperforming public services.
- No long-term fiscal strategy.

Key numbers

- Tax and other receipts of £1,139bn in 2024/25, equivalent to £1,375 per person per month.
- Public spending of £1,226bn in 2024/25, equivalent to £1,480 per person per month.
- Deficit projected to fall by a quarter to £87bn in 2024/25 and gradually to £39bn in 2028/29.
- Headline debt expected to reach £2.8trn by March 2025 and £3.0trn by March 2029.
- Underlying debt/GDP forecast to increase from 88.8% to 93.2% and then fall to 92.9%.

Conclusions

- Difficult choices on spending deferred until after the general election.
- Post-election tax increases likely, irrespective of who wins the general election.
- A badly designed fiscal rule driving poor decisions and unrealistic spending forecasts.
- Predicted reduction in the deficit to below 2% of GDP by 2027/28 is unlikely to occur.
- Further pre-election tax cuts could affect credibility with debt markets.

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Headroom. What headroom?

"The principal story of the Spring Budget has been how the Chancellor was able to find room for tax cuts while still meeting his fiscal targets to 'bring down debt and the deficit'.

"This is a frustrating narrative as it misses the bigger picture of public finances that are on an unsustainable path, with little sign of a long-term fiscal strategy to address demographic change, growing balance sheet liabilities, underperforming public services, rising debt interest, or resilience against future economic shocks.

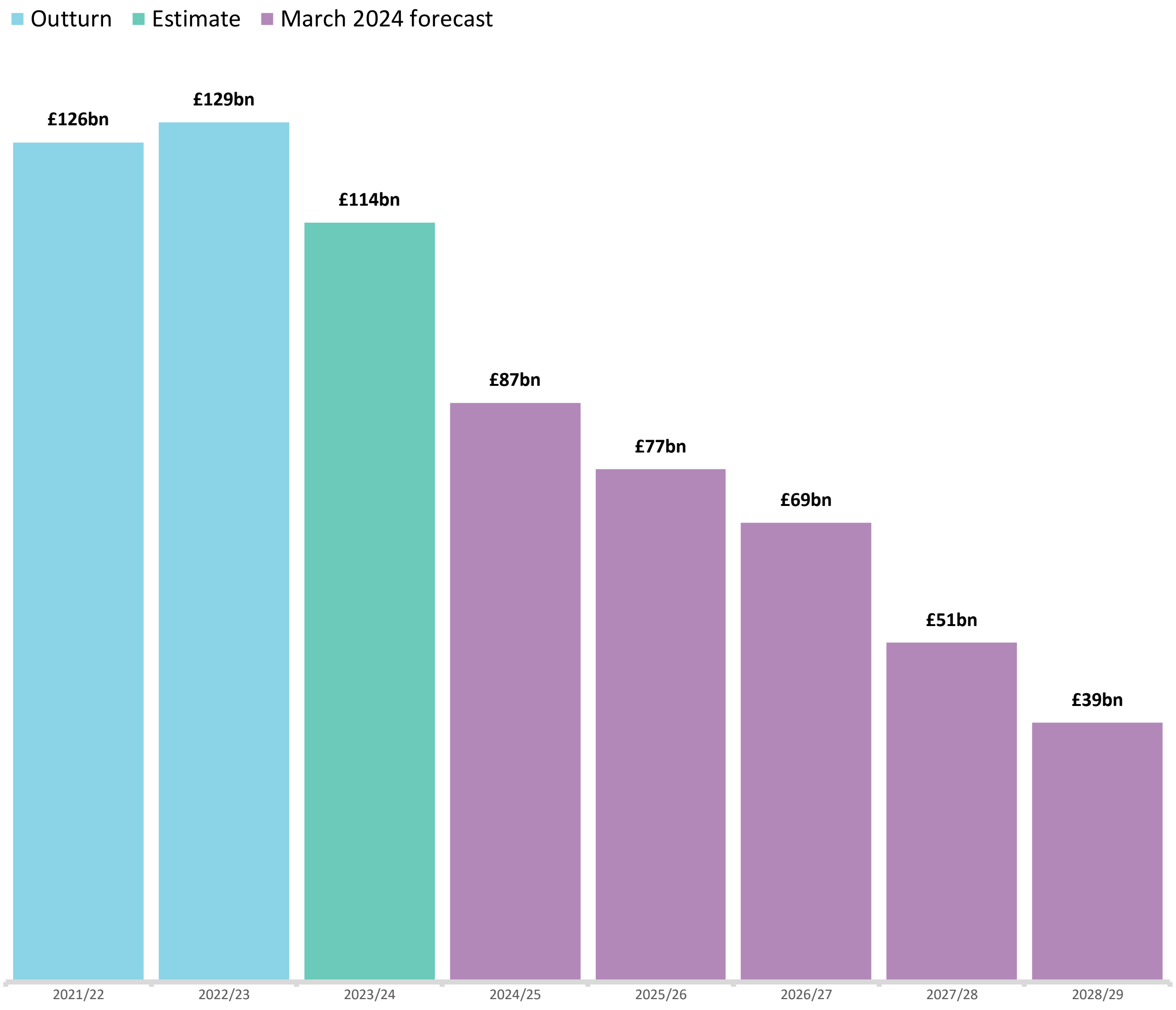
"Debt is high and projected to be even higher in five years' time than it is today. 'Headroom' is tiny in context of trillions of pounds of tax receipts and public spending over the next five years and forecasts that don't reflect government practice in freezing fuel duties nor likely spending increases from the now postponed Spending Review.

"And we have a fiscal target that discourages essential infrastructure investment while at the same time never needing to be achieved as it is rolled forward each year.

"All of our fiscal eggs are now in a basket labelled 'hope' [for economic growth]."

Alison Ring OBE FCA
Director, Public Sector and Taxation

Figure 1 – Spring Budget 2024 forecast: Fiscal deficit



Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024*.

SUMMARY

The primary purpose of each Budget is to present to Parliament the government's plans for receipts, spending and borrowing in the coming financial year, in this case for the year starting on 1 April 2024 and ending on 31 March 2025 (2024/25).

Budget announcements are accompanied by five-year economic and fiscal forecasts from the OBR. These show how the public finances are expected to develop in the medium-term, their analysis of the economic and financial impact of tax and spending decisions, and an update to the financing remit provided by HM Treasury to the Debt Management Office on how much to borrow.

CONTEXT

The Spring Budget 2024 follows a decade and a half of weak economic performance since the financial crisis, the turmoil of the pandemic, a cost-of-living crisis, a technical recession at the end of 2023, and seven successive quarters of negative growth in economic activity per capita. Public sector net debt (headline debt) has increased from £404bn or 30.9% of GDP 20 years ago in March 2004 to an estimated £2,691bn or 97.6% 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% rise in the working age population over the same period. The OBR predicts that headline debt could rise to between 310% and 435% of GDP by 2073 if the public finances stay on their current path.

Taxes are projected by the OBR to exceed 37% in 2028/29, which would be their highest level since 1948. This is despite a reduction in the proportion of spending on public services outside of health and social care of more than a third over the last 50 years, with poor performance and service quality an increasing issue across both central and local government.

This is not the most auspicious backdrop for a Chancellor seeking to boost economic prosperity and deliver credible tax and public spending plans.

KEY NUMBERS

Table 1 sets out the latest estimates for the current financial year, the budgeted numbers for the Budget year, and forecasts for the remainder of the five-year medium-term forecast horizon.

Table 1 – Spring Budget 2024 forecast: Key numbers

	2023/24 Estimate £bn	2024/25 Budget £bn	2025/26 Forecast £bn	2026/27 Forecast £bn	2027/28 Forecast £bn	2028/29 Forecast £bn
Taxes and other receipts	1,102	1,139	1,174	1,221	1,272	1,322
Total managed expenditure	(1,216)	(1,226)	(1,251)	(1,290)	(1,323)	(1,361)
Fiscal deficit	**(114)**	**(87)**	**(77)**	**(69)**	**(51)**	**(39)**
Underlying debt	**2,447**	**2,593**	**2,715**	**2,832**	**2,936**	**3,033**
Public sector net debt	**2,691**	**2,793**	**2,820**	**2,903**	**2,995**	**3,078**
Taxes and other receipts	*40.3%*	*40.9%*	*40.8%*	*40.9%*	*41.1%*	*41.2%*
Total managed expenditure	*(44.5%)*	*(44.0%)*	*(43.5%)*	*(43.2%)*	*(42.7%)*	*(42.4%)*
Fiscal deficit % of GDP	***(4.2%)***	***(3.1%)***	***(2.7%)***	***(2.3%)***	***(1.6%)***	***(1.2%)***
Underlying debt % of GDP	***88.8%***	***91.7%***	***92.8%***	***93.2%***	***93.2%***	***92.9%***
Public sector net debt % of GDP	***97.6%***	***98.8%***	***96.4%***	***95.5%***	***95.1%***	***94.3%***

Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024.*

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.

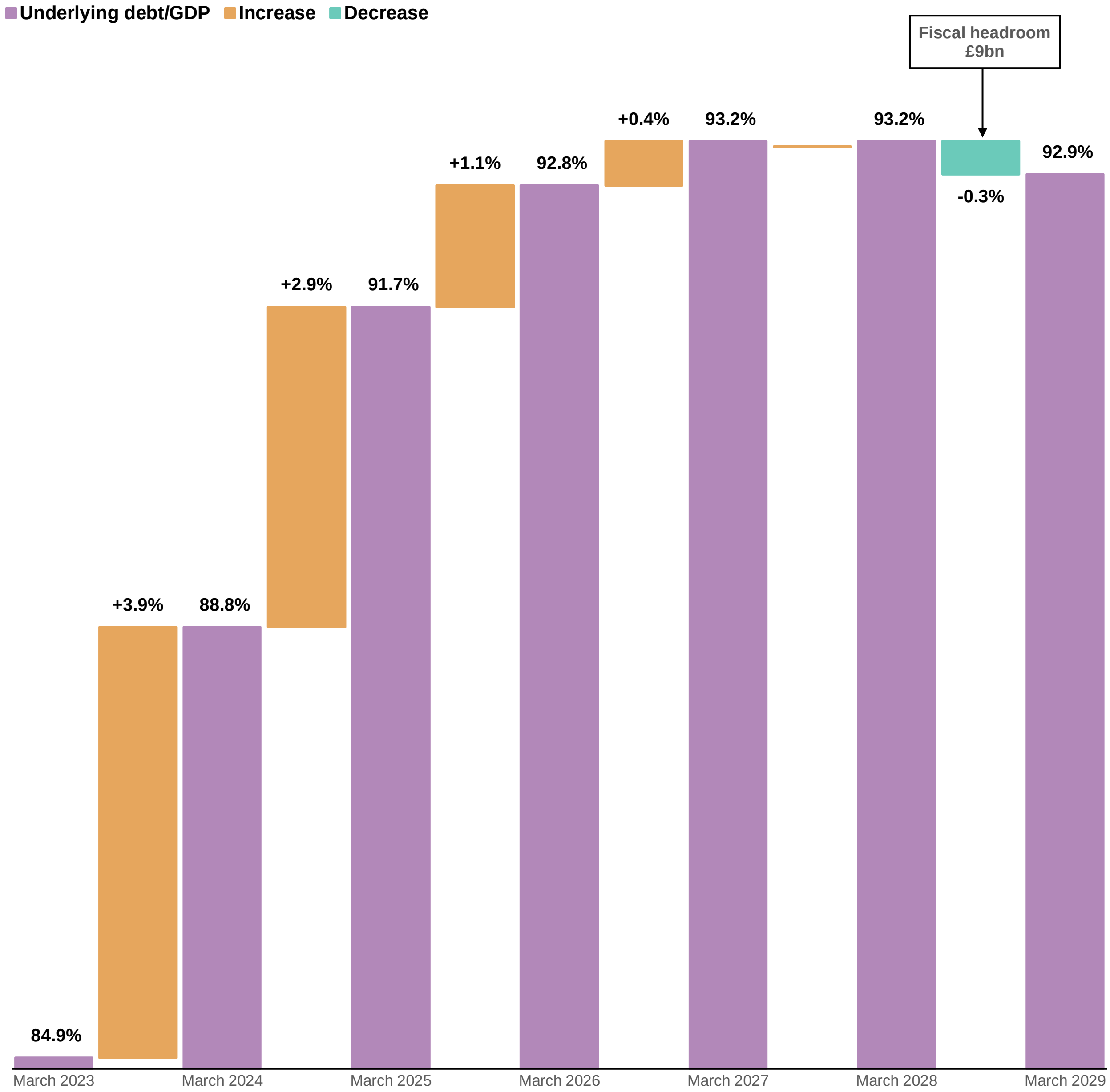
Although the government does not have an explicit long-term fiscal strategy, it does have a medium-term strategic objective to stop public debt from continuing to rise faster than the size of the economy. This is embodied in the Chancellor's primary fiscal target, which is for underlying debt as a share of GDP to peak within the next four years and to be falling by the fifth year of the forecast.

The OBR reports that, based on his spending plans, the Chancellor has met this target on this occasion, with underlying debt forecast to peak at 93.2% of GDP in March 2028 and then fall to 92.9% of GDP in March 2029, as illustrated by Figure 2.

According to the OBR, the difference between these numbers and missing the fiscal target in 2028/29 is just under £9bn. This 'headroom' against the primary fiscal rule is tiny in the context of forecast public spending of £1.4trn in that year and public sector net debt of more than £3.0trn.

The forecast numbers are also consistent with achieving the Chancellor's supplementary fiscal target of bringing down the deficit to below 3% by the third year of the forecast period (2026/27).

Figure 2 – Spring Budget 2024 forecast: Underlying debt/GDP



Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024*.

RISKS TO THE FORECAST

The OBR identifies a series of risks to their economic and fiscal forecasts, including the possibility that inflation could remain higher for longer than currently anticipated and significant uncertainty around the key drivers of economic growth in the medium-term: net migration, labour market participation and productivity. The fiscal forecast is also highly sensitive to interest rates.

The OBR notes that its economic forecast is more positive than those of the Bank of England and independent forecasters, with the OBR forecasting economic growth of 0.8%, 1.9%, 2.0%, 1.8% and 1.7% in calendar years 2024, 2025, 2026, 2027 and 2028 respectively compared with independent forecasts of 0.4%, 1.2%, 1.8%, 1.7% and 1.5%.

The OBR comments that the forecast is dependent on the amount collected in taxes rising to record highs, including an assumption that fuel duties will rise in line with inflation – despite the government freezing fuel duties for 14 consecutive years.

On spending, the OBR is required to base its forecasts for departmental spending on government plans, with day-to-day expenditures forecast to increase by 1.0% a year above inflation from April 2025 onwards. With the NHS budget expected to increase by 3.6% a year, defence and overseas development assistance by 1.8%, and childcare by 30.7%, this implies real-term cuts in core schools spending of 1.2% and in all other departmental spending of 2.3% a year.

The OBR comments that delivering a 2.3% a year real-terms fall in day-to-day spending would "present challenges", noting that half of the differences between OBR forecasts and outturns between 2011/12 and 2021/22 were caused by the government topping up spending at Spending Reviews. Most recently, this was by £32bn a year in additional spending at the October 2021 review. The Institute for Fiscal Studies (IFS) is less diplomatic, describing the scale of spending cuts required to meet the Chancellor's spending plans as "unrealistic" and "not going to happen".

The IFS also casts doubt on whether freezing capital investment in cash terms (a cut in real terms) will be deliverable in practice given the poor state of many public assets and the importance of investment in infrastructure to driving economic growth, a key objective for any government.

The main decisions on spending are typically determined at three-year Spending Reviews, with the next review covering 2025/26 to 2027/28 originally scheduled for this autumn. However, the Chancellor has deferred the Spending Review until after the general election. It is currently unclear whether it will take place in time for the start of the 2025/26 financial year, or if it will be delayed a year with an interim spending round for 2025/26.

The OBR has also identified a policy risk concerning the trend of successive chancellors allowing borrowing and debt to rise when forecasts deteriorate but using any upside in forecasts to fund additional spending or cut spending instead. In theory, such upsides should reduce borrowing. This trend tends to ratchet up borrowing as forecasts fluctuate up and down.

In practice, most governments tend to raise taxes in the first Budget after a general election, which would allow the Chancellor (if he were to continue in office after the general election) to cover at least some of the additional funding that is likely to be needed for public services.

In addition, his fiscal rules roll forward each year, meaning he can put back the date at which underlying debt has to peak and start to fall – enabling borrowing plans to be increased each autumn when the forecasts are extended.

The OBR has estimated alternate scenarios as follows:

- A 1.0 percentage point higher level of interest rates would increase annual debt interest by £15bn in 2028/29 and increase losses on quantitative tightening gilt repurchases by £53bn.
- A 0.5 percentage point improvement or deterioration in annual productivity growth would reduce the fiscal deficit by £46bn or increase it by £42bn in 2028/29.
- A spike in energy prices with consequential implications for inflation and interest rates could increase borrowing by £23bn a year and add 0.8 percentage points to underlying debt/GDP.
- 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.

BUDGET ANNOUNCEMENTS AND CHANGES SINCE THE LAST FORECAST

TAX MEASURES

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

- **Employee national insurance:** A two percentage point reduction from April 2024 in employee national insurance from 10% to 8%, following a cut from 12% to 10% in January 2024.
- **Self-employed national insurance:** A two percentage point reduction on top of the one percentage point reduction announced in the 2023 Autumn Statement, to bring class 4 national insurance on the self-employed down from 9% to 6% from April 2024. Most of the self-employed will no longer need to pay class 2 national insurance for 2024/25 and subsequently.
- **Fuel and alcohol:** A freeze in fuel duty for another year and the retention of the 5p duty cut introduced during the pandemic, as well as an extension in the freeze in alcohol duty for a further six months from August 2024 to February 2025.
- **Non-doms:** The abolition of the remittance basis of taxation for non-UK domiciled individuals with a residence-based regime from April 2025, combined with an option not to pay UK tax on foreign income and gains for the first four years of tax residence. Overseas workday relief will be reformed at the same time to remove restrictions on remittances of foreign earnings in the first three years of tax residence.
- **Child benefit withdrawal:** Reform of the high-income child benefit charge (HICBC) to increase the lower threshold for withdrawing child benefit from £50,000 to £60,000 and halve the rate of withdrawal by increasing the upper threshold from £60,000 to £80,000. This will reduce marginal personal tax rates on higher earning parents outside Scotland from 54.5%, 62.7% and 71.0% for 1, 2 and 3 children between £50,270 and £60,000 in 2023/24 to 48.7%, 53.1% and 57.5% between £60,000 and £80,000 in 2024/25 respectively.
- **Capital gains tax:** A reduction in the rate for higher-rate taxpayers on residential properties from 28% to 24% from April 2024. The rate for basic rate taxpayers will remain at 18%.
- **VAT:** An increase in the VAT registration threshold from £85,000 to £90,000 from April 2024.
- **Smoking and vaping:** A vaping duty of £1, £2 or £3 per 10ml (based on nicotine concentration) from October 2026, together with an additional £2 per 100 cigarettes tobacco duty increase.
- **ISAs:** A proposed additional £5,000 Investment Saving Account to invest in UK companies.
- **Residential property:** Immediate abolition of multiple-dwelling relief from stamp duty from 6 March 2024, and abolition of the furnished holiday lettings tax regime from April 2025.
- **Inheritance tax:** An extension in the scope of agricultural property relief to land managed under an environmental agreement with public authorities or approved responsible bodies. Commercial loans will no longer be required before applying for probate.
- **Air passenger duty:** An increase of approximately 2% (economy) or 11% (first, business and premium) on international flights over 2,000 miles from 1 April 2025.
- **Energy windfall tax:** An extension of one year in the energy profits levy to March 2029.
- **Film and TV:** A new independent film tax credit of 53% up to a maximum of 80% of a film’s total core expenditure on budgets up to £15bn. The audio-visual expenditure credit for films and high-end TV will increase to 39% from April 2025, and the 80% cap on costs will be removed.
- **Cultural reliefs:** Higher rates of theatre tax relief, orchestra tax relief and galleries tax relief of 40% for non-touring and 45% for touring will be extended permanently.
- **Economic crime:** An increase from £250,000 to £500,000 in the economic crime levy for UK businesses with revenue exceeding £1bn.

Other measures announced include planned legislation to permit collective money purchase pension schemes to operate in the UK; restricting the scope of agricultural property relief and woodlands relief to property in the UK; exempting public bodies from the higher stamp duty rate of 15% on purchases of residential property over £500,000; extending the window for claiming tax reliefs in Freeport special tax sites from five to 10 years; a plan to close the alcohol duty stamps scheme; and new anti-avoidance rules for assets transferring offshore via a company.

FORECAST REVISIONS

Table 2 sets out the revisions the OBR made to the November 2023 fiscal forecast in arriving at its March 2024 forecast, together with its assessment of the financial impact of tax and spending decisions announced by the Chancellor in the Spring Budget.

Table 2 – Spring Budget 2024 forecast: Revisions from Autumn Statement 2023

	2023/24 Estimate £bn	2024/25 Budget £bn	2025/26 Forecast £bn	2026/27 Forecast £bn	2027/28 Forecast £bn	2028/29 Forecast £bn
Lower debt interest	12	16	15	14	13	14
Lower inflation and other – spending	(1)	(1)	4	2	3	2
Lower inflation and other – receipts	(1)	(5)	(9)	(10)	(12)	(15)
Forecast revisions	**10**	**10**	**10**	**6**	**4**	**1**
National insurance cut	-	(10)	(10)	(10)	(10)	(11)
Other tax cuts	-	(4)	(2)	(2)	(2)	(2)
Tax increases	-	-	1	3	5	6
Net other changes	-	2	1	2	1	2
Net impact of policy decisions	**-**	**(12)**	**(10)**	**(7)**	**(6)**	**(5)**
Net change to forecast	**10**	**(2)**	**-**	**(1)**	**(2)**	**(4)**
November 2023 forecast deficit	(124)	(85)	(77)	(68)	(49)	(35)
March 2024 forecast deficit	**(114)**	**(87)**	**(77)**	**(69)**	**(51)**	**(39)**

Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024.*

The £10bn reduction in the estimate for the deficit in the current financial year is consistent with trends seen in the actual numbers reported in the first 11 months. Lower expectations for both interest rates and inflation are the primary drivers in improving the fiscal outlook in subsequent financial years, although the net impact on the forecast reduces over time as predictions for both converge with long-term assumptions.

One of the reasons the forecast numbers didn't change that much overall is that the OBR increased its medium-term assumption for net inward migration from 245,000 to 315,000 per year, offsetting a weakening in anticipated economic growth per capita. While this is less than the net migration of 670,000 in the year to June 2023, the recent introduction of new restrictions intended to substantially cut immigration numbers is a potential risk to the forecast.

Policy measures were led by the two percentage point cut in employee and self-employed national insurance rates, which together are estimated to cost around £10bn a year. Other tax cuts are expected to cost about £4bn in 2024/25 and around £2bn a year subsequently. These include freezes in fuel and alcohol duties, changes in the high-income child benefit charge, an increase in the VAT threshold from £85,000 to £90,000, and a four percentage point cut in capital gains tax on property sales from 28% to 24%. The latter change is expected to increase tax receipts by a few hundred million pounds a year as it is anticipated to encourage more property sales, with higher volumes offsetting lower amounts of tax collected on each individual sale.

Tax increases principally relate to changes in the tax treatment of non-doms, the introduction of a duty on vaping and an increase in tobacco duty, and an extension of the energy profits levy to March 2029.

Net other changes include up to £1bn a year benefit from improvements in tax collection and £2bn from the economic impact of policy measures, offset by just under £1bn a year of investment in improving public sector productivity and around £1bn a year in extra interest on the additional borrowing used to fund tax cuts.

THE BUDGET YEAR – 2024/25

Table 3 analyses the year-on-year changes between the latest estimates for receipts and spending in the current financial year ending in March 2024 and the Budget year of 2024/25. It shows how tax and other receipts are expected to increase by £37bn from £1,102bn in 2023/24 to £1,139bn in 2024/25, while total managed expenditure is expected to increase by £10bn from £1,216bn to £1,226bn.

The consequence should be a net reduction of £27bn in the £114bn shortfall between receipts and spending in 2023/24 to £87bn in 2024/25.

Table 3 – Spring Budget 2024 forecast: Changes between 2023/24 and 2024/25

	2023/24 Estimate £bn	Economy + inflation £bn	Step changes £bn	Fiscal drag £bn	Other changes £bn	Tax cuts £bn	2024/25 Budget £bn
Income tax	279	6	-	10	8	-	303
VAT	198	4	-	-	1	-	203
Employer national insurance	108	2	-	3	-	-	113
Corporation tax	95	2	-	-	4		101
Employee national insurance	71	1	-	2	-	(18)	56
Other taxes	234	5	-	-	3	(2)	240
Tax receipts	**985**	**20**	**-**	**15**	**16**	**(20)**	**1,016**
Other receipts	117	2	-	-	4	-	123
Total receipts	**1,102**	**22**	**-**	**15**	**20**	**(20)**	**1,139**
Departmental spending	(451)	(4)	-	-	(4)	-	(459)
Welfare spending	(296)	(2)	-	-	(17)	-	(315)
Local government spending	(165)	(1)	-	-	1	-	(165)
Other current spending	(66)	(1)	11	-	(6)	-	(62)
Debt interest	(105)	-	16	-	-	-	(89)
Public sector investment	(133)	(1)	-	-	(2)	-	(136)
Total spending	**(1,216)**	**(9)**	**27**	**-**	**(28)**	**-**	**(1,226)**
Fiscal deficit	**(114)**	**13**	**27**	**15**	**(8)**	**(20)**	**(87)**
Fiscal deficit % of GDP	*(4.2%)*	*0.6%*	*1.0%*	*0.5%*	*(0.3%)*	*(0.7%)*	*(3.1%)*

Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024. Departmental and local government spending exclude depreciation and VAT. Other current spending is net of intra-government eliminations.*

Economic growth of 1.2% and all-economy inflation (as measured by the GDP deflator) of 0.8% is expected to contribute £22bn to total receipts, while inflation should add £9bn to expenditure excluding interest. The GDP deflator assumption of 0.8% is dependent on consumer price inflation falling to 1.6% on average in 2024/25, down from 4.0% in the year to January 2024 and a 5.7% estimated average for 2023/24.

This is followed by a net saving of £27bn from step changes in spending: a reduction in debt interest of £16bn (principally on inflation-linked debt); £7bn in lower payments to the EU as most of the exit settlement has now been paid; and £4bn from the end of energy support payments. Fiscal drag contributes an estimated £15bn to the exchequer, with the freezing of personal tax allowances ‘dragging’ more taxpayers into higher tax brackets.

Other changes increase the deficit by around £8bn, with the delayed effects of higher inflation from 2023 flowing through into 2024 expected to boost earnings and business profits and, therefore, receipts by £20bn. This also drives the £28bn increase in spending, with an 8.5% uplift in the state pension from April (based on earnings growth in the year to July 2023), and a 6.7% increase in universal credit and other social benefits (based on inflation in the year to September 2023) putting up welfare spending by £17bn. A 9.8% increase in the minimum wage from April is expected to push up payroll and supplier costs, but this is offset by effective cuts in spending in central government departments, local government and public sector investment.

The final column of changes reflects the £18bn year-on-year impact of cutting national insurance in January and April 2024, and the £2bn cost of freezing fuel duties and alcohol duties and increasing the VAT registration threshold.

To put the numbers into context, total receipts of £1,139bn in 2024/25 are equivalent to £1,375 per month for each person living in the UK, while total expenditure of £1,226bn is equivalent to £1,480 per person per month – a net shortfall of £87bn or £105 per person per month.

BORROWING AND DEBT

BORROWING

Table 4 – Spring Budget 2024 forecast: Borrowing and headline debt

	2024/25 Budget £bn	2025/26 Forecast £bn	2026/27 Forecast £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	Five-year Total £bn
Borrowing to fund fiscal deficits	**87**	**77**	**69**	**51**	**39**	**323**
Borrowing to fund net lending	16	16	17	18	18	85
Working capital and other timing	30	27	22	23	26	128
NatWest share sale	(3)	(3)	-	-	-	(6)
Net borrowing	**130**	**117**	**108**	**92**	**83**	**530**
Term Funding Scheme receipts	(28)	(90)	(25)	-	-	(143)
Net debt increase	**102**	**27**	**83**	**92**	**83**	**387**
Opening net debt	2,691	2,793	2,820	2,903	2,995	2,691
Public sector net debt	**2,793**	**2,820**	**2,903**	**2,995**	**3,078**	**3,078**
Borrowing to fund fiscal deficits	***3.1%***	***2.7%***	***2.3%***	***1.6%***	***1.2%***	***10.9%***
Borrowing to fund net lending	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*3.0%*
Working capital and other timing	*1.1%*	*0.9%*	*0.7%*	*0.8%*	*0.8%*	*4.3%*
NatWest share sale	*(0.1%)*	*(0.1%)*	-	-	-	*(0.2%)*
Net borrowing % of GDP	***4.7%***	***4.1%***	***3.6%***	***3.0%***	***2.6%***	***18.0%***
Term Funding Scheme receipts	*(1.0%)*	*(3.1%)*	*(0.8%)*	-	-	*(4.9%)*
'Inflating away'	*(2.5%)*	*(3.4%)*	*(3.7%)*	*(3.4%)*	*(3.4%)*	*(16.4%)*
Debt change % of GDP	***1.2%***	***(2.4%)***	***(0.9%)***	***(0.4%)***	***(0.8%)***	***(3.3%)***
Opening net debt % of GDP	*97.6%*	*98.8%*	*96.4%*	*95.5%*	*95.1%*	*97.6%*
Public sector net debt % of GDP	***98.8%***	***96.4%***	***95.5%***	***95.1%***	***94.3%***	***94.3%***

Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024.*

Table 4 shows how the headline measure of public sector net debt is expected to increase by £387bn from an estimated £2,691bn at the start of April 2024 to £3,078bn in March 2029. This comprises £530bn in borrowing, less £143bn in loan repayments by retail banks through the Bank of England's Term Funding Scheme that will be used to settle the central bank deposit liabilities created to finance that lending (see the section on underlying debt below).

Net borrowing of £530bn comprises £323bn to fund fiscal deficits over the five-year forecast period, £85bn to fund net lending[1], and £128bn to fund working capital and other cash flow timing effects[2], less £6bn from the planned disposal of the government's remaining holdings of NatWest shares. The NatWest share sale proceeds planned for 2025/26 may be brought forward to 2024/25 if the government goes ahead with its proposals to launch a retail share sale this summer.

Net borrowing over the five years to March 2029 is forecast to be equivalent to 18.0% of annual GDP, offset by 4.9% from the settlement of Term Funding Receipts and 16.4% from the 'inflating away' effect as inflation and economic growth increase the denominator in the debt to GDP ratio. The consequence is a net decrease of 3.3 percentage points in the headline debt to GDP measure over the next five years.

Over the last 20 years public sector net debt has increased from £404bn or 30.9% of GDP in March 2004 to an estimated £2,691bn or 97.6% of GDP in March 2024.

UNDERLYING DEBT

Table 5 – Spring Budget 2024 forecast: Reconciliation of underlying debt to headline debt

	Mar 2024 Estimate £bn	Mar 2025 Budget £bn	Mar 2026 Forecast £bn	Mar 2027 Forecast £bn	Mar 2028 Forecast £bn	Mar 2029 Forecast £bn
Underlying debt	**2,447**	**2,593**	**2,715**	**2,832**	**2,936**	**3,033**
Incremental QE liabilities	101	85	80	71	59	45
Underlying debt including QE	**2,548**	**2,678**	**2,795**	**2,903**	**2,995**	**3,078**
Term Funding Scheme liabilities	143	115	25	-	-	-
Public sector net debt	**2,691**	**2,793**	**2,820**	**2,903**	**2,995**	**3,078**
Underlying debt % of GDP	***88.8%***	***91.7%***	***92.8%***	***93.2%***	***93.2%***	***92.9%***
Incremental QE liabilities	*3.6%*	*3.0%*	*2.7%*	*2.3%*	*1.9%*	*1.4%*
Underlying debt including QE	***92.4%***	***94.7%***	***95.5%***	***95.5%***	***95.1%***	***94.3%***
Term Funding Scheme liabilities	*5.2%*	*4.1%*	*0.9%*	-	-	-
Public sector net debt % of GDP	***97.6%***	***98.8%***	***96.4%***	***95.5%***	***95.1%***	***94.3%***

Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024.*

HM Treasury uses an alternative measure for debt in setting its fiscal targets: public sector net debt excluding Bank of England balances or 'underlying debt' as it is sometimes described.

This measure solves a problem in the headline measure of public sector net debt, which is distorted by its inclusion of liabilities relating to the Bank of England's Term Funding Scheme without netting off the associated loan receivables owed by retail banks. This problem increases the reported amount of headline debt and causes it to fall as Term Funding Scheme liabilities are settled from the recovery of loan receivables, even though public debt is really going up in comparison with the size of the economy.

[1] £89bn for student loans and £36bn in business and housing loans, less £40bn in repayments.
[2] £44bn increase in corporation tax and other receivables over the five years, £32bn for student loan interest accruals, £28bn relating to the timing of premiums and discounts on gilt issues, £25bn relating to the unwinding quantitative easing, and £7bn in guarantee scheme write-offs, less £8bn in other movements.

However, the choice of this measure unfortunately creates another distortion by excluding incremental quantitative easing (QE) liabilities that HM Treasury is obliged to compensate the Bank of England for as QE is unwound. This omission means the underlying debt to GDP ratio falls less slowly than it otherwise should.

Table 5 illustrates how underlying debt is forecast to peak at 93.2% of GDP in March 2028 before falling to 92.9% by March 2029, meeting the Chancellor's primary fiscal rule despite being 3.1 percentage points higher at the end of the forecast than the 88.8% estimated at the start.

Adjusting underlying debt to include QE liabilities would see it peak a year earlier at 95.5% of GDP in March 2027 before falling to 94.3% by March 2029, 1.9 percentage points higher than the 92.4% equivalent for March 2024.

Both measures contrast with public sector net debt as a share of GDP, which is forecast to peak after just one year at 98.8% in March 2025 and then fall to 94.3% by March 2029, a net reduction of 3.3 percentage points in the headline measure from the 97.6% of GDP estimated in March 2024.

There is a good argument for returning to the headline measure of debt once the outstanding Term Funding Scheme balances have been fully settled.

FINANCING

Table 6 – Spring Budget 2024 forecast: Financing

	2024/25 Budget £bn	2025/26 Forecast £bn	2026/27 Forecast £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	Five-year total £bn
Net borrowing (from Table 4)	**130**	**117**	**108**	**92**	**83**	**530**
Refinancing of existing debt	140	163	118	109	144	674
Financing and other adjustments	7	(4)	(11)	11	13	16
Gross financing requirement	**277**	**276**	**215**	**212**	**240**	**1,220**

Sources: HM Treasury, *Spring Budget 2024*; Debt Management Office, *Debt Management Report 2024/25.*

Table 6 summarises how HM Treasury expects to raise £1,220bn from debt investors over the next five years in order to fund net borrowing and repay existing debts as they fall due.

The Debt Management Office has been given a remit for 2024/25 to raise £265bn by issuing government bonds, comprising £95bn or 36% from the issue of short fixed-interest gilts (maturities of less than seven years), £82bn or 31% in medium fixed-interest gilts (seven to 15 years), £49bn or 18% long fixed-interest gilts (15 to 50 years), £29bn or 11% from index-linked gilts (mostly with long maturities), and £10bn or 4% yet to be determined.

The balance of the £277bn gross financing requirement for 2024/25 will be raised by National Savings & Investments taking in £10bn in incremental investments from the public, 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 the expectation that inflation should drop below 2% later this year.

The smaller proportion of long fixed-interest gilts to be issued is perhaps more understandable (18% compared with 27% in the existing debt portfolio) given the expectation that interest rates and yields will reduce in the next year or two.

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 £0.5trn to the £1.2trn 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.

CONCLUSIONS

DIFFICULT CHOICES DEFERRED AND POST-ELECTION TAX RISES

The Spring Budget confirmed that the upcoming Spending Review for the three financial years from April 2025 to March 2028 has been deferred until after the general election. The Chancellor has subsequently stated that his working expectation is that the review will be held in the second half of the year, which *"if the general election is in October will mean it's very, very tight"*.

The lack of budget clarity makes it difficult for central government departments, the devolved administrations, regional and local authorities, and other public bodies to plan effectively, particularly on capital programmes that span multiple years.

Figure 3 illustrates how total spending is expected to contract in comparison with the size of the economy over the forecast period as the government seeks to control public spending. According to the OBR, the spending plans set by the Chancellor imply 3.2% a year real-term cuts in unprotected department budgets, which the IFS and others consider to be unachievable without a significant reduction in public services or in service quality. This is difficult to believe deliverable in practice.

A more probable scenario is that – in line with the experience of the £39bn and £32bn average annual increases in the previous two reviews – the Spending Review will identify the need for tens of billions in additional spending on public services. This also fits with a historical pattern that has seen taxes go up in the first Budget following a general election.

In practice, irrespective of which party wins power, it is probable that there will be a combination of higher taxes, higher spending (but still involving some cuts to public services) and higher borrowing than presented in the official forecasts prepared by the OBR.

A BADLY DESIGNED FISCAL RULE

The Chancellor's primary fiscal rule is badly designed, partly because of a flaw in how underlying debt is calculated, but mainly because it is too restrictive in the short-term, while being too lax in the medium-term.

In the short-term, the fiscal rule restricts the Chancellor's flexibility to borrow to invest to stimulate the economy or to improve productivity in the public sector given that high interest rates applied to historically high debt levels are absorbing a much greater proportion of public service budgets. This may also be a contributor to the Chancellor adopting what are considered to be unrealistic spending plans over the next five years.

However, by selecting a fiscal rule that rolls forward each year, the Chancellor's objective of seeing debt as a share of GDP peak and then start to fall may never occur. For example, the Spring Budget 2023 fiscal target was met with underlying debt to GDP forecast to start to fall by 2027/28, while the Spring Budget 2024 expects this not to happen until 2028/29.

PREDICTED REDUCTION IN DEFICIT UNLIKELY TO BE ACHIEVED

Reducing the fiscal deficit to 1.6% of GDP in 2027/28 and 1.2% of GDP in 2028/29 as forecast would be the first time it falls below 2% of GDP since 2001/02, more than 20 years ago.

However, the use of a fiscal rule that rolls forward each year means there is a significant prospect that the date at which the fiscal deficit reduces to this level will be pushed further into the future. This is because of the historical practice of chancellors who utilise improvements in fiscal forecasts to increase spending or cut taxes but respond to deteriorations by increasing the planned level of borrowing.

While stronger than forecast economic growth or an unexpected return of ultra-low borrowing would help improve the top line, pressures on public spending from more people living longer, a deteriorating international security situation and underperforming public services are likely to be partially funded by higher borrowing even if taxes are increased after the election as many commentators expect.

FURTHER PRE-ELECTION TAX CUTS COULD AFFECT CREDIBILITY WITH DEBT MARKETS

There is speculation that the Chancellor might choose to hold a further fiscal event before the general election, potentially in an early Autumn Statement in September or October.

His hope will be that the economic and fiscal outlook improves over the next six or seven months as even relatively small changes could enhance the fiscal outlook, especially if he is able to push back difficult questions about public spending until after the general election. For example, the minimum wage rise of 9.8%, state pension rise of 8.5% and welfare rise of 6.7% scheduled for April may help with demand in the UK economy, although there is also a risk that they could be inflationary.

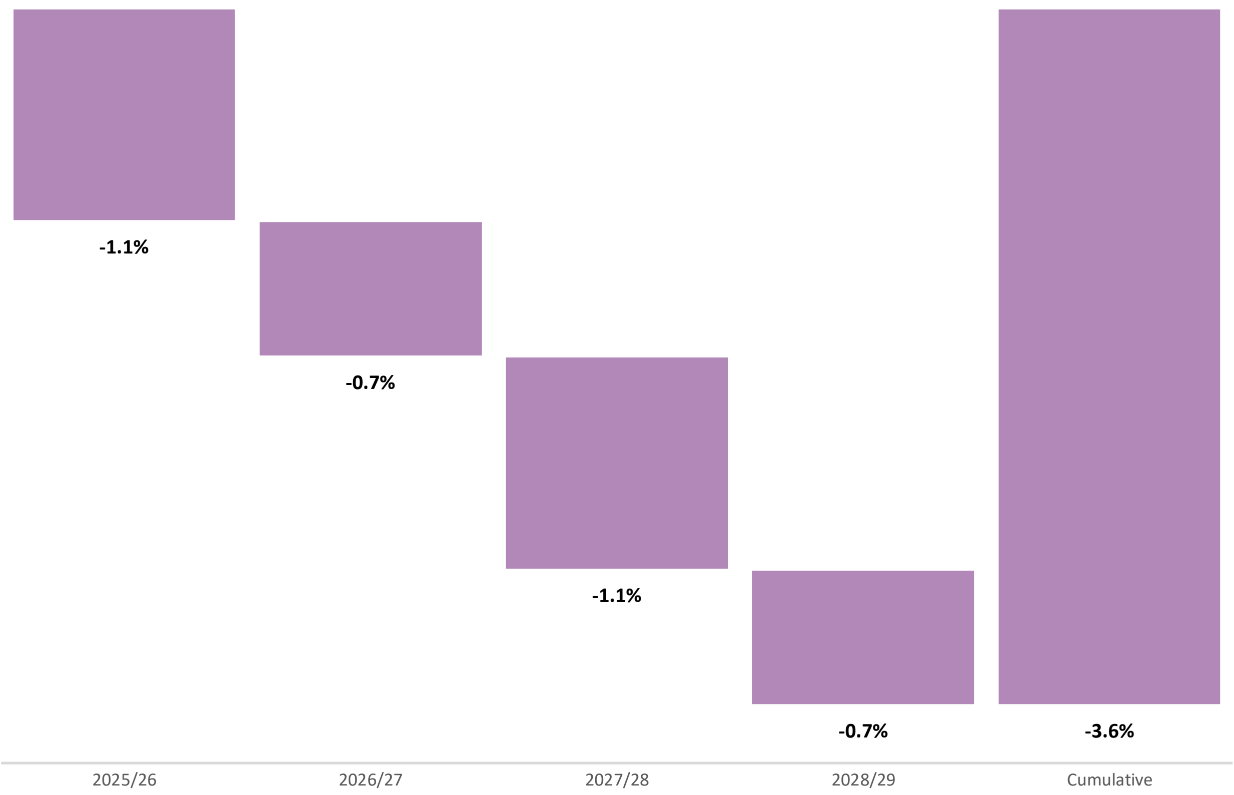
The Chancellor should also benefit from his principal fiscal target (for underlying debt to GDP to be falling by the fifth year of the forecast period) rolling forward from 2028/29 to a year later in 2029/30. This might potentially provide capacity to reduce tax receipts by £10bn or more a year over the next five years, even if that may mean a higher level of debt overall.

There are also suggestions that he could opt to cut the amounts allocated to departmental spending from April 2025, despite the likelihood that spending numbers will need to be revised up when the Spending Review takes place after the election.

Further tax increases on businesses and wealthier individuals, or in indirect taxes such as VAT, are also possible if he wants to increase the amount by which he brings down personal taxation, whether that be a further cut to national insurance or a more widely experienced cut in income tax.

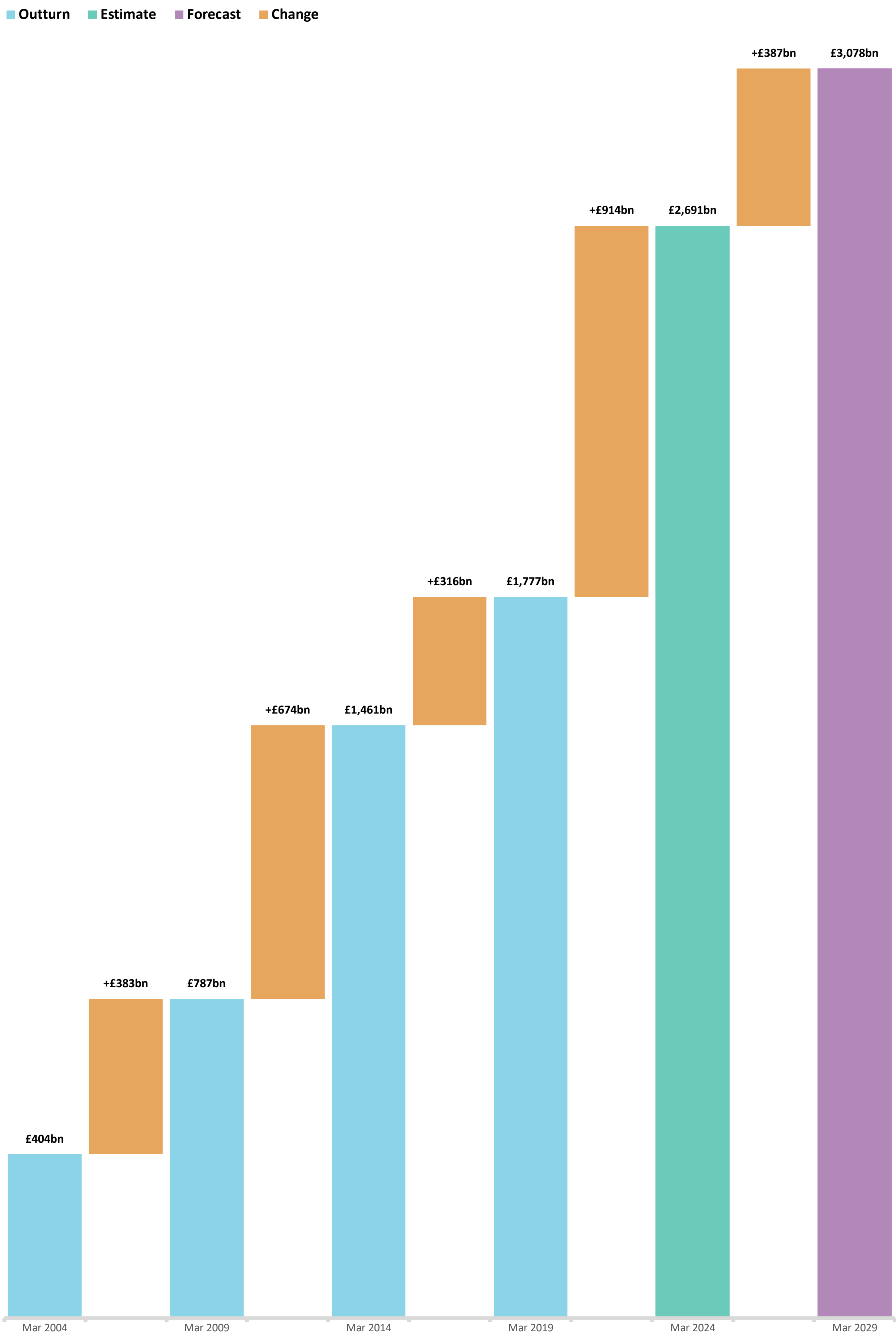
The significant political pressure on the Chancellor to 'pull a rabbit out of the hat' and cut taxes by a significant margin in advance of the general election means that he may be pushed to do more than debt markets might be comfortable with. The unfortunate example of the mini-Budget in October 2022 under Liz Truss demonstrates how this could go wrong. The Chancellor's problem will be that while he knows what he should avoid – very large unfunded tax cuts with no independent assessment of the implications for the public finances – he doesn't know how far he can push the envelope to a lesser extent and still retain credibility with debt investors.

Figure 3 – Spring Budget 2024 forecast: Change in total spending compared with change in nominal GDP



Sources: HM Treasury, *Spring Budget 2024*; OBR, *Economic and Fiscal Outlook, March 2024*; ICAEW calculations.

Figure 4 – Spring Budget 2024 forecast: Public sector net debt over 25 years



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

APPENDIX

RECEIPTS AND SPENDING BY YEAR

Table 7 – Spring Budget 2024 forecast: Receipts and expenditure

	2023/24 Estimate £bn	2024/25 Budget £bn	2025/26 Forecast £bn	2026/27 Forecast £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	*2024/25 to 2028/29 avg real %*
Income tax	279	303	316	331	349	363	*+2.9%*
VAT	198	203	211	219	228	237	*+2.1%*
Employer national insurance	108	113	116	120	125	129	*+1.7%*
Corporation tax	95	101	103	106	110	115	*+1.5%*
Employee national insurance	71	56	57	59	61	63	*+1.6%*
Council tax	45	47	49	52	55	57	*+3.4%*
Business rates	29	32	35	36	37	37	*+2.1%*
Fuel duties	25	25	27	28	28	28	*+1.6%*
Capital gains tax	15	15	16	19	21	24	*+9.6%*
Property transaction taxes	13	14	15	17	20	22	*+10.3%*
Alcohol duties	13	13	13	14	15	16	*+4.2%*
Other taxes	94	94	97	99	97	100	*-0.6%*
Tax receipts	**985**	**1,016**	**1,055**	**1,100**	**1,146**	**1,191**	***+2.3%***
Other receipts	117	123	119	121	126	131	*-0.1%*
Total receipts	**1,102**	**1,139**	**1,174**	**1,221**	**1,272**	**1,322**	***+2.0%***
Departmental spending	(451)	(459)	(473)	(486)	(500)	(514)	*+1.1%*
Welfare spending	(296)	(315)	(329)	(340)	(348)	(360)	*+1.6%*
Local government spending	(165)	(165)	(167)	(172)	(177)	(181)	*+0.6%*
Other current spending	(66)	(62)	(61)	(63)	(62)	(65)	*-0.1%*
Debt interest	(105)	(89)	(89)	(97)	(104)	(110)	*+3.5%*
Public sector investment	(133)	(136)	(132)	(132)	(132)	(131)	*-2.7%*
Total spending	**(1,216)**	**(1,226)**	**(1,251)**	**(1,290)**	**(1,323)**	**(1,361)**	***+0.9%***

Sources: OBR, *Economic and Fiscal Outlook, March 2024*; ICAEW calculations. *Departmental and local government spending exclude depreciation and VAT. Other current spending is net of intra-government eliminations.*

FORECAST GDP AND GDP DEFLATOR BY YEAR

Table 8 – Spring Budget 2024 forecast: GDP

	2023/24 Estimate £bn	2024/25 Budget £bn	2025/26 Forecast £bn	2026/27 Forecast £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	*2024/25 to 2028/29 avg real %*
Nominal GDP	**2,731**	**2,786**	**2,875**	**2,985**	**3,094**	**3,207**	***+1.8%***
	Index	**Index**	**Index**	**Index**	**Index**	**Index**	
GDP deflator	106.54	107.40	108.85	110.75	112.82	115.00	-

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

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

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