Office for
Budget Responsibility

Economic and fiscal outlook

October 2024

CP 1169

Office for Budget Responsibility: Economic and fiscal outlook

Presented to Parliament by
the Exchequer Secretary to the Treasury by
Command of His Majesty

October 2024

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Correction slip

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Correction to Table 3.2 in Chapter 3

Table 3.2: Costing of the rise in employer NICs

Table currently reads:

Memo: RDEL compensation to public sector employers and adult social care	*5.5*	*5.4*	*5.6*	*5.7*	*5.9*

Table should read:

Memo: RDEL compensation for public sector organisations	*4.7*	*4.7*	*4.8*	*4.9*	*5.1*

Correction to text and Table 3.9 in Chapter 3

Paragraph 3.58, second bullet

Line two currently reads: £22.7 billion. Text should read: £23.4 billion.

Line three currently reads: £1.4 billion. Text should read: £1.5 billion.

Paragraph 3.59

Line four currently reads: £51.0 billion. Text should read: £50.3 billion.

Table 3.9: Latest costings of personal tax measures

Table currently reads:

Existing rate changes	**2.4**	**20.7**	**21.2**	**21.2**	**21.6**	**22.1**	**22.7**
of which:							
Autumn Statement 2023 NICs reduction	2.4	10.0	10.3	10.3	10.4	10.7	10.9
Net impact on receipts	**-9.1**	**-6.0**	**-35.2**	**-41.5**	**-47.6**	**-49.5**	**-51.0**

Table should read:

Existing rate changes	**2.5**	**21.3**	**21.9**	**21.9**	**22.3**	**22.9**	**23.4**
of which:							
Autumn Statement 2023 NICs reduction	2.5	10.6	10.9	11.0	11.1	11.4	11.7
Net impact on receipts	**-8.9**	**-5.4**	**-34.6**	**-40.8**	**-46.9**	**-48.7**	**-50.3**

Correction to Chart 4.8 in Chapter 4

Chart 4.8: Fuel duty: forecasts versus outturns

Annotation currently reads: October 2024: constant 52.59p duty rate.

Annotation should read: October 2024: constant 52.95p duty rate.

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Supplementary information and charts and tables data are available on our website.

Foreword

This *Economic and fiscal outlook* (*EFO*) sets out our central forecast and the uncertainties that surround it for the five years to 2029-30, taking account of recent data and government policies announced up to and including the October 2024 Budget. The forecasts presented in this document represent our collective view as the three independent members of the OBR's Budget Responsibility Committee (BRC). We take full responsibility for the judgements that underpin them and for the conclusions we have reached.

As always, we have been greatly supported in our work by the staff of the OBR. We are very grateful for their hard work and expertise. We have also drawn on the work and expertise of numerous officials across government in preparing these forecasts. We are grateful for their engagement and insight.

The date for this forecast was announced on 29 July, giving four weeks more than the ten weeks' notice required by the *Memorandum of understanding between the Office for Budget Responsibility, HM Treasury, the Department for Work and Pensions and HM Revenue and Customs* (*MoU*).

We published the timetable of the key stages of the forecast on 21 August, once it had been agreed by signatories of the *MoU*. On this occasion, the timetable was adjusted to permit 24 working days instead of the MoU-prescribed 21 days between our final pre-measures economy forecast and the Budget date to allow sufficient time to finalise the pre-measures fiscal forecast and to incorporate major Budget policy decisions after the completion of this pre-measures forecast. Overall, the forecast process for this EFO proceeded very smoothly given the size of the Budget package. The timetable was adhered to at each of the following stages:

- OBR staff prepared an initial economy forecast, drawing on data released since our previous forecast in March 2024 and incorporating our preliminary judgements on the outlook for the economy. This first economy forecast was sent to the Chancellor on 3 September.

- Using the economic determinants from this forecast (such as the components of nominal income and spending, unemployment, inflation, and interest rates), we commissioned updated forecasts from the relevant government departments for the various tax and spending items that in aggregate determine the position of the public finances. We discussed these in detail with the officials producing them, which allowed us to investigate proposed changes in forecasting methodology and to assess the significance of recent tax and spending outturn data. In many cases the BRC requested changes to methodology and/or the interpretation of recent data. This first fiscal forecast was finalised on 18 September, and we sent a note that described the main elements of it to the Chancellor the following day.

- As the process continued, we identified further key judgements that we would need to make for our economy forecast. Where we thought it would be helpful, we commissioned analysis from the relevant teams in the Treasury. We then produced a second and final pre-measures economy forecast, which incorporated the latest data, and the economic implications of our first fiscal forecast. This final pre-measures economy forecast was based on energy and financial market data averaged over the 10 working days to 12 September. It was sent to the Treasury on 26 September.

- This second economy forecast provided the basis for the next round of fiscal forecasts. Discussions with HMRC, DWP and other departments gave us the opportunity to follow up our requests for further analysis, methodological changes, and alternative judgements from the previous round. We finalised our second and final pre-measures fiscal forecast on 7 October and sent a summary of the forecast to the Chancellor the following day.

- In parallel, we undertook a process of engagement and analysis to assess the set of policy measures to be announced in the Budget that we deemed could have specific effects on our economy forecast, to inform our forecast judgements. This involved several rounds of engagement with the Treasury and other departments as both the specification of policy packages and our assessment of their impact were refined.

- We also scrutinised the costing of individual tax and spending measures announced since our March 2024 forecast. As usual, OBR staff and the BRC requested further information and/or changes to almost all the draft costings prepared by HMRC and other departments. We have certified all policy measures in the forecast as reasonable and central.

- Alongside the development of the final economy forecast we made an initial assessment of the economic and fiscal effects of the emerging policy package. This built on earlier analysis that allowed us to factor in an initial package of measures that was provided by the Treasury on 9 October. We incorporated this package into a preliminary post-measures forecast, in order to provide an early view on the effect of Budget measures on the economy and public finances, which we sent to the Chancellor on 14 October. This forecast round was produced using our internal ready-reckoner models (rather than being sent to departmental forecasters).

- In line with the agreed timetable, on 16 October the Treasury provided the final package of measures that would cause movements in our economy forecast. We sent the resulting final economy forecast to the Treasury on 21 October and a near-final fiscal forecast on 22 October. Final policy decisions were provided by the Treasury on 23 October and our forecast was then finalised on 25 October and sent to the Treasury on the same day.

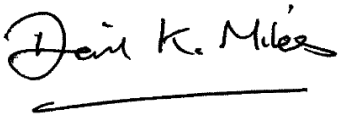
- The Treasury made a written request, as provided for in the *MoU* between us, that we provide the Chancellor and an agreed list of her special advisers and officials with a near-final draft of the *EFO* on 25 October. This allowed the Treasury to prepare the Chancellor's statement and accompanying documents. We also provided pre-release access to the full and final *EFO* on 28 October.

During the forecasting period, the BRC held dozens of scrutiny and challenge meetings with officials from other departments, in addition to numerous further meetings at staff level and with external stakeholders. We have been provided with all the information and analysis that we requested and have come under no pressure from Ministers, advisers or officials to change any of our conclusions as the forecast has progressed. The BRC met with the Chancellor on three occasions to discuss the forecast over the course of its production (on 11 September, 3 October and 23 October). A full log of our substantive contact with Ministers, their offices and special advisers can be found on our website. This includes the list of special advisers and officials who received the near-final draft of the *EFO* on 25 October.

Alongside this *EFO,* we have published the findings and recommendations of our review into the preparation of the March 2024 forecast for departmental expenditure limits (DEL). This forecast incorporates the recommendations of that review.

Our non-executive members, Dame Susan Rice and Baroness Hogg, provide additional assurance over how we engage with the Treasury and other departments. This includes reviewing any correspondence that OBR staff feel either breaches the *MoU* requirement that it be confined to factual comments only or could be construed as doing so. That review takes places as soon as practicable after each *EFO* has been published. Any concerns our non-executive members have will be raised with the Treasury's Permanent Secretary or the Treasury Select Committee if they deem that appropriate.

We would be pleased to receive feedback on any aspect of the content or presentation of our analysis. This can be sent to feedback@obr.uk.


Richard Hughes Professor David Miles CBE Tom Josephs

The Budget Responsibility Committee

1 Executive summary

Overview

1.1 Against a broadly unchanged economic and fiscal backdrop since March, this Budget delivers a large, sustained increase in spending, taxation, and borrowing. Budget policies increase spending by almost £70 billion (a little over 2 per cent of GDP) a year over the next five years, of which two-thirds goes on current and one-third on capital spending. As a result, the size of the state is forecast to settle at 44 per cent of GDP by the end of the decade, almost 5 percentage points higher than before the pandemic. Half of the increase in spending is funded through an increase in taxes, mainly on employer payrolls, on assets, and through greater tax compliance. These raise £36 billion (just over 1 per cent of GDP) a year in additional revenue and push the tax take to a historic high of 38 per cent of GDP by 2029-30. The other half of the increase in spending is funded by a £32 billion (1 per cent of GDP) a year increase in borrowing, one of the largest fiscal loosenings of any fiscal event in recent decades.

1.2 Having stagnated last year, the economy is expected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent, slightly below its estimated potential growth rate of 1⅔ per cent, over the remainder of the forecast. Budget policies temporarily boost output in the near term, but leave GDP largely unchanged in five years. If the increased level of public investment were sustained, it would permanently raise supply in the long term and by significantly more than it does in the forecast period. Budget policies push up CPI inflation by around ½ a percentage point at their peak, meaning it is projected to rise to 2.6 per cent in 2025, and then gradually fall back to target.

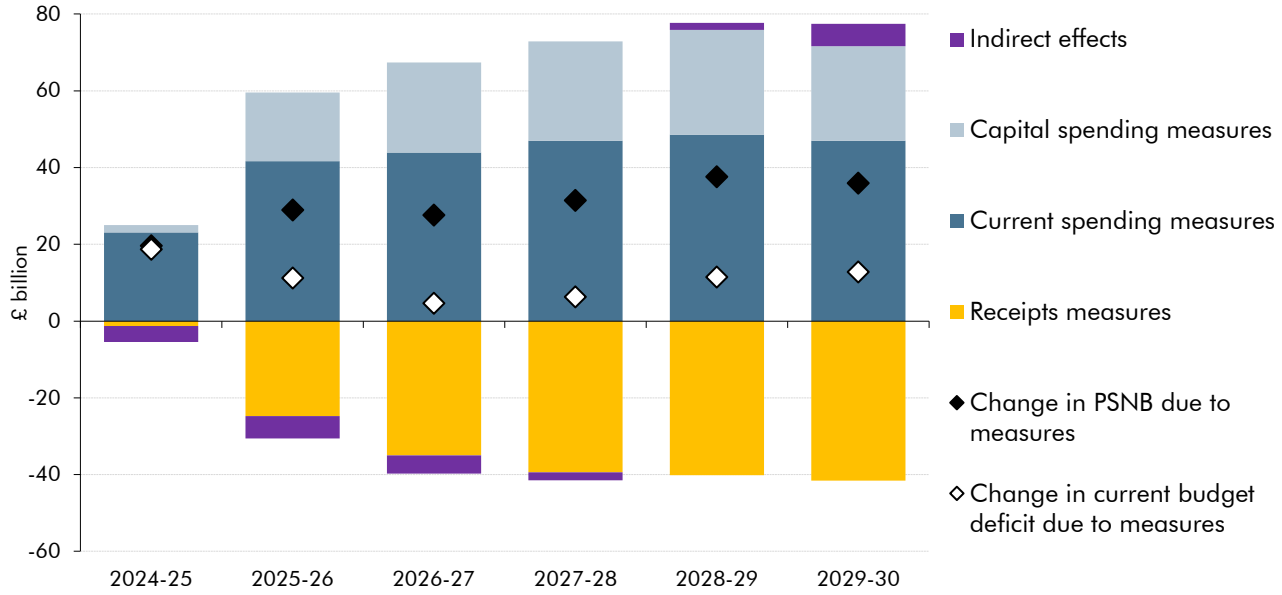
1.3 This Budget slows the pace of deficit reduction relative to the previous Government's plans. Borrowing is projected to rise marginally from £122 billion (4.5 per cent of GDP) last year to £127 billion this year, before falling back to £71 billion (2.1 per cent of GDP) in 2029-30. Net debt falls as a share of GDP from 98.4 per cent this year to 97.1 per cent by the end of the decade. But underlying debt, excluding the Bank of England, rises as a share of GDP in every year of the forecast. The Budget sets two new fiscal rules: to deliver a current balance and for net financial liabilities to be falling, both initially in five years. On the central forecast they are on course to be met by margins of £9.9 billion and £15.7 billion.

1.4 These margins are a small fraction of the risks around that central forecast. The economic outlook depends on uncertain judgements on the paths for productivity, inactivity, and net migration. The fiscal forecast also remains highly sensitive to movements in interest rates and inflation given the level of debt. The Budget crystallises much of the significant upside risk to spending highlighted in previous forecasts, but only sets detailed departmental plans for one more year and is still based on seldom-implemented fuel duty rises.

Budget policies

1.5 **The net effect of Budget policies is to increase borrowing by £19.6 billion this year and by an average of £32.3 billion over the next five years.** Policy decisions increase current and capital spending in total by an average of £69.5 billion a year from 2025-26. Around half of this is offset by tax policies, which increase revenue by £36.2 billion a year on average. The fiscal impacts of the indirect effects of these policies on the economy are largely offsetting. Overall, policy decisions raise the current budget deficit by an average of £9.3 billion a year over the next five years, as the policy-driven increase in current spending is not fully offset by the increase in receipts.

Chart 1.1: Impact of measures on public sector net borrowing and current deficit



Source: OBR

1.6 **Budget spending policies add £69.5 billion (2.2 per cent of GDP) a year over the next five years, and £71.6 billion by the end of the decade, to the level of public expenditure.** On average £45.6 billion goes on current spending and £23.8 billion goes on capital spending. The main components are:

- an increase in **departmental current expenditure** (resource DEL) of £22.9 billion this year rising to £48.8 billion by 2029-30;
- an increase in **departmental capital expenditure** (capital DEL) of £21.6 billion by 2029-30;
- additional payments for the **infected blood and Post Office Horizon compensation schemes** of £1.4 billion in 2029-30, and £13.6 billion in total over the forecast; and
- cost savings of £3.5 billion from **DWP fraud and error** measures and £1.7 billion from the means-testing of **winter fuel payments** by 2029-30.

1.7 **Budget tax measures increase total revenues by £36.2 billion (1.1 per cent of GDP) a year on average and £41.5 billion by the end of the decade.** The main components of the increase are:

- an increase in **employer NICs**, via a higher rate and lower threshold, raising £25.7 billion by 2029-30 before allowing for its indirect effects on the economy;
- several **tax compliance measures** raising £3.5 billion by 2029-30, and **debt collection measures** raising a further £2.7 billion;
- changes to the regimes for **capital taxes and for non-domiciled taxpayers**, which together raise £5.2 billion by 2029-30;
- levying of **VAT on private school fees**, raising £1.7 billion by 2029-30;
- **other net tax changes**, including increasing the rate of the energy profits levy and extending it to 2029-30 and increasing air passenger duty rates, raising a total of £3.6 billion by 2029-30; and
- these are slightly offset by an **extension of the freeze and 5p cut to fuel duty rates** to 2025-26, costing £3.0 billion in 2025-26 and £0.9 billion by 2029-30.

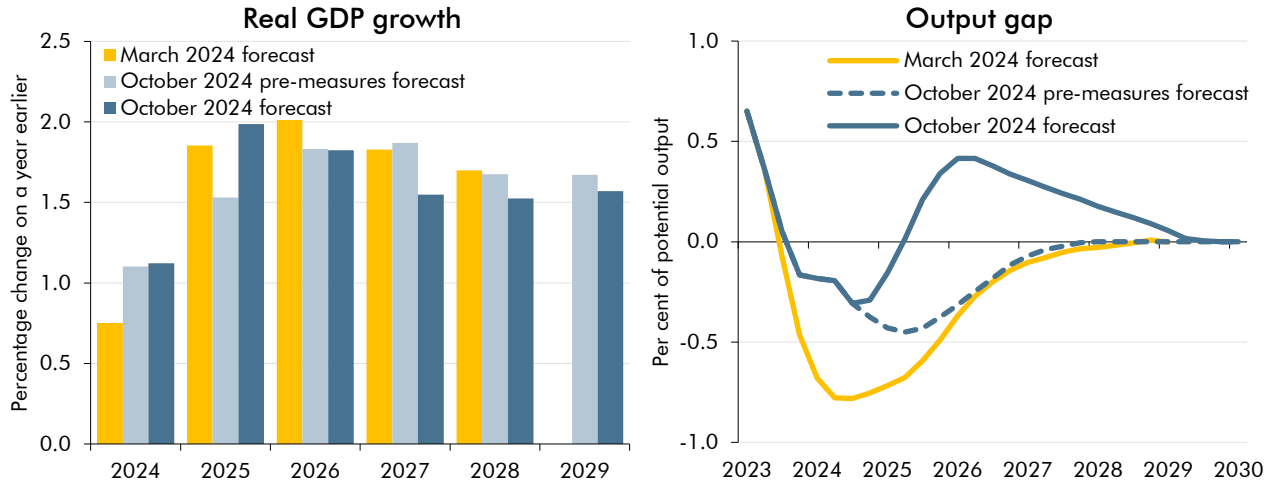
Economic outlook

1.8 **Budget policies deliver a temporary boost to GDP in the near term and some crowding out of private activity in the medium term.** We estimate that the policy package boosts real GDP by 0.6 per cent at its peak in 2025-26 as the fiscal loosening temporarily raises output above its potential level. This temporary stimulus fades to zero over the remainder of the forecast as we assume monetary policy acts to rein in any excess demand. Budget policies also have lasting impacts on the supply potential of the economy. The employer NICs rise is estimated to reduce labour supply by 50,000 average-hours equivalents, while the net fiscal loosening would crowd out some private investment in an economy with little spare capacity. At the same time, the increase in public investment boosts potential output by raising the public capital stock and incentivising some private investment. Taken together, Budget policies leave the level of output broadly unchanged at the forecast horizon. In the longer term, the net effect of Budget policies would be positive for the economy-wide capital stock and potential output if the increase in public investment were to be sustained.

1.9 **Real GDP growth is therefore forecast to pick up from close to zero last year, to 1.1 per cent this year, 2.0 per cent in 2025, and 1.8 per cent in 2026, before falling back to around 1½ per cent thereafter.** Stronger growth in the near term, supported by the easing in monetary policy, pushes GDP above our estimate of potential output. The economy moves from having a small negative output gap in 2024 to a positive output gap, which peaks at just under ½ a per cent in 2026. As the effects of monetary policy loosening and the temporary boost to demand in this Budget fade, the output gap is expected to close over the rest of the forecast. This lowers GDP growth to around 1½ per cent in the final three years of the

forecast, slightly below our estimate of medium-term potential output growth of 1⅔ per cent. Compared to our March forecast, growth is forecast to be an average of a ¼ percentage point higher this year and next. This reflects stronger GDP and real wage growth in recent quarters, and the net fiscal loosening in this Budget. Growth is then weaker between 2026 and 2028 as these temporary effects fade.

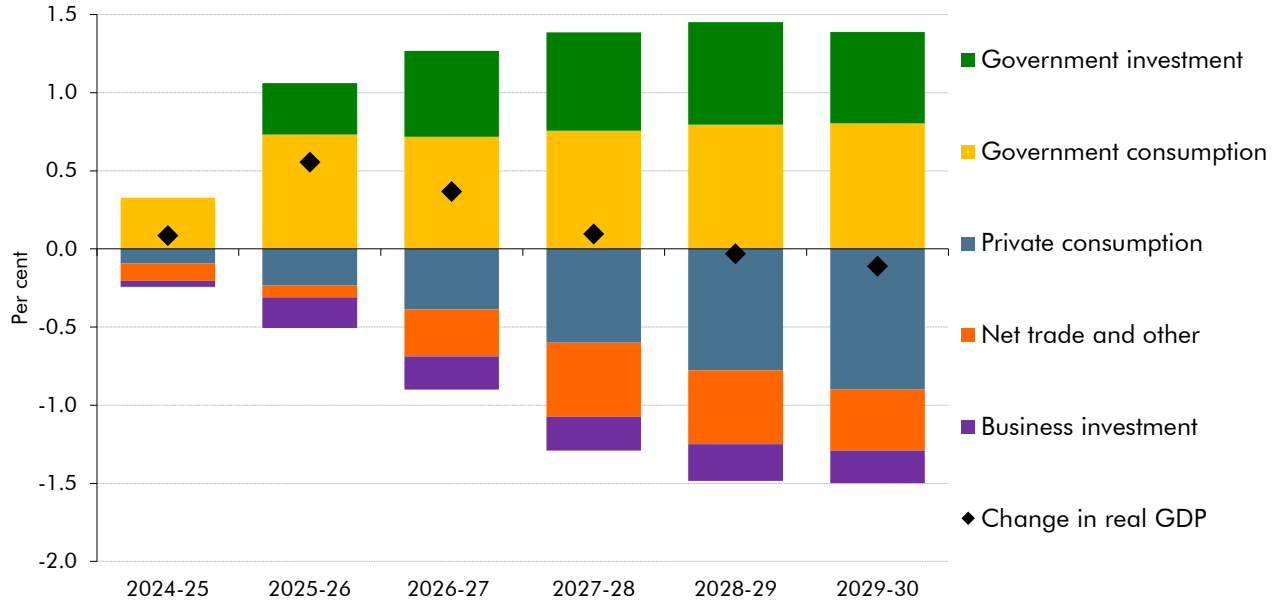
Chart 1.2: Real GDP growth and the output gap



Source: ONS, OBR

1.10 **Policies announced in this Budget lead to a sustained increase in real government spending as a share of GDP.** Government consumption rises by around 0.8 percentage points of GDP between 2023 and 2029. Government investment remains broadly flat, rather than falling by around ¾ of a percentage point as in our pre-measures forecast. The increase in government activity, alongside a net fiscal loosening, crowds out some private consumption, business investment and net trade in a capacity-constrained economy. Tax rises in this Budget weigh on real incomes, so private consumption falls as a share of GDP. Corporate profits are expected to continue falling as a share of GDP in the near term, before rising gradually from 2026 as firms rebuild margins and pass on more of the cost of the employer NICs rise. Over the forecast, business investment falls as a share of GDP as profit margins are squeezed, and the net impact of Budget policies lowers business investment. Higher government investment increases incentives for businesses to invest but that is more than offset by the crowding out effect of the fiscal loosening.

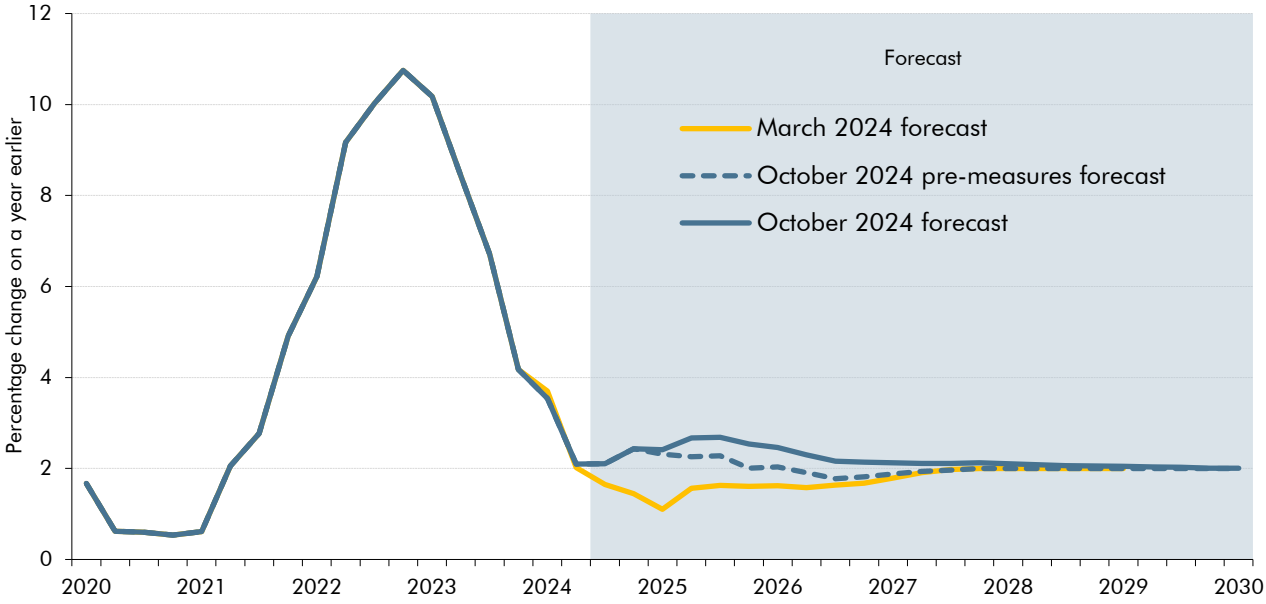
Chart 1.3: Policy impacts on real GDP and its components



Source: OBR

1.11 **Having fallen back to around the 2 per cent target in mid-2024, we expect CPI inflation to pick up to 2.6 per cent in 2025 partly due to the direct and indirect impact of Budget measures.** Inflation then slowly returns to the 2 per cent target by the forecast horizon as the effect of these measures fades and the positive output gap closes. Compared to our March forecast, inflation is 1.1 percentage points higher in 2025 and 0.6 percentage points higher in 2026, driven mainly by greater-than-expected persistence in wage growth and the impact of the near-term fiscal loosening in this Budget. We estimate that Budget policy measures increase inflation by 0.4 percentage points at their peak effect in 2026, mainly reflecting the impact of the excess demand generated by the fiscal loosening and some pass-through of employer NICs to consumer prices. A further escalation of the conflicts in the Middle East poses a risk to our inflation forecast, initially via its impact on energy prices. Market expectations for 2025 oil prices have ranged between 68 and 84 dollars a barrel since the March forecast, compared to 71 dollars a barrel in our central forecast.

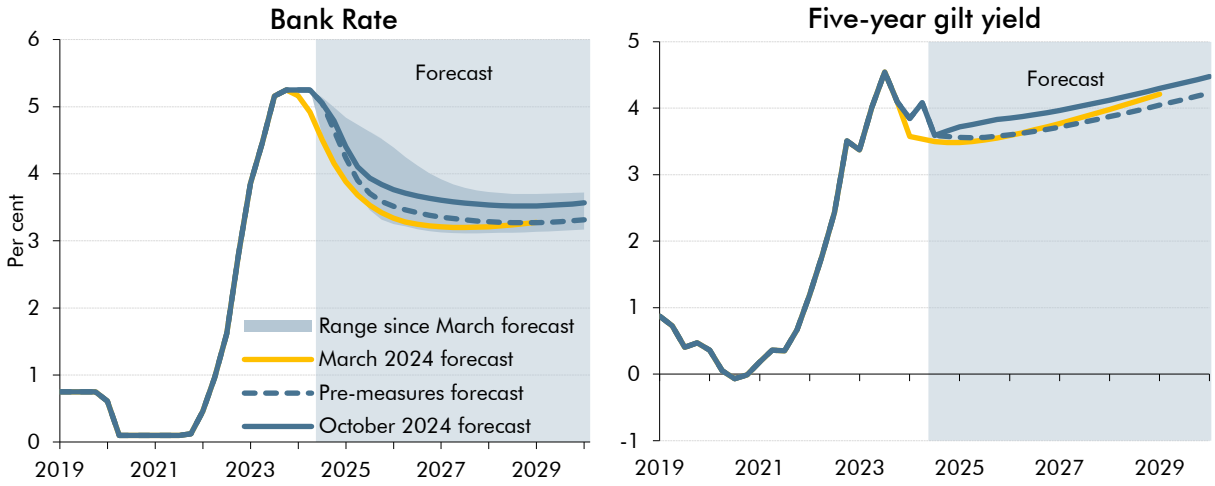
Chart 1.4: CPI inflation



Source: ONS, OBR

1.12 **From its current level of 5 per cent, Bank Rate is expected to fall to 3.5 per cent in the final year of the forecast.** Over 2025 and 2026, this is around ½ a percentage point higher than the level of Bank Rate in our March forecast, partly reflecting market expectations at the time we closed our pre-measures interest rate forecast on 12 September. However, the full extent of discretionary fiscal easing in this Budget is unlikely to have been anticipated by market participants at this time, so we have raised Bank Rate and gilt yields by a ¼ percentage point across the forecast. This is broadly consistent with where market expectations for interest rates were when we finalised our post-measures forecast.

Chart 1.5: Bank Rate and five-year gilt yield



Note: March 2024 forecast is the average of 10 working days to 23 January. Pre-measures forecast is the average of 10 working days to 12 September. Range is the minimum and maximum daily value between our March forecast and 23 October.
Source: Bank of England, OBR

1.13 **Supported by the temporary boost to demand from this Budget, the unemployment rate falls from 4.3 per cent this year to 4.0 per cent in 2026 before returning to its estimated structural rate of 4.1 per cent in 2028.** The impact of Budget policy measures accounts for nearly all the reduction in the unemployment rate relative to the March forecast, with a peak impact of 0.3 percentage points (100,000 people) in 2025. The participation rate declines slightly over our forecast to reach 62½ per cent in 2029 – well down from the peak of 64¼ per cent in the first quarter of 2020. The biggest drag comes from the ageing of the population, with the rise in employer NICs in this Budget also having a small negative effect. The overall effect of tax rises in this Budget is to lower the participation rate by 0.1 percentage points, leaving it 0.2 percentage points below our March forecast in 2028. The employment rate rises a little in the near term and then declines to just under 60 per cent by the forecast horizon, but population growth means that total employment increases by 1.2 million people from 2024 to 2029.

1.14 **We expect nominal earnings growth to fall from 4.7 per cent this year to around 3½ per cent in 2025 and then average 2¼ per cent over the remainder of the forecast.** Compared to our March forecast, this is over 1 percentage point higher this year due to higher private and public sector wage settlements. Next year, it is around 1½ percentage points higher, partly due to the fiscal loosening in this Budget. But forecast and policy changes leave nominal and real earnings growth lower over the remainder of the forecast as employers pass on the NICs rise, rebuild profit margins, and the temporary boost to demand fades. Real earnings growth is around 2½ per cent in 2024, but then falls to around zero in 2026 and 2027. Real wages are around 1½ per cent higher than our March forecast in 2028, despite being lowered by around ½ a per cent due to Budget policies, due to a higher starting point.

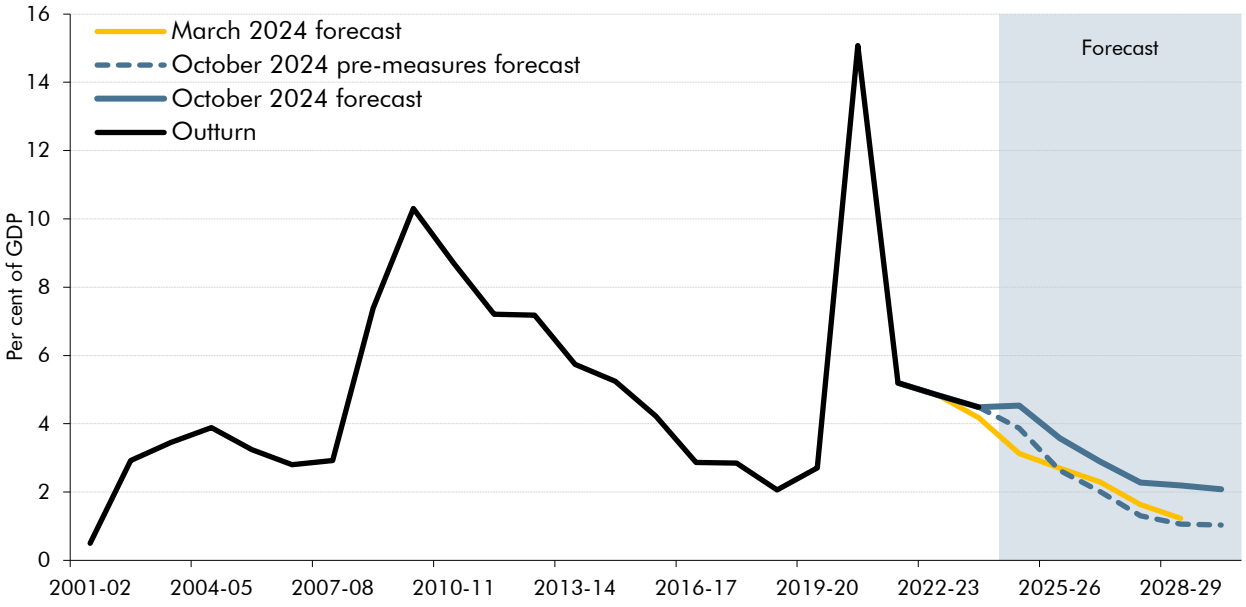
1.15 **Real household disposable income (RHDI) per person, a measure of living standards, grows by an average of just over ½ a per cent a year over the forecast**. But the profile is uneven, with strong real wage increases resulting in growth of 1¼ per cent this fiscal year and next before RHDI per person stalls for two years in the middle of the forecast as real wage growth slows and taxes increase. Compared to our March forecast, the level of RHDI per person is just over 2 per cent higher at the start of the forecast due to data revisions, but 1¼ per cent lower by the start of 2029. The bulk of this difference (around 85 per cent) is explained by policies announced in this Budget.

1.16 **Nominal GDP growth is expected to average 3.8 per cent from 2024-25, around ½ a percentage point higher than in our March forecast.** More persistent domestically generated inflation and the impact of this Budget mean higher GDP deflator growth more than offsets slightly lower real GDP growth. However, the upward revision to nominal GDP growth is not fully reflected in stronger growth in the key tax bases. Growth in wages and salaries and profits are constrained by the increase in employer NICs. And consumption growth is lowered by the effect of policy measures on household incomes.

Fiscal outlook

1.17 **Public sector net borrowing is forecast to rise from £121.9 billion (4.5 per cent of GDP) last year to £127.5 billion this year, before falling steadily back to £70.6 billion (2.1 per cent) by 2029-30.** Overall, borrowing is £28.4 billion (0.9 per cent of GDP) a year higher on average over the forecast compared to March. By far the largest driver of the increase in the medium term is the Budget policy changes, which increase borrowing by £32.3 billion a year on average from 2025-26 to 2029-30. Pre-measures changes to the forecast increase borrowing by £20.7 billion this year, due mainly to higher inflation pushing up debt interest spending. In the medium term, pre-measures borrowing is £5.2 billion lower in 2028-29 relative to March, due to higher nominal earnings and equity prices increasing receipts by more than spending.

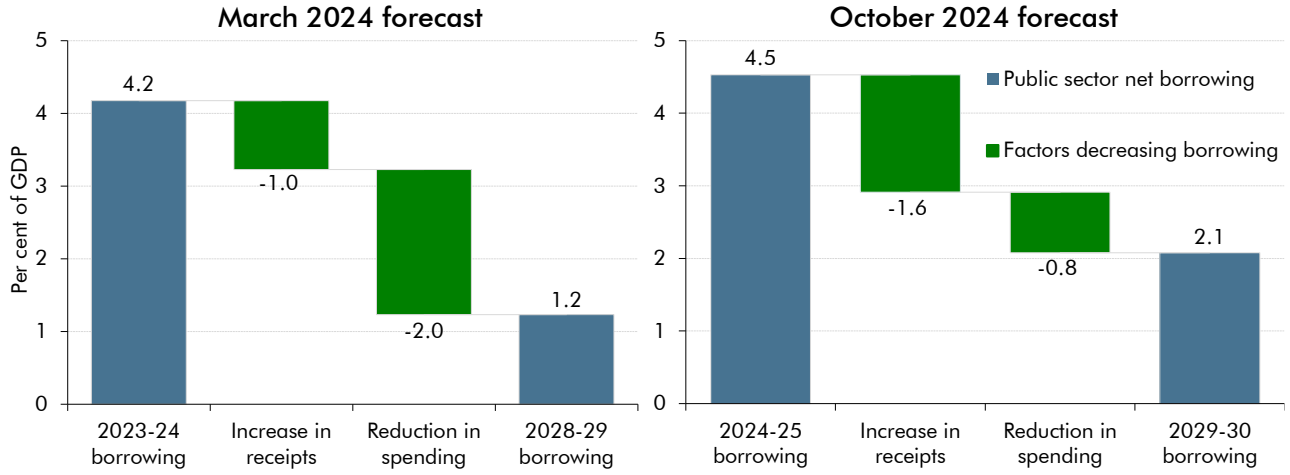
Chart 1.6: Public sector net borrowing



Source: ONS, OBR

1.18 **Overall these changes mean that, compared to March, borrowing is now projected to decline less sharply from its peak to the end of the forecast.** And while in March most of the decline was driven by spending falling as a share of GDP over the forecast, now it is mainly driven by taxes rising as a share of GDP. In March, borrowing was projected to fall by 2.9 per cent of GDP between 2023-24 and 2028-29, with one-third due to increases in receipts and two-thirds due to a reduction in spending. At this Budget, borrowing is forecast to fall by 2.5 per cent of GDP between 2024-25 and 2029-30, with around two-thirds driven by higher revenues and the rest by a reduction in spending as a share of GDP.

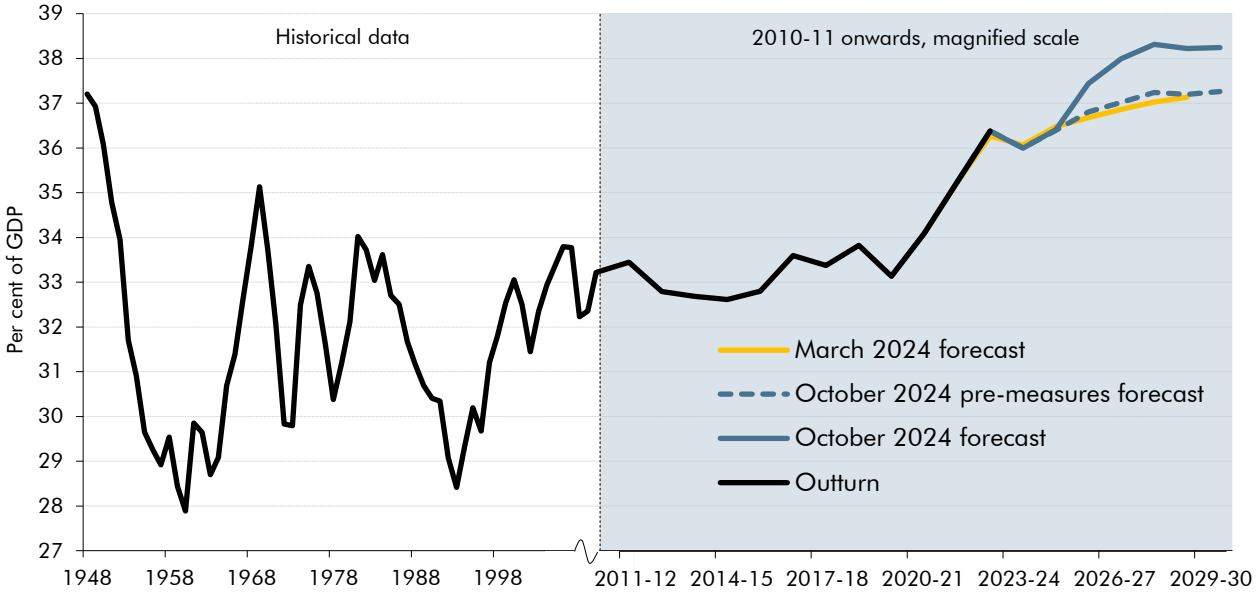
Chart 1.7: Change in borrowing over forecast periods: March and October



Source: OBR

1.19 **Tax as a share of GDP is forecast to rise from 36.4 per cent this year to a historic high of 38.2 per cent in 2029-30, 5.1 per cent of GDP higher than before the pandemic.** The increase is driven mainly by personal taxes (including the impact of the employer NICs measures in this Budget, earnings growth and frozen thresholds) and by capital taxes, (reflecting the path of equity prices, property prices and measures in this Budget). The tax take in 2028-29 is 1.1 per cent of GDP higher than in the March forecast.

Chart 1.8: National Accounts taxes as a share of GDP

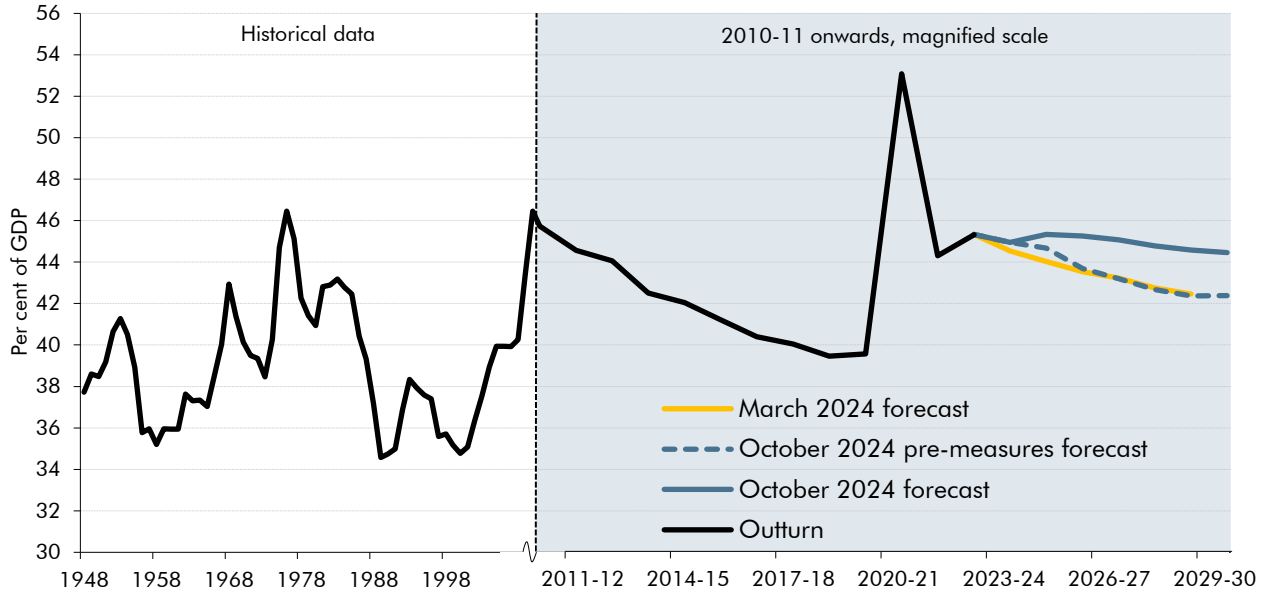


Source: ONS, OBR

1.20 **Spending as a share of GDP is forecast to rise from 44.9 per cent last year to 45.3 per cent this year, before falling back slightly to 44.5 per cent in 2029-30, 4.9 percentage points higher than pre-pandemic.** Additions to departmental spending, additional payments for the infected blood and Post Office Horizon compensation schemes, and higher debt interest costs all push up the spending-to-GDP ratio this year and next. The decline in spending as a

share of GDP over the remainder of the forecast reflects departmental spending growing more slowly than the economy and declines in spending on unfunded pensions and student loans. Debt interest and welfare spending remain broadly flat as a share of GDP.

Chart 1.9: Public spending as a share of GDP



Source: ONS, OBR

1.21 **Overall departmental spending is an average of £55.3 billion a year higher than in our March forecast, in which the previous Government's plans entailed spending falling by 1 per cent of GDP between 2023-24 and 2028-29.**

- **Current spending** now grows in real terms by 4.8 per cent this year, 3.1 per cent next year, and by an average of 1.3 per cent between 2025-26 and 2029-30. The £23.2 billion increase in current spending in 2024-25 relative to the March forecast reflects a combination of the funding of undisclosed spending pressures that existed at the time of the March Budget and have since come to light, and the cost of new policies announced by this Government.

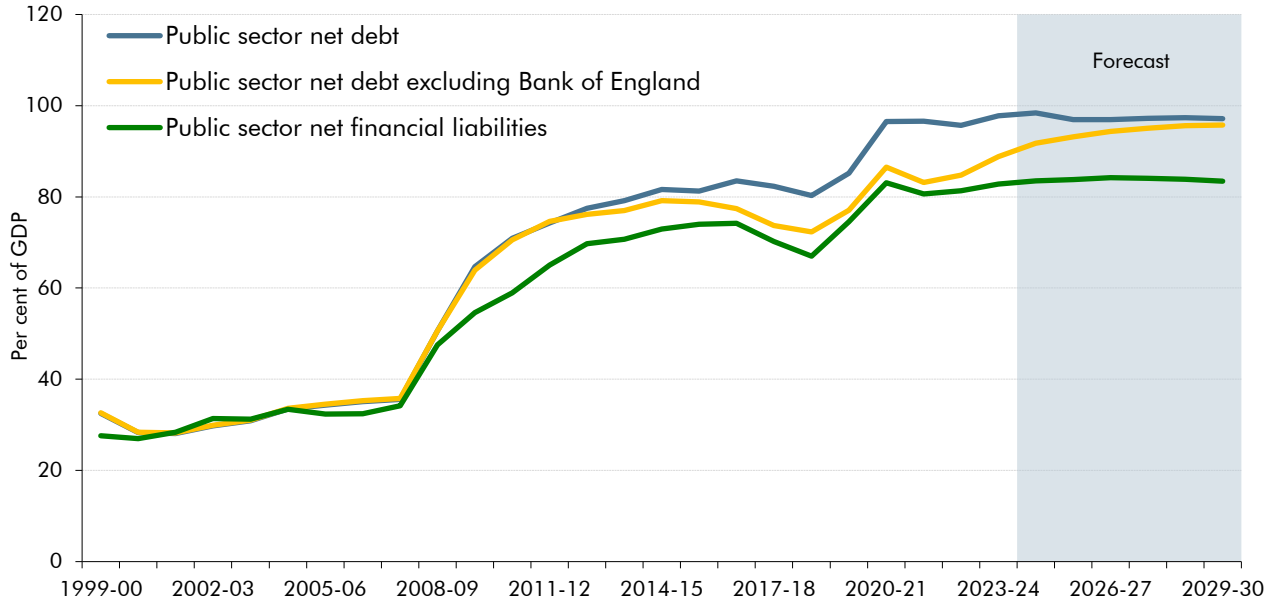
- **Capital spending** grows in real terms by 9.8 per cent in 2025-26 and then flattens off, before falling slightly in the final two years of the forecast. Taking account of expected under-execution, estimated average annual real growth in capital spending between 2023-24 and 2028-29 is 2.6 per cent, compared to real annual falls averaging 1.1 per cent in our March forecast.

1.22 **Public sector net debt (PSND) falls from a peak of 98.4 per cent of GDP this year to 97.1 per cent of GDP in 2029-30.** The fall is mainly driven by Term Funding Scheme repayments in 2025-26, after which debt is stable as a share of GDP as borrowing declines over the rest of the forecast. But due to the additional borrowing in this Budget, debt is 3.0 per cent of GDP (£169.8 billion) higher in 2028-29 than we projected in March. And the measure of debt excluding the Bank of England now rises as a share of GDP in every year, from 91.8

per cent this year to 95.8 per cent in 2029-30. The elevated level of debt means the public finances are highly sensitive to changes in interest rates. Market expectations for interest rates remain volatile, with expectations for Bank Rate in 2025 varying between 3.6 and 4.7 per cent and daily five-year gilt spot yields varying between 3.5 and 4.2 per cent since the March forecast.

1.23 **Public sector net financial liabilities (PSNFL) – a wider measure of the balance sheet that includes all financial assets, but not physical assets such as hospitals, schools, and infrastructure – are forecast to increase from 83.5 per cent of GDP this year to 84.2 per cent in 2026-27, then fall to 83.4 per cent in 2029-30.** While PSND rises very slightly (by 0.2 per cent of GDP) between 2026-27 and 2029-30, PSNFL falls gently (by a total of 0.8 per cent of GDP). The difference is more than explained by the accumulation of student loan assets, which increase by 1.7 per cent of GDP over this period. Financing the loans increases PSND but is neutral for PSNFL where both the asset and liability are counted.

Chart 1.10: Public sector balance sheet measures



Source: ONS, OBR

Performance against the Government's fiscal targets

1.24 **In this Budget, the Government has announced three new fiscal targets:**

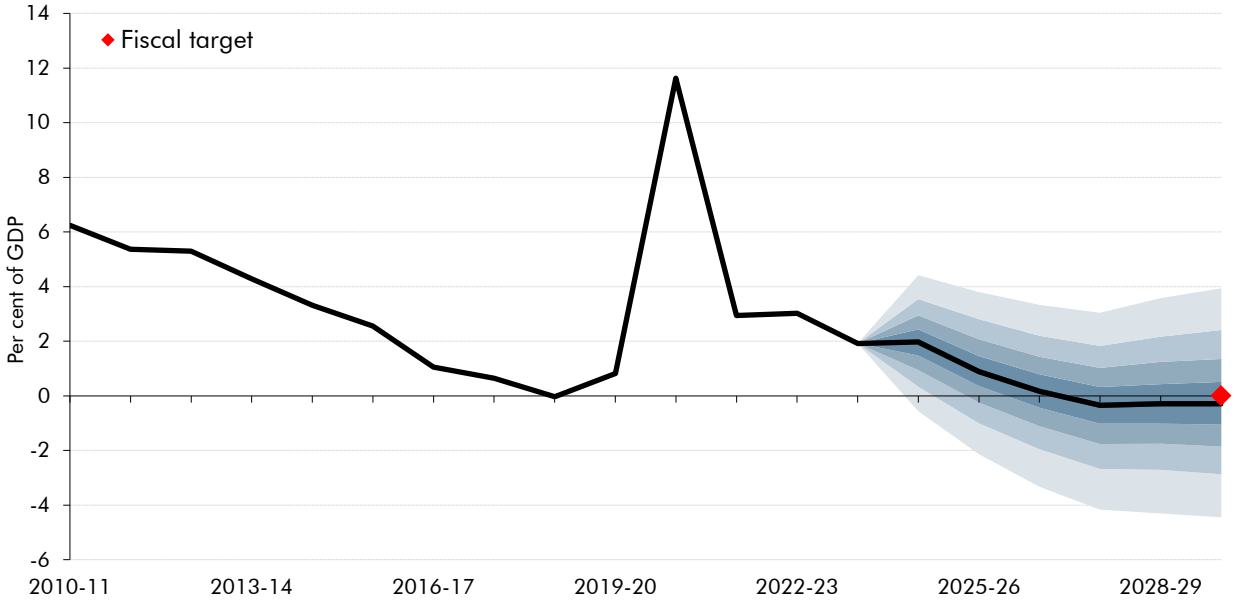
- a fiscal mandate for the **current budget** – revenues minus day-to-day spending – to be in surplus by 2029-30 (until 2029-30 becomes the third year of the forecast period, from which point the mandate applies to the third year);

- a supplementary target for **public sector net financial liabilities** to fall as a share of GDP by 2029-30 (again until 2029-30 becomes the third year of the forecast, from which point this target applies to the third year); and

- a revised **welfare cap**, with the target year updated to 2029-30.

1.25 **In the central forecast, the current budget target is met two years early and by a margin of £9.9 billion (0.3 per cent of GDP) in the target year.** The current budget improves from a deficit of 2.0 per cent of GDP this year to reach surplus in 2027-28, and then holds stable as a share of GDP. In the pre-measures forecast, the rule is met by a margin of £22.7 billion (0.7 per cent of GDP), but the direct and indirect effects of Budget policies reduce this headroom as the increase in current spending exceeds the yield from tax policy measures.

Chart 1.11: Current budget deficit



Source: ONS, OBR

1.26 **The central forecast is that public sector net financial liabilities decrease in each of the final three years of the forecast, and fall by 0.5 per cent of GDP (£15.7 billion) in 2029-30.** The composition and behaviour of PSNFL are explored in more depth in Chapter 6 and Annex B.

Risks and uncertainties

1.27 **These margins are both very small in the context of the significant uncertainties and risks around our central forecast.** The underlying economic and fiscal context for this forecast was not significantly different from March. But previous forecasts have seen significant change due to volatility in energy prices, inflation, interest rates, and wage growth. Key risks for our economy forecast include:

- Market expectations for **Bank Rate and gilt yields** remain volatile. If these were 1.3 percentage points higher across the forecast, it would be enough to wipe out the headroom to the supplementary fiscal target.

- The **inflation** outlook remains uncertain. Our March 2024 *Economic and fiscal outlook* (*EFO*) scenario showed how escalating conflict in the Middle East could raise energy prices, push inflation to 7½ per cent, and increase borrowing by £23 billion on average over the five-year forecast.

- **Productivity growth** is one of our most important and uncertain judgements. In our November 2023 *EFO* we estimated that ½ a per cent higher or lower annual growth in productivity would reduce or raise borrowing by around £40 billion in 2028-29.

- Our scenarios show that, if sustained, the impact of the increase in **public investment** announced in this Budget on potential output in 2073-74 could range between twice and half our central estimate of 1.4 per cent, depending on the degree to which public and private investments are substitutes or complements.

- **Several developing policy areas** pose risks that we will consider as details are finalised. Reforms to the planning system could increase potential output, while the employment rights package could pose downside risks.

1.28 **There are also significant risks directly related to the fiscal forecast.** Over the medium term, these include:

- The **tax-to-GDP ratio** is forecast to rise to a historic high in the late 2020s, with much of the increase driven by tax policy changes in the Budget. The estimated yield of several of these policies is highly uncertain and could undershoot or exceed our central forecast. This also assumes that the seldom-implemented indexation of fuel duty delivers around £4.8 billion in additional revenue by 2029-30.

- Our March 2024 *EFO* highlighted the significant upside risk to **departmental spending**, as at the time spending allocations were only set for 2024-25. The Government has now allocated increased departmental spending for 2025-26 and set a significantly higher spending envelope for the three years beyond that, which will be allocated at next year's Spending Review. Funding has now also been allocated for the infected blood and Post Office compensation schemes. Overall, the spending risks highlighted in our previous forecast are therefore reduced, though significant spending ambitions on defence and overseas aid remain unfunded. And governments have previously topped up the departmental spending envelope further when making final allocations.

- **Welfare spending** on more costly incapacity and disability benefits is forecast to continue rising, from 2.4 per cent of GDP in 2023-24 to 3.0 per cent in 2029-30. This is an uncertain judgement as the increase to date has reflected a complex interaction of drivers across health, the economy, and the operation of the benefits system (as our 2024 *Welfare trends report* explored).

- Unlike debt measures, **public sector net financial liabilities** incorporate the net position of public sector pension schemes, other equities held in the public sector, and loans

made by public bodies. The recording of loans at nominal values is open to a risk of sharp changes in value when bad loans are written off, while changes in the composition and valuation of other assets and liabilities can also be substantial and uncorrelated with wider changes to fiscal policy.

- The Government's revised **fiscal framework** commits to spending reviews covering at least three years of the forecast window, and the fiscal mandate to ultimately take effect from the third year of the forecast. This will eventually reduce the risks around meeting the Government's fiscal targets, as the targets will be earlier in the forecast period and will encompass years for which detailed departmental spending plans have been set.

2 Economic outlook

Introduction

2.1 This chapter describes our latest economy forecast, summarised in Table 2.1, including:

- our **conditioning assumptions**, including fiscal policy, interest rates and equity prices, commodity prices, the global economy and exchange rate (from paragraph 2.2);
- how our forecasts for labour supply, business and government investment, and productivity influence the path of **potential output** (from paragraph 2.12);
- **real GDP** and its components and the **output gap** (from paragraph 2.18);
- **inflation** (from paragraph 2.29);
- the **labour market** including participation, employment, unemployment, and earnings (from paragraph 2.33);
- **household incomes**, **housing**, and the **saving rate** (from paragraph 2.40);
- the **current account** and **nominal GDP** (from paragraph 2.46); and
- how our forecast compares to **recent external forecasts** (from paragraph 2.50).

Table 2.1: Key economy forecast assumptions and judgements

	Key metric (per cent unless otherwise stated)	March 2024	October 2024	Change
Gas prices	Average in 2025 (pence a therm)	84.0	97.3	⬆
Oil prices	Average in 2025 ($ a barrel)	73.7	71.1	⬇
Bank Rate	Average in 2025 and 2026	3.4	3.9	⬆
Gilt yields	5-year gilt yields average from 2025 to 2028	3.8	4.0	⬆
Inflation	Average in 2025 and 2026	1.6	2.4	⬆
Output gap	Average in 2025 and 2026	-0.4	0.2	⬆
Potential output	Growth average from 2025 to 2028	1⅔	1⅔	—
Net migration	Cumulative 5-year flow from 2024-25 (million)	1.5	1.5	—
Participation rate (16+)	Average in 2028	62.8	62.5	⬇
Real GDP	Cumulative growth from 2024 to 2028	7.6	7.1	⬇
Real GDP per person	Level in 2028 (Index, 2019=100)	104.7	104.3	⬇
Unemployment rate	Average in 2025	4.4	4.1	⬇
Nominal earnings	Average growth in 2025	2.1	3.6	⬆
RHDI per person	Level in 2028 (Index, 2019=100)	103.4	102.5	⬇
Nominal GDP	Level in 2028 (£ billion)	3,179	3,251	⬆

Key: ⬆ Higher, ⬇ Lower, — Unchanged

Conditioning assumptions

Fiscal policy

2.2 The measures announced at this Budget significantly loosen fiscal policy. Public sector net borrowing is around 1 per cent of GDP higher in every year from 2025-26 onwards. We assume this boosts the level of real GDP significantly in 2025-26 but leaves it broadly unchanged by 2029-30. This significant increase in borrowing, compared to the previous Government's plans that were set out in the March Budget, is the net result of even larger changes in both spending and receipts. In 2028-29, current spending is 1¼ per cent of GDP higher than in our March forecast, departmental capital spending is ⅔ per cent of GDP higher, and taxes are 1 per cent of GDP higher. These changes also have significant effects on economic activity, prices, and interest rates, as we discuss in Box 2.1.

2.3 However, despite the fiscal loosening, after being broadly flat in 2024-25, borrowing is still forecast to fall in 2025-26 and over the rest of our forecast period. This means that, over the medium term, the boost to demand from fiscal policy is still expected to wane. Two-thirds of the 2½ per cent of GDP reduction in primary borrowing by our 2029-30 forecast horizon comes from rising receipts.

Box 2.1: The economic effect of policy measures

Our economy forecast accounts for the economic impacts of the latest announced government policies (described in detail in Chapter 3). This Budget delivers a significant and sustained loosening of fiscal policy which increases **borrowing** by £35 billion (1.2 per cent of GDP) in 2025-26 and by £30 billion (0.9 per cent of GDP) in 2029-30. This increase in borrowing relative to our pre-measures forecast is the net result of:

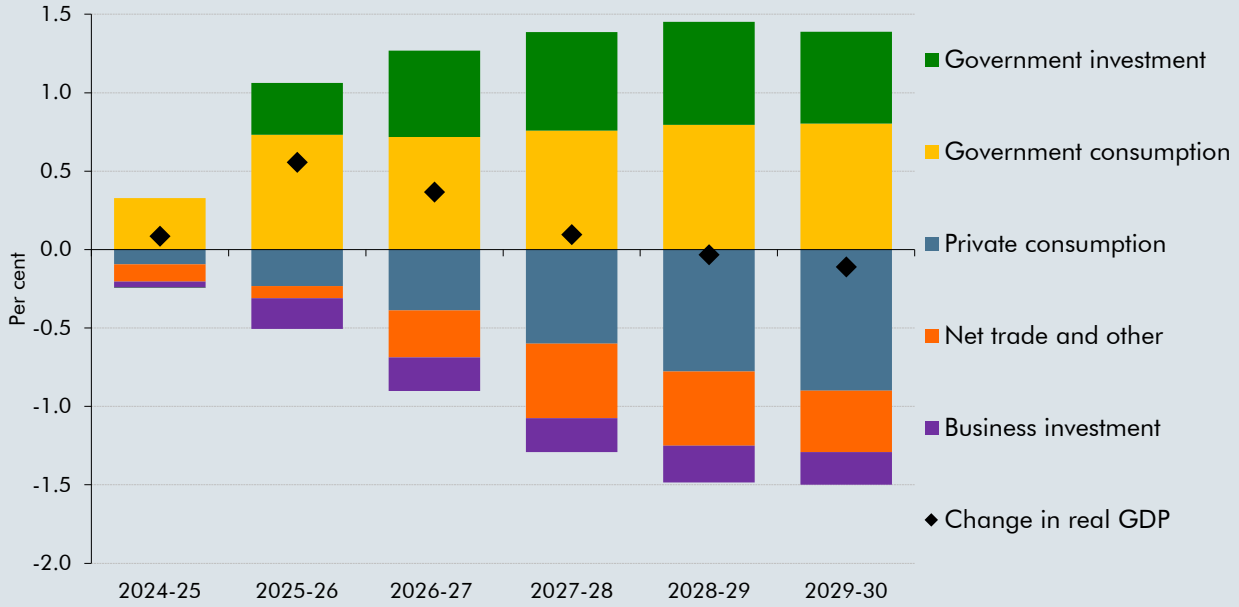
- a £72 billion (2.1 per cent of GDP) increase in **spending** in 2029-30, around two-thirds of which is current spending and one-third capital spending; and
- a £42 billion (1.2 per cent of GDP) increase in **taxes** in 2029-30, of which over half comes from an increase in employer National Insurance contributions (NICs).

The significant and sustained increase in public spending is only partially offset by tax rises, so the Budget delivers a temporary boost to demand and lifts it from below to above supply. This fiscal loosening is front-loaded, with the impact on demand peaking at 0.6 per cent in 2025-26. To inform the size of this demand boost we apply our standard 'multipliers' drawn from the empirical literature which taper to zero over the five-year forecast horizon.[a, b]

The gross and net changes in fiscal policy have significant effects on the expenditure composition of GDP (Chart A). There is a large increase in government spending over the five-year forecast. In an economy that is currently operating close to capacity and that is little changed in size at the forecast horizon, this has to be accommodated through a decrease in private sector spending and some rise in net imports. Part of this decrease comes through Budget policies, as higher taxes weigh on disposable income and, as a result, private consumption. But, as a consequence

of higher interest rates, real wage adjustments, and capacity and skilled worker constraints, there is also some further crowding out of business investment, consumption, and net trade.

Chart A: Policy impacts on real GDP and its components



Source: OBR

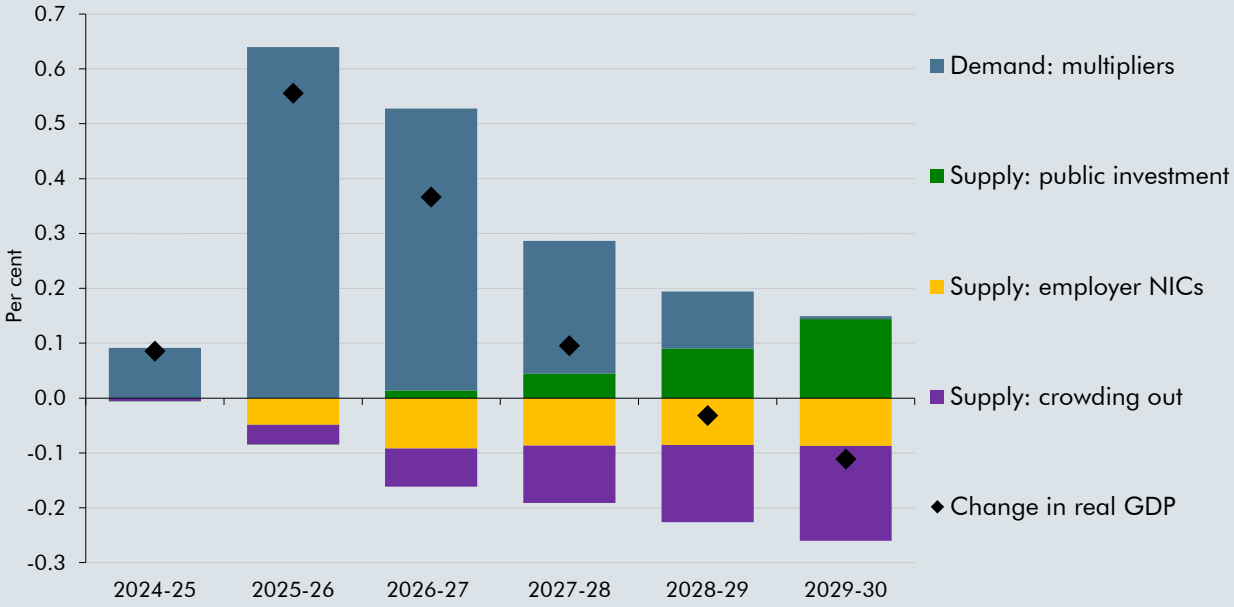
Some Budget policies also have lasting impacts, some positive and some negative, on the supply side of the economy. Their net effect on potential output is broadly neutral by the five-year forecast horizon, but becomes positive from the early 2030s. In this Budget, policies which we expect to have significant, material, and additional impact on potential output are:

- The increase in **employer NICs**, which we estimate will reduce the level of potential output by 0.1 per cent at the forecast horizon (yellow bars, Chart B). As discussed further in Chapter 3, the NICs rise increases employer payroll costs by just under 2 per cent. We assume this lowers real wages and profits, and workers and firms reduce labour supply and demand in response, reducing labour supply by around 50,000 average-hours equivalents.
- The 0.6 per cent of GDP average increase in **departmental capital spending** from 2025-26 raises potential output by 0.14 per cent in 2029-2030 (green bars, Chart B).[c] By 2029-30, the stock of completed and fully utilised capital projects only increases by 0.6 per cent of GDP due to time lags associated with the economic impact of investment spending (and because not all the increase in departmental spending raises the Government's own stock of assets), raising GDP by 0.11 per cent. As these investments are assumed to be a complement to those made by the private sector, extra business investment provides a small further boost to potential output of 0.04 per cent of GDP in 2029-30. Chapter 3 describes these growing impacts in further detail, and Box 3.3 explains risks around these judgements and explores alternative scenarios.
- As discussed above, with output close to potential in our pre-measures forecast, the **net fiscal loosening crowds out some private sector spending**, including on business

investment, which reduces the private capital stock by 0.7 per cent and potential output by 0.2 per cent in 2029-30 (purple bars, Chart B).

The combined effect of Budget policies on supply and demand over the forecast is shown in Chart B. Overall, the demand stimulus peaks in 2025-26 and fades over the remainder of the forecast. By contrast, there is a gradual build-up of the (positive) supply-side effects of the increase in public investment and of the (negative) supply-side effects of the employer NICs increases, and some crowding out of private investment. The supply-side impacts largely offset each other at the forecast horizon, leaving potential output little changed in 2029-30 (diamonds, Chart B). As discussed in Chapter 3, we expect the package as a whole would then have a net positive effect on potential output beyond the forecast horizon (starting in 2032-33). At the 50-year horizon, if the increase in public sector investment announced in this Budget were maintained as a share of GDP, this would increase GDP by around 1½ per cent.

Chart B: Policy impacts on real GDP, by measure



Source: OBR

As discussed in paragraph 2.4, we judge that the loosening is consistent with a slightly higher path for interest rates than in our pre-measures forecast, raising both Bank and gilt rates by a ¼ percentage point across the forecast and at all maturities. Higher interest rates help to bring demand back into line with supply over the forecast period and account for some of the crowding out of business investment by raising the cost of capital.

Budget policies increase CPI inflation by 0.4 percentage points in 2025-26 and 0.3 percentage points in 2026-27, reflecting the combined effect of several measures, and leave the CPI level 1 per cent higher in 2029-30. The fiscal impulse raises the CPI level 0.6 per cent by the end of the forecast, with the effect of firms passing on part of the cost of the NICs measure to consumer prices adding a further 0.2 per cent. The introduction of VAT on private school fees and the reform to VED rates each add a further 0.1 per cent, while the fuel duty freeze lowers inflation in 2025-26 but increases it 2026-27, being neutral to the CPI level by 2029-30. Whole-economy inflation is also boosted by the increase in departmental spending, a proportion of which

translates into higher prices. Together with the impact on consumer prices, this leaves the GDP deflator 1.3 per cent higher in 2029-30. Overall, the impact of policies in the Budget therefore leaves nominal GDP 1.2 per cent higher at the forecast horizon.

[a] See Box 2.2 in our December 2019 *Forecast evaluation report* and Box 2.1 in our November 2020 *Economic and fiscal outlook*.
[b] We have also made a small adjustment to lower the impact on demand in 2025-26 and raise it thereafter, to reflect the economy's proximity to its supply capacity and the likelihood that imports therefore meet a larger proportion of the initial expansion than would otherwise be the case.
[c] See Suresh, N., R. Ghaw, R. Obeng-Osei, and T. Wickstead, *OBR Discussion paper 5: Public investment and potential output,* August 2024, for a discussion of these transmission channels. We are grateful to the respondents to our discussion paper, including Venables, T., *The impact of public investment on private investment: comment on 'Public investment and potential output'*, 2024, and National Institute of Economic and Social Research, *Public Investment and Potential Output*, 2024.

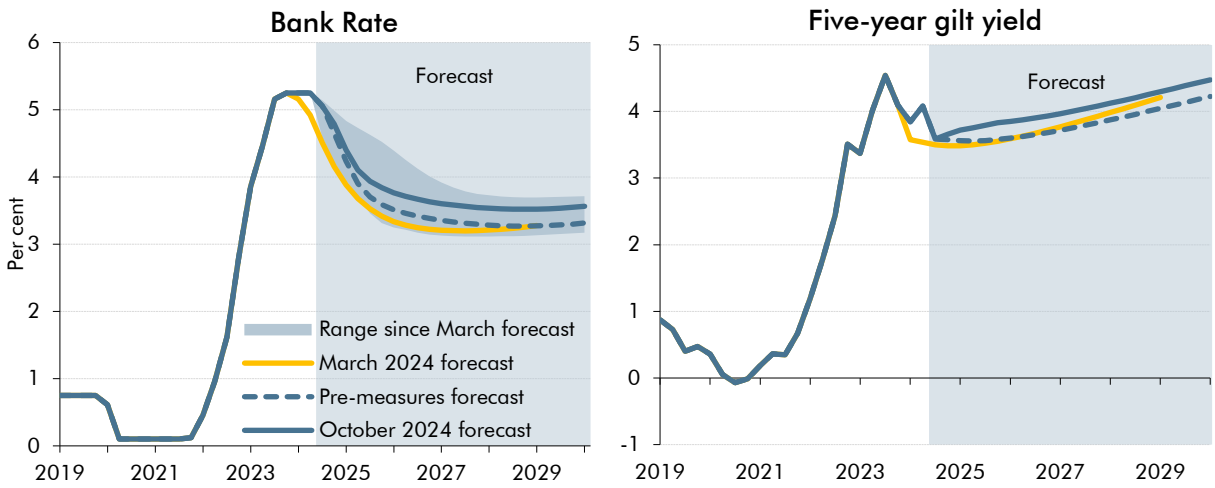
Monetary policy, gilts, and equity prices

2.4 Our pre-measures forecast was based on market expectations over the 10 working days to 12 September. The substantial fiscal easing in this Budget, boosting demand and borrowing, was not likely to have been fully anticipated by market participants at this time. We have therefore increased our Bank Rate and gilt rate forecasts by a ¼ percentage point over the five-year period in our post-measures forecast. Output is projected to be modestly above potential for much of the forecast period. The fiscal multipliers that we use to quantify the economic impact of the Budget assume that part of the crowding out of the fiscal impulse is a consequence of higher interest rates to keep inflation at target. This ¼ percentage point increase is broadly consistent with movements in market expectations between early September and mid-October, which could be consistent with market participants anticipating more of the Budget policies.

2.5 Bank Rate falls from its current level of 5 per cent to around 3½ per cent from 2027 onwards as the output gap closes and domestically generated inflation eases (Chart 2.1, left panel). Compared to our March forecast, Bank Rate is on average 0.4 percentage points higher in 2025 and 2026. Just over half of this reflects our post-measures adjustment. Since March, market expectations for Bank Rate in 2025 have ranged from 3.6 to 4.7 per cent, underscoring the continued uncertainty around the monetary policy outlook.

2.6 Five-year gilt yields are forecast to rise from 3.8 per cent on average this year to 4.4 per cent in 2029, on average 0.2 percentage points higher than our March forecast (Chart 2.1, right panel). Five-year gilt yields are more than 3 percentage points above their 2021 average and have remained volatile since our March forecast, with the daily spot yields ranging from 3.5 to 4.2 per cent. We explore the fiscal implications of higher interest rates in Chapter 7.

Chart 2.1: Bank Rate and five-year gilt yield



Note: March 2024 forecast is the average of 10 working days to 23 January. Pre-measures forecast is the average of 10 working days to 12 September. Range is the minimum and maximum daily value between our March forecast and 23 October.
Source: Bank of England, OBR

2.7 Equity prices, as measured by the FTSE All-shares index, have risen significantly since our March forecast. Equity prices are assumed to grow in line with nominal GDP in our forecast and are around 9 per cent higher over the forecast period than projected in March. Equity prices are an important determinant for our capital taxes forecast, and also drive the value of equity assets within public sector net financial liabilities (PSNFL) (see Annex B).

Commodity prices

2.8 Gas prices are expected to average 97 pence a therm in 2025, 16 per cent higher than in our March forecast (Chart 2.2, left panel). Prices fell sharply from their quarterly peak of 289 pence a therm in the second half of 2022 to a low of 69 pence a therm at the beginning of this year. Prices have risen since, driven by expectations of a colder winter and the continued conflicts in Ukraine and the Middle East. The outlook for gas prices remains uncertain, underscored by price expectations for 2025 ranging between 70 and 108 pence a therm since our March forecast.

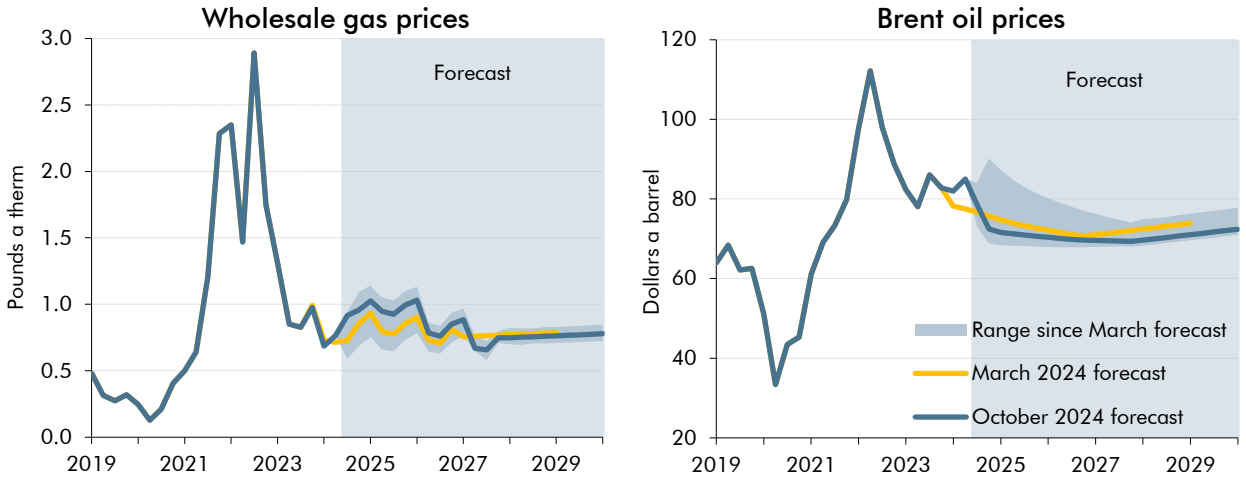
2.9 Oil prices are forecast to fall from 83 dollars a barrel in the first half of this year to around 70 dollars a barrel in 2025, and remain around that level over the forecast (Chart 2.2, right panel). The downward trend in oil prices reflects slowing growth in global oil demand led by weaker consumption in China and higher world supply from non-OPEC countries.[1] Compared to our March forecast, oil prices were 7 per cent higher in the first half of 2024 but are 3 per cent lower on average over the forecast.

2.10 Volatile energy prices continue to pose a risk to our forecast, as illustrated by the wide range of market expectations for prices since our March forecast (the swathes in Chart 2.2). Box 2.2 in our March 2024 *Economic and fiscal outlook* (*EFO*) included a scenario illustrating the economic risks posed by an escalation in the conflicts in the Middle East. In the scenario,

[1] Beyond 2028, oil prices are assumed to grow in line with consumer prices in advanced economies.

we assumed a cut to energy supplies from the region comparable to the 1973 oil embargo and disruption to global supply chains similar to the height of the pandemic. This contributed to wholesale oil and gas prices rising 75 per cent above our central forecast at the time. CPI inflation peaked at 7.4 per cent in 2025, almost 6 percentage points above our then central forecast. The impact on inflation, interest rates and GDP pushed government borrowing £23 billion higher on average over the forecast.

Chart 2.2: Gas and oil prices



Note: March 2024 forecast is the average of 10 working days to 23 January. October 2024 forecast is the average of 10 working days to 12 September. Range is the minimum and maximum daily value between our March forecast and 23 October.
Source: Datastream, Eikon, Ofgem, OBR

World economy and the exchange rate

2.11 Since our March forecast, the IMF has revised its projection for world GDP growth up slightly across the forecast period from 3.1 to 3.2 per cent on average.[2] This medium-term forecast is still significantly lower than the 2010-to-2019 average of 3.8 per cent, reflecting lower productivity growth and increasing global economic fragmentation. The trade-weighted sterling effective exchange rate has strengthened since our March forecast, driven by expectations of higher interest rates in the UK compared to the US and the eurozone. We hold the effective exchange rate constant in nominal terms, so it is 2.9 per cent higher than in March across the forecast.

Potential output

2.12 Our estimate of potential output growth averages around 1⅔ per cent over the forecast period. This is little changed from our March forecast, though the profile is slightly different reflecting the impact from measures in this Budget. Chart 2.3 summarises our central potential output forecast, with more detail on each component in the rest of this section:

[2] Our forecast is based on IMF, *World Economic Outlook Update*, July 2024 and IMF, *World Economic Outlook Update*, April 2024. The October 2024 IMF *World Economic Outlook* was published too late to be incorporated into our forecast.

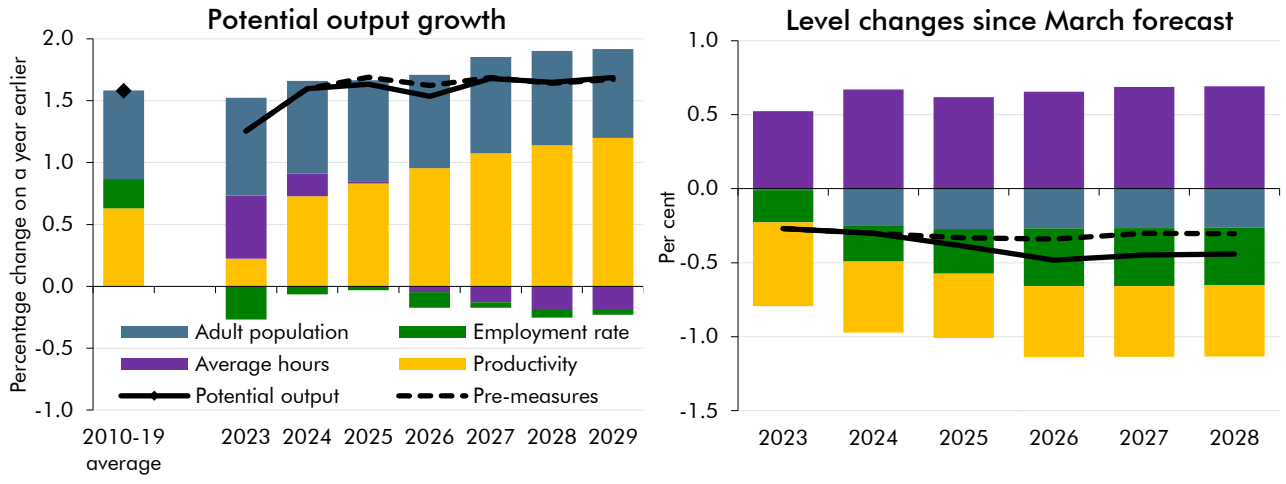
- The **level of potential output in 2024** is 0.3 per cent lower than our March forecast because, while GDP outturn has surprised on the upside, we judge that this is more than explained by there being less spare supply capacity than in March.

- **Pre-measures growth in potential output from 2025 to 2028** is unchanged from our March forecast at 1⅔ per cent a year on average (Chart 2.3, left panel). Labour supply growth slows over the forecast, mainly due to an ageing population dragging on trend participation and average hours worked. This is countered by a recovery in productivity growth towards our estimated long-term rate which is roughly halfway between its pre- and post-financial crisis averages.

- **Measures at this Budget** are estimated to have a broadly neutral impact on potential output by the five-year forecast horizon but, if sustained, would deliver a net boost to the supply side of the economy in the 2030s. As described in Box 2.1 and Chapter 3, the net impact of Budget policies on potential output is the sum of: (i) the immediate negative impact of both the rise in employer NICs on the demand and supply of labour, and of crowding out of business investment from the overall loosening of fiscal policy; and (ii) the positive contribution from the increase in public investment spending, and its positive knock-on impact on business investment, which build over the forecast.

- This leaves the **level of potential output in 2028** 0.4 per cent lower than in March, 0.3 percentage points reflecting our pre-measures outlook and 0.1 percentage points reflecting policies in this Budget (Chart 2.3, right panel).

Chart 2.3: Potential output growth and level changes since March



Source: ONS, OBR

Labour supply

2.13 Labour supply growth falls from 0.9 per cent in 2024 to around 0.5 per cent in 2029, mainly driven by the drag on average hours worked from an ageing population. Labour supply is broadly unchanged from our March forecast. This is because higher average hours

in outturn broadly offset a lower adult population in outturn and a lower employment rate (both from outturn data and the impact of the increase in employer NICs). The key drivers of the forecast are:

- The **adult population** rises from 55.2 million in 2024 to 57.3 million in 2029. The Labour Force Survey (LFS) outturn for adult population in the second quarter of 2024 was 153,000 lower than we had expected in March, a difference that is largely carried through into the forecast. But this does not fully reflect the recent strength in net migration.[3] The adult population grows at a similar pace as in our March forecast, largely (around two-thirds) driven by net migration.

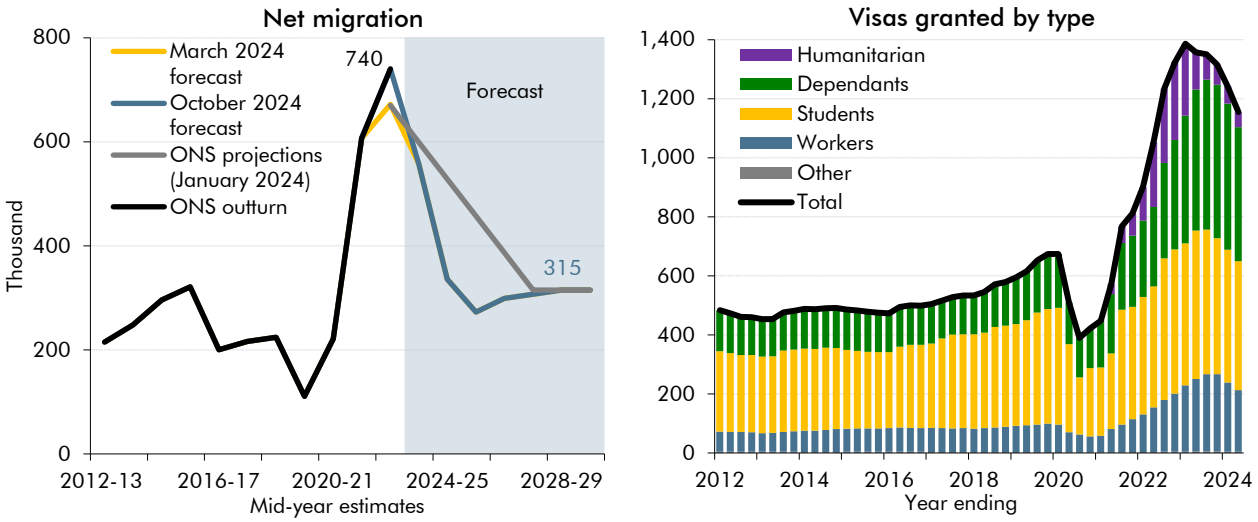
- We forecast **net migration** to fall from 740,000 in the year to June 2023, 68,000 higher than estimated in March due to ONS revisions, to reach 315,000 in the medium term. The latter is in line with the ONS's latest medium-term population projections and our March forecast (Chart 2.4, left panel). Net migration has already fallen to 685,000 in the year to December 2023. And more recent Home Office data, covering the period until the second quarter of 2024, show visas granted falling sharply (Chart 2.4, right panel). This largely reflects government restrictions coming into force in the first half of this year, which we now expect to have a slightly larger impact than we anticipated in March. We judge the stronger outturn and larger policy impact to be broadly offsetting, and therefore project net migration will continue to fall in line with our March forecast.

- The **trend participation rate** is expected to slope gently downwards over the forecast from 62.7 per cent in 2024 to 62.5 per cent in 2029. The drag from an ageing population, rising health-related inactivity, and the rise in employer NICs is only partially offset by increases in childcare provision, a rise in the state pension age, and the boost from migrants (who are disproportionately of working age).[4] On a pre-measures basis, we have lowered the trend participation rate by an average of 0.2 percentage points relative to March, due to weaker outturn data and a reassessment of the effects of previously announced labour supply policies (see Box 3.2). The increase in employer NICs in this Budget lowers the trend participation rate by a further 0.1 percentage points from 2025-26.

- **Trend average hours** worked fall gradually over our forecast from 31.9 in 2024 to 31.8 in 2029, reflecting the drag of an ageing population. Relative to our March forecast, trend average hours are 0.7 per cent higher in 2024 due to stronger-than-expected outturn data for the first half of 2024. But the cumulative percentage fall over the forecast (and, therefore, contribution to potential output growth) is similar to March, at around ½ per cent.

[3] This should be addressed in the forthcoming LFS reweighting in December. The population on which the LFS is currently based does not fully capture the recent rise in net migration, so is likely to still be an underestimate. For further information see: ONS, *Labour market transformation – update on progress and plans: July 2024*, July 2024.
[4] See Chapter 2 and Box 2.3 of the *March 2024 Economic and fiscal outlook* for more on the economic impact of net migration.

Chart 2.4: Net migration forecast and visas granted

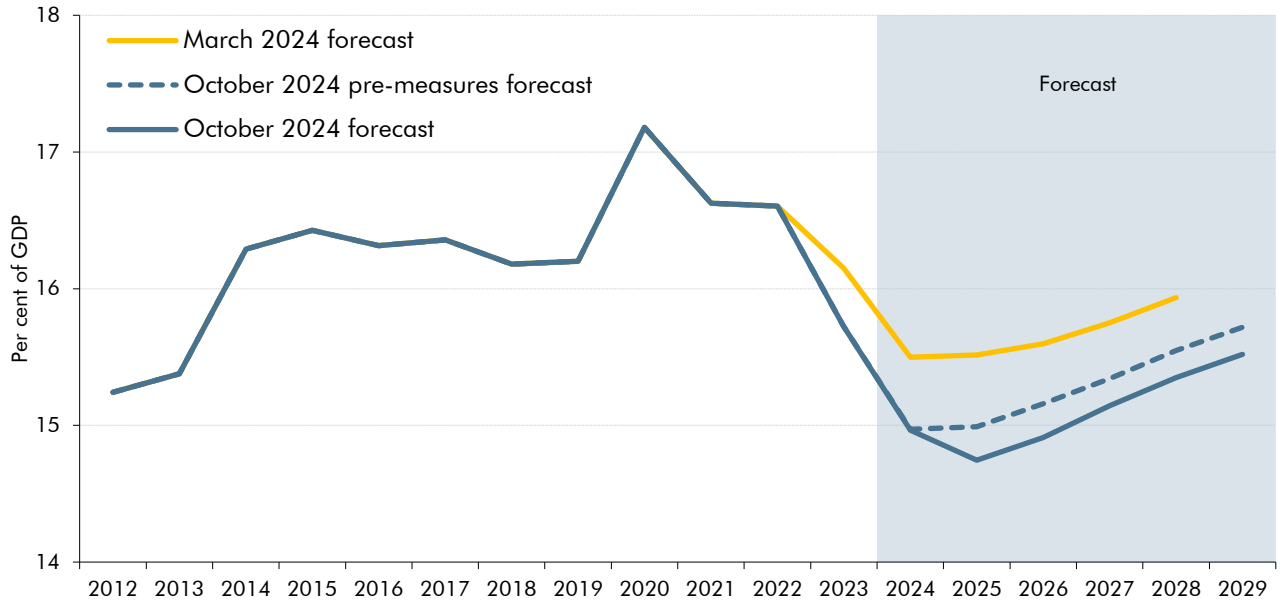


Note: Visas granted by type excludes visitors and temporary visas.
Source: Home Office, ONS, OBR

Profits and investment

2.14 As a share of GDP, corporate profits (excluding financial and North Sea corporations) are expected to continue to fall from a peak of over 17 per cent in 2020 to around 14½ per cent in 2025. In the near term, wage settlement expectations have held up relative to recent falls in inflation expectations which, if realised, will continue to weigh on firms' profit margins. The rise in employer NICs in this Budget will further erode profits and we assume firms are only able to pass on around 60 per cent of the cost to employees in the short term. We then expect the profit share to rise gradually from 2026 as firms rebuild margins and pass on more of the cost of the rise in employer NICs to higher consumer prices and lower nominal wages. By the end of the forecast, profits are expected to reach 15½ per cent of GDP. Compared to our March forecast, profits as a share of GDP are around ⅔ percentage point lower on average between 2024 and 2028. About one-third of this difference is explained by this Budget. Uncertainty around precisely how the Government's Employment Rights Bill and Plan to Make Work Pay will eventually be implemented means that they represent a policy risk to our forecast (see Chapter 3 for more details).

Chart 2.5: Profits as a share of GDP



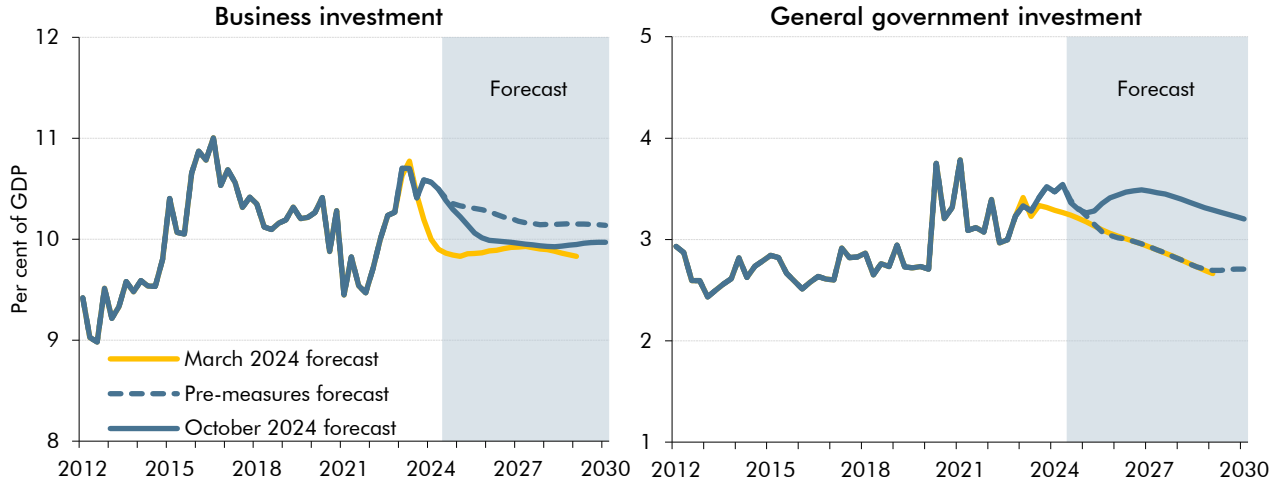
Note: Gross trading profits excluding North Sea oil and financial corporations.
Source: ONS, OBR

2.15 Business investment outturns were stronger than expected in the first half of 2024, with the level in the second quarter around 6 per cent higher than our March forecast. Our pre-measures business investment forecast assumed that some of this recent strength reflects temporary factors. Therefore, business investment returns to around its pre-Covid average share of GDP as these unwind and the squeeze on profit margins bites. Growth averages around 0.3 per cent over 2024 to 2028, 0.1 percentage points lower than our March forecast. In our central forecast, the net impact of policies at this Budget lowers business investment. Higher government investment increases incentives for businesses to invest, but in the near term this is more than offset by the crowding out effect of the fiscal loosening in this Budget (see Box 2.1 and Chapter 3). There was a large downward revision to business investment in the Blue Book 2024 which largely offsets the upside surprise in outturn since March, but was published too late to incorporate into our forecast.[5]

2.16 On a pre-measures basis, real government investment was forecast to fall as per cent of GDP from 3.4 this year to 2.7 in 2029, in line with spending plans in the March 2024 Budget. Higher departmental capital spending in this Budget raises real government investment by 15 per cent on average from 2025 to 2029, leaving it broadly stable at 3.4 per cent of GDP over the forecast period.

[5] Cumulative growth in business investment from the fourth quarter of 2019 to the second quarter of 2024 was revised down around 5 percentage points in the Blue Book.

Chart 2.6: Business and government investment as a share of GDP



Source: ONS, OBR

Productivity

2.17 Trend productivity growth (output per hour worked) picks up over the forecast from 0.2 per cent in 2023 to 1¼ per cent in 2029, little changed from March. This is a significant rise from an average rate of ⅔ per cent in the decade following the financial crisis. But it is still well below the average of around 2¼ per cent in the decade preceding the financial crisis. This forecast is comprised of:

- **Capital deepening** (proxied by the change in the capital stock per hour worked) contributes ¼ percentage point to average annual productivity growth over the forecast period. It is broadly unchanged from March and reflects offsetting changes to our business and government investment forecasts as described above and shown in Chart 2.6. Budget policies raise **whole-economy investment** by 1.5 per cent on average from 2025 and by 1.7 per cent at the forecast horizon. Government investment takes longer to affect potential output than business investment. In turn, the measures in this Budget leave capital deepening broadly unchanged over the forecast, despite the increase in whole-economy investment. The impact of these measures on capital deepening is expected to become positive beyond our forecast horizon, as described in Chapter 3.

- **Total factor productivity** (TFP, the economy's efficiency at combining capital and labour to produce output) contributes ¾ percentage point to average productivity growth over the forecast period, unchanged from March. The outlook for TFP and overall productivity is one of our most important and uncertain forecast judgements. In our November 2023 *EFO*, we illustrated the sensitivity of the public finances to annual productivity growth being ½ percentage point higher or lower than in our central forecast. In the upside scenario, borrowing was £46 billion lower in 2028-29, and in the downside, borrowing was £42 billion higher.

Real GDP and the output gap

Historical GDP estimates

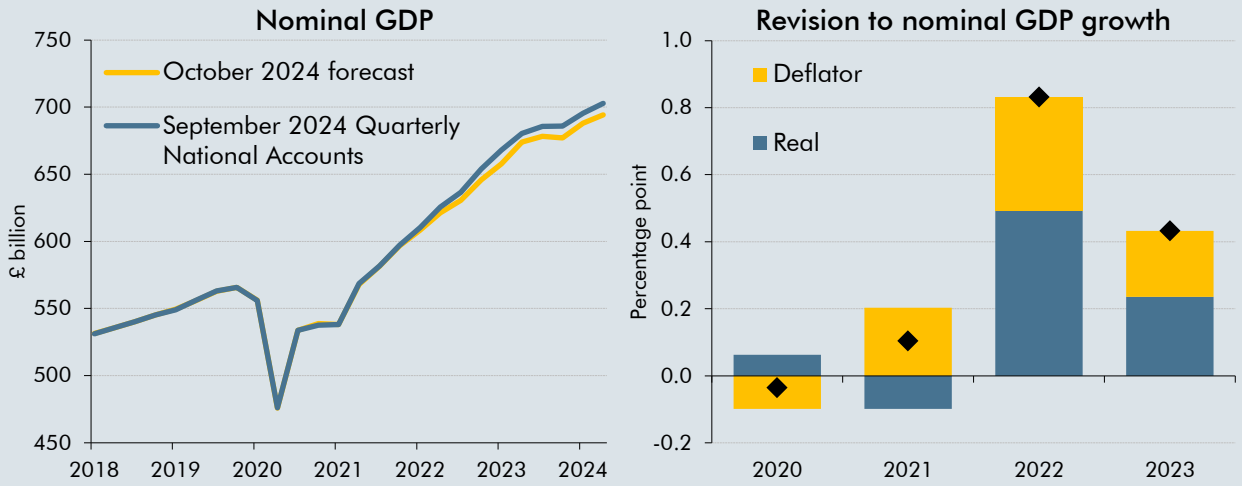
2.18 The level of GDP in the second quarter of 2024 was 0.3 per cent higher than we expected in our March forecast. This was due to the combination of a downward revision of 0.2 percentage points to GDP growth in 2023 and 0.7 percentage points upside surprise to growth in the first half of 2024. This forecast incorporates the first ONS estimate of quarterly GDP released on 15 August that provided outturn data up to the second quarter of 2024. The Blue Book 2024 data released on 30 September and the partial release by the ONS on 7 August were published too close to the Budget date for us to be able to include them in our pre-measures forecast that was finalised on 26 September. Box 2.2 sets out the potential implications of these data.

Box 2.2: Blue Book 2024 revisions

The Blue Book is an annual ONS publication which updates the sources and methods used for the UK National Accounts. The Blue Book 2024 will be published on 31 October. The implications for GDP up to and including 2022 were preannounced on 7 August.[a] The complete revisions to GDP from the Blue Book, including 2023 and the first half of 2024, were incorporated into the Quarterly National Accounts (QNA) published on 30 September. Since the full revisions were published after our pre-measures economy forecast was finalised, they were not incorporated into our forecast. The revisions indicate that the economy grew slightly faster in the years following the pandemic than previously estimated, in both real and nominal terms. As a result, the revisions would have raised the starting level of GDP in our forecast.

The Blue Book revisions raised the level of nominal GDP in the second quarter of 2024 – the starting point of our forecast – by 1.2 per cent. This reflects upwards revisions to growth in both real GDP and the GDP deflator. Cumulative real GDP growth since 2020 was revised up 0.5 percentage points, driven by higher growth in transport, professional, and business support services industries. Cumulative growth in the GDP deflator over the same period was revised up 0.7 percentage points, underpinned by upwards adjustments to the government consumption deflator and the terms of trade. The revisions were primarily concentrated in 2022, with nominal GDP growth revised up 0.8 percentage points. Nominal growth in 2023 was increased by 0.4 percentage points but this was mainly due to the base effects of the revisions to growth in 2022. And with little change to growth in 2024, the revisions provide limited new information on current economic momentum or inflationary pressures. Therefore, they would not have materially impacted our forecasts for GDP growth and inflation had we been able to include them.

Chart C: Nominal GDP



Source: ONS

For the public finances, growth in nominal GDP can provide useful insight into developments in the size of the tax base. In outturn, the upward revision to the historical level of nominal GDP would not in and of itself affect our receipts forecast because it would offset in a correspondingly lower effective tax rate. The jumping off point for the receipts forecast also benefits from more timely receipts data that is less prone to revision. For all fiscal aggregates, the higher level of nominal GDP will only have a purely arithmetic effect by mechanically lowering metrics as a share of nominal GDP. In Chapters 4, 5 and 6 we note the implications of the upward revision in 2023-24 if this were applied throughout all years of the forecast.

[a] ONS, *Blue Book 2024: advanced aggregate estimates*, August 2024.

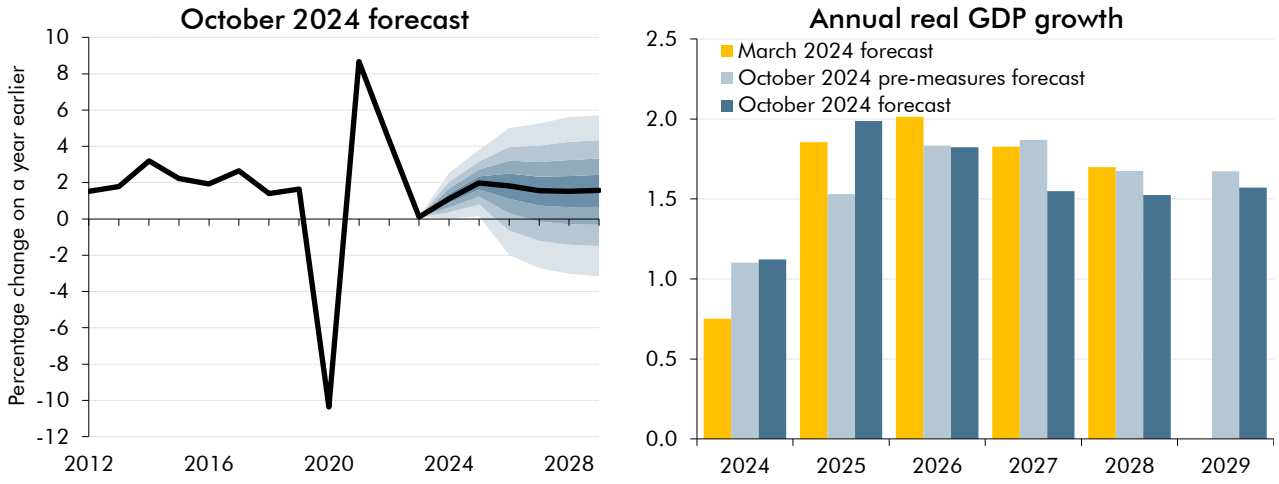
Real GDP forecast

2.19 Our central forecast is for real GDP growth to accelerate from 1.1 per cent in 2024 to 2.0 per cent in 2025 and 1.8 per cent in 2026. This is driven by interest rates falling, the household saving rate passing its peak, and Budget measures temporarily boosting demand. After stagnating over 2023, real GDP growth picked up sharply in the first half of 2024. However, we judge that underlying momentum in the economy was weaker than headline growth. Notably, growth was led by volatile and non-fiscally relevant components of GDP, while growth in consumption and business investment was modest. Monthly GDP figures up to August also support this judgement and we expect quarterly growth to drop back in the third quarter. Timely indicators suggest underlying economic activity is picking up gradually. Measures of consumer and business confidence have generally trended higher over this year, albeit some have fallen back in recent months, and the S&P Global/CIPS UK composite PMI points to a modest expansion in activity. So we expect growth to pick back up in the fourth quarter of 2024 and the first half of 2025. In 2025, the demand impact of this Budget increases growth by 0.5 percentage points relative to our pre-measures forecast. Compared to our March forecast, growth is 0.4 and 0.1 percentage points higher, respectively, in 2024 and 2025.

2.20 As the effects of monetary policy easing fade and the support to demand from fiscal policy wanes, GDP growth slows to around 1½ per cent from 2027 onwards. This is slightly below our estimate of potential output growth as a small positive output gap that is expected to open up over 2025 and 2026 closes. The level of GDP in the first quarter of 2029 is around 0.4 per cent lower than our March forecast. Of this, 0.3 percentage points reflect the pre-measures upward revision to the starting output gap, which leaves less scope for above-trend GDP growth over the forecast. The remaining 0.1 percentage points is due to the net impact of measures announced in this Budget, as described in Box 2.1.

2.21 As always, our central real GDP forecast is uncertain, with pre-measures forecast judgements, the impact of policies, and unforeseen external shocks all potential sources of difference between outturn and forecast. The outlook for productivity growth remains our most important and uncertain forecast judgement. The effects of subdued investment, the energy price shock, and Brexit compound the ongoing weakness seen since the financial crisis. In this Budget, the temporary demand effects of the significant net fiscal loosening and the supply-side impacts of the tax and public investment increases are also uncertain. And the financial crisis, pandemic, and energy price shock showed that unforeseen external shocks can have a large impact on the UK. To give some sense of the potential range of uncertainty, based on historical forecast errors there is a roughly one-in-five chance that annual GDP growth in 2025 is either negative or above 4 per cent.

Chart 2.7: Real GDP growth



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.
Source: ONS, OBR

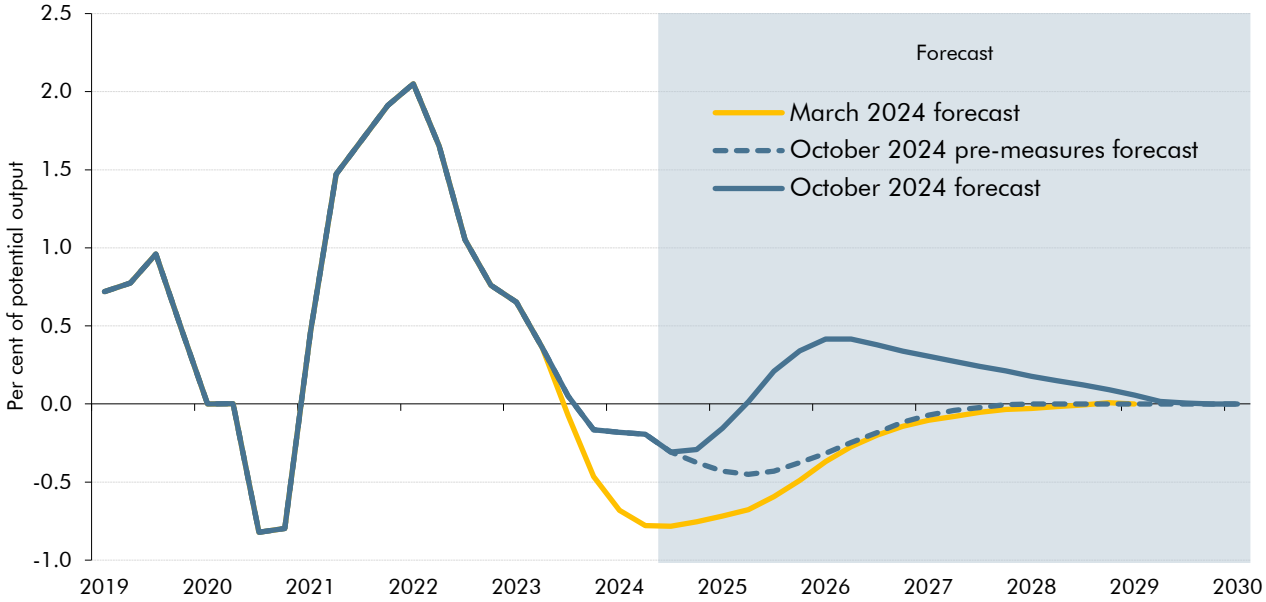
2.22 In per-person terms, real GDP growth picks up from 0.2 per cent in 2024 to average around 1.2 per cent over the rest of the forecast. Weak productivity growth and falls in the participation rate meant that real GDP per person fell for seven consecutive quarters over 2022 and 2023. In our central forecast, real GDP per person is expected to recover to its early 2022 level by the start of 2025 as productivity growth picks up, and the participation and saving rates start to stabilise. The temporary boost to demand in this Budget raises real GDP per person by ½ per cent in 2025 relative to our pre-measures forecast, and leaves it little changed at the forecast horizon.

Output gap

2.23 Latest indicators suggest that there is currently very little spare capacity in the economy. Our estimate of the output gap (real GDP relative to our estimate of potential output) in the second quarter of 2024 is therefore narrower (less negative) than we anticipated in March, at minus 0.2 per cent compared to minus 0.8 per cent. Capacity utilisation indicators have been falling since the middle of 2022 and are now at around their long-run average, suggesting little spare capacity within firms. Recruitment difficulties remain above normal levels, albeit falling, suggesting the labour market remains fairly tight despite a slight recent loosening and steady falls in vacancies. Given these movements, our models – within a wide range – suggest a current output gap of around zero. However, the directly unobservable nature of the output gap means there is significant uncertainty around these estimates.

2.24 As Budget measures boost real GDP growth at a time when monetary policy is loosening, we expect a small positive output gap to open up and peak at 0.4 per cent in 2026 (Chart 2.8). As the effects of monetary policy easing fade and the support to demand from fiscal policy wanes, the output gap closes in 2029. In our pre-measures forecast, we expected a small negative output gap to persist until mid-2027 but the impact of policy measures results in a small positive output gap for four years from mid-2025. Compared to our March forecast, the output gap is 0.6 percentage points higher on average in 2025 and 2026 due to our judgement of less spare capacity in 2024 and the impact of this Budget.

Chart 2.8: Output gap



Source: OBR

Expenditure composition of GDP

2.25 The policies announced in this Budget lead to a significant and sustained increase in **real government consumption and investment** relative to March. As a share of GDP, real

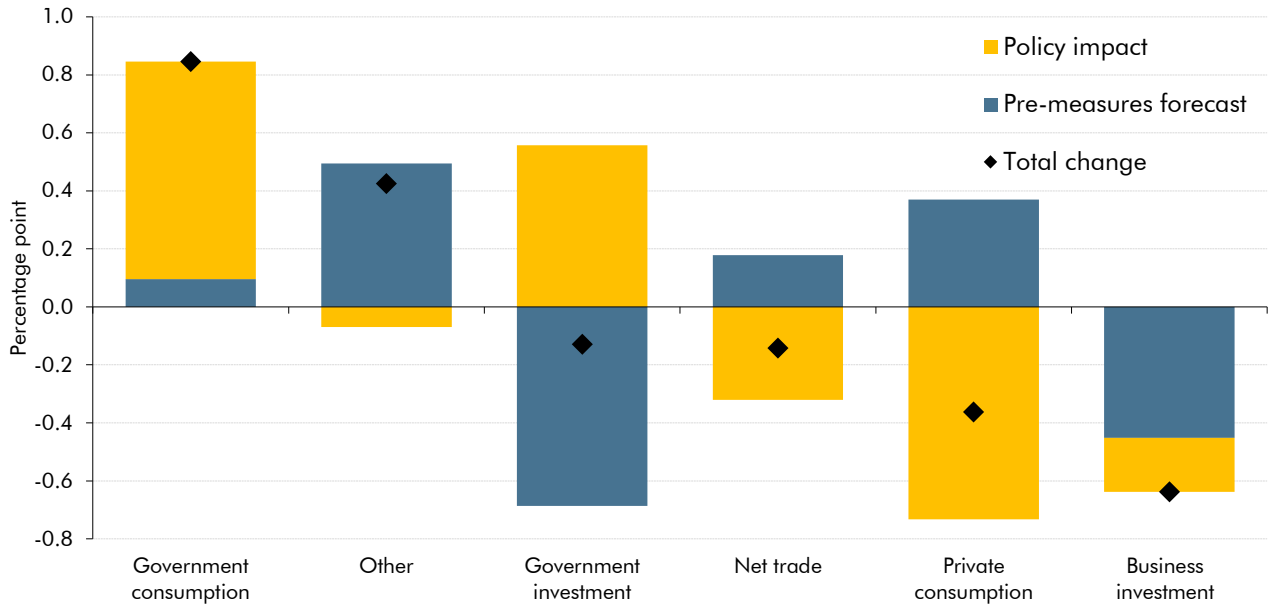
government consumption rises by around 0.8 percentage points from 2023 to 2029. Government investment is broadly flat as a share of GDP over the same period, rather than falling by around ¾ percentage points in our pre-measures forecast (Chart 2.9). Budget policies are also expected to weigh on real household disposable income (RHDI) and private consumption. But the former effect is larger than the latter effect. And given we think that there is currently little spare capacity in the economy, the expansion of public sector activity would be expected to compete for some of the same resources demanded by the private sector, pushing up prices. The Bank of England would be expected to act to bring inflation back to target over the medium term. This results in some crowding out of private consumption, business investment and net trade over our forecast period. So, by the forecast horizon, government spending comprises a larger part of little-changed real GDP.

2.26 **Real private consumption** is forecast to fall 0.4 percentage points as a share of GDP from 2023 to 2029. In our pre-measures forecast, we expected this share to rise by 0.4 percentage point but this is more than offset by policy measures in the Budget. Policies are expected to weigh on consumer spending both due to the direct effect on RHDI and from crowding out. Private consumption was slightly weaker in the first half of 2024 than projected in March. In our central forecast, private consumption growth now picks up from 0.4 per cent in 2024 to 1.7 per cent in 2025. The saving rate levels out in 2025, after rising in 2023 and 2024, alongside falling interest rates and a drop in the unemployment rate. Consumption growth is steady over the rest of the forecast as a lower rate of saving smooths through falls in real income growth. The level of consumption is 1.6 per cent lower at the start of 2029 than in our March forecast.

2.27 **Real business investment** is expected to fall 0.6 percentage points as a share of GDP from 2023 to 2029. This is driven by two factors. First, our pre-measures forecast anticipates a decline back to the recent historical average share of GDP as a recent temporary boost reverses. Second, we expect this Budget to result in some crowding out as a result of the increase in government spending and net fiscal loosening. After surprising on the upside in the first half of 2024, real business investment growth is expected to average 0.8 per cent between 2025 and 2029.

2.28 **Net trade** is broadly stable as a share of GDP over the forecast. Exports declined slightly over the first half of 2024, but we expect growth to resume in 2025 and average 0.5 per cent over 2026 to 2029. There have been sharp changes in imports in 2024, but a considerable share of this was driven by volatile components of trade data, and so we expect it to unwind. We forecast import growth to average 1 per cent a year over 2026 to 2029. Weak growth in imports and exports over the medium term partly reflect the continuing impact of Brexit, which we expect to reduce the overall trade intensity of the UK economy by 15 per cent in the long term (see Box 2.4 of our March 2024 *EFO*).

Chart 2.9: Change in expenditure shares of real GDP from 2023 to 2029



Note: Other includes residential investment, net acquisition of valuables, inventories, and the statistical discrepancy.
Source: OBR

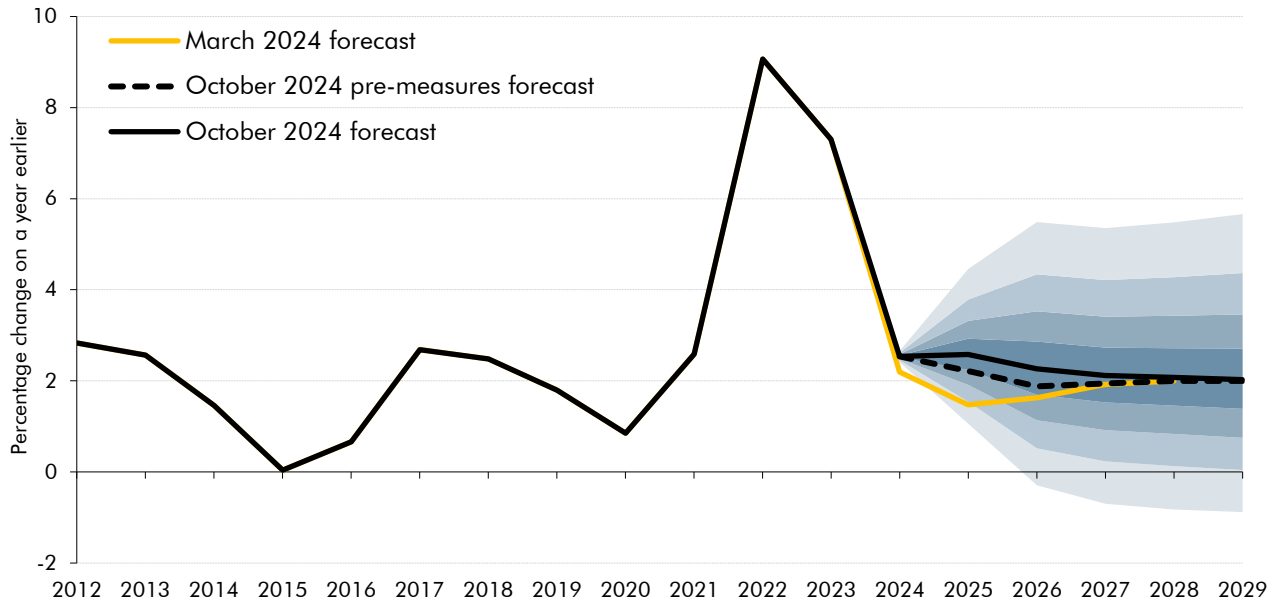
Inflation

2.29 Having fallen from a 41-year high of 11.1 per cent in October 2022, annual CPI inflation is expected to remain close to the 2 per cent target throughout the forecast period. We expect a temporary rise, from around 2 per cent in the third quarter of this year, to an average of 2.6 per cent in 2025.[6] This is driven by higher gas and electricity prices, the direct effect of policies announced in this Budget, and the effect of a small positive output gap on domestically generated inflation. CPI inflation then gradually falls back to the 2 per cent target in 2029 as the positive output gap closes and energy price growth normalises. Compared to the March forecast, CPI inflation is higher in 2025 and 2026 by 1.1 and 0.6 percentage points respectively, and slightly higher until the end of the forecast. On average, just over half of the higher inflation in 2025 and 2026 is driven by our pre-measures judgements, with the rest due to the impact of policies in this Budget.

2.30 There is significant uncertainty around the forecast for CPI inflation. Domestically, if wage growth is less persistent than we assume this could drive lower inflation. There are also risks to the forecast from the external environment given the continuing war in Ukraine and the widening conflicts in the Middle East (see paragraph 2.10). Chart 2.10 illustrates that, based on historical forecast errors, there is roughly a one-in-five chance of CPI inflation being above 4.5 per cent or below 1.1 per cent in 2025.

[6] CPI inflation in September 2024, released too late to be incorporated in the forecast, was 0.2 percentage points below our forecast at 1.7 per cent. We judge that this would have made little difference to our forecast because the surprise was driven by volatile components like airfares and motor fuels, which would likely be offset by rises in oil prices since we closed our forecast to new data.

Chart 2.10: CPI inflation



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.
Source: ONS, OBR

2.31 RPI inflation is forecast to average 3.5 per cent in 2025, before falling gradually to 2.9 per cent in 2028 and remaining broadly flat thereafter. Compared to March, the upward revision to RPI is slightly larger than our revision to the CPI forecast. This is due to our expectation of stronger growth in house prices and mortgage interest payments, which affect RPI but not CPI. We expect RPI inflation to fall sharply to 2.5 per cent in the first quarter of 2030, following the ONS' current plans to align the methods of RPI with CPIH from February 2030 onwards (see Box 2.3).

2.32 The GDP deflator – which measures the price of all domestically-produced goods and services – is forecast to grow largely in line with CPI inflation throughout the forecast. We judge that the policy package will increase the level of the GDP deflator by around 1.3 per cent in 2029-30, of which around 60 per cent is due to higher departmental resource spending (RDEL) spending and around 40 per cent is due to the impact of the Budget on consumer prices.[7] Compared to our March forecast, the domestic price level is expected to be 2.6 per cent higher in 2028-29.

[7] We assume half of the increase in nominal government consumption (as a result of the increase in RDEL) raises the economy-wide deflator.

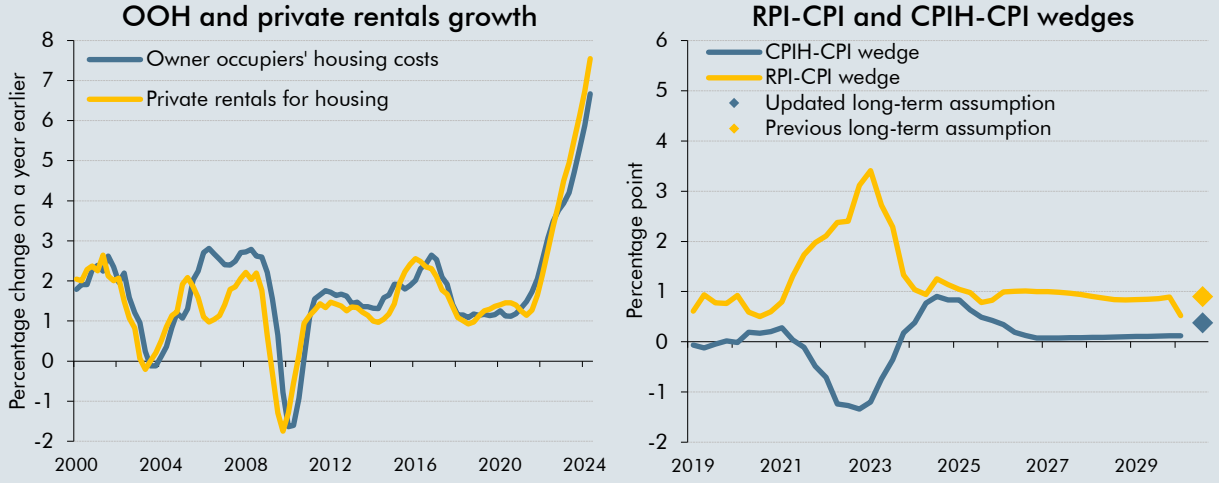
Box 2.3: The long-run difference between RPI and CPI inflation

RPI inflation is an important determinant in our fiscal forecast as it is used to uprate most excise duties and the principal value and coupon of index-linked gilts. RPI differs from CPI due to the way in which the indices are constructed, the goods and services included in the indices, and the representative population they cover. This creates a 'wedge' between RPI and CPI inflation, which we have previously estimated to be around 0.9 percentage points in the long run.[a]

In the future, movements in RPI will be aligned with the consumer price index including owner occupiers' housing costs (CPIH),[b] which has been the ONS's lead measure of consumer price inflation since March 2017. CPIH is identical to CPI, except that it also includes owner occupier housing costs (OOH) and council tax, which are significant expenses for many households. In practice, current ONS plans mean monthly growth rates in CPIH will be applied to RPI from February 2030, with the annual RPI and CPIH inflation rates fully aligning from February 2031 onwards. As our forecast horizon now extends to March 2030, we have started forecasting CPIH to produce our RPI forecast from the first quarter of 2030. To do so, we combine our CPI inflation forecast with our council tax and OOH forecasts:

- Our council tax forecast is informed by known referendum principles, announcements by councils, and examining trends in recent behaviour. For the years in which policy is not currently set, our policy-neutral assumption is that levels will grow by 4.8 per cent.
- We forecast OOH by growing it in line with CPI actual private rental inflation. OOH has historically moved very closely in line with actual private rents (Chart D, left panel),[c] which is to be expected given the ONS measures OOH using the rental equivalence methodology.[d] In turn, our forecast for actual private rents is informed by an econometric equation and historical trends in average house-price-to-rent and average earnings-to-rent ratios.[e] We find that the long-run response of changes in private rents to average earnings is close to one-for-one, even though private rental inflation and incomes growth can deviate significantly in the short run. We thus assume that in the long run, private rents will grow in line with average nominal earnings growth, which our most recently published long-term economic determinants place at around 3.8 per cent a year.

Chart D: Housing costs, private rentals, and the RPI-CPI and CPIH-CPI wedges



Source: ONS, OBR

Combining these assumptions with our long-term forecast for CPI inflation of 2.0 per cent and existing CPIH weights,[f] we expect CPIH (and hence RPI) inflation to be around 2.4 per cent a year in the long run.[g] This results in an estimated wedge between CPIH/RPI and CPI inflation of around 0.4 percentage points. This estimate depends largely on our assumption about average nominal earnings growth in the long run, which in turn depends on our forecasts for productivity growth and the GDP deflator. If earnings growth were 0.5 percentage points lower or higher, that would decrease or increase our estimated wedge by 0.1 percentage points. We will keep our estimates and forecast methodology under review.

In the short term, we expect the CPIH-CPI wedge – currently at 0.9 percentage points – to remain elevated in 2025 but fall gradually from 2026 onwards as private rents inflation moderates in line with average earnings, reaching 0.1 percentage points in the final years of the forecast (Chart D, right panel). This is somewhat below our updated long-run wedge of 0.4 percentage points because average nominal earnings are forecast to grow below our long-run assumption in 2029-30.

The ready-reckoners accompanying our latest forecast suggest that a 0.5 percentage point reduction in RPI inflation in 2029-30 would lower borrowing by £3.9 billion in that year. However, this figure is not a true reflection of the effect on the public finances. The proposed change in 2030 has been public knowledge for several years and was likely anticipated prior to the public announcement, so will have already been at least partly reflected in interest rates and market prices for index-linked gilts.

[a] See Box 2.3 of our December 2019 *Forecast evaluation report*. Our previous estimates can be found in Box 3.3 of our March 2015 *Economic and fiscal outlook* and in Miller, R., *OBR Working Paper No. 2: The long-run difference between RPI and CPI inflation,* 2011.
[b] HM Treasury and the UK Statistics Authority launched a consultation on reforming the RPI methodology at the March 2020 Budget. The consultation response was released on 23 November 2020, stating the ONS's current policy to "*address the shortcomings in the RPI at full at the earliest legal and practical opportunity (in February 2030) by bringing the methods and data sources from the National Statistic and ONS' lead measure of inflation, the Consumer Prices Index including owner occupiers' housing costs (CPIH), into the RPI*".
[c] In March 2024 the ONS introduced changes to its measurement of private rents, replacing the Index of Private Housing Rental Prices (IPHRP) with the Price Index of Private Rents (PIPR), creating a break in the series. PIPR is more responsive to market changes than the old IPHRP because of differences in the methodology used. On average, annual growth in UK private rentals reported by PIPR was 0.7 percentage points higher than IPHRP between January 2016 and October 2023.
[d] This is based on the rent paid for an equivalent house as an estimate of the cost of the housing services that are consumed.
[e] Our econometric equation is of the error correction model form, with actual private rents depending on lagged values of themselves, average nominal earnings, consumer prices, the housing stock per person, and mortgage rates.
[f] CPI, council tax, and OOH represent around 81, 3 and 16 per cent of the CPIH basket, respectively. We assume OOH grows in line with actual private rents and average nominal earnings in the long run.
[g] While we were developing our CPIH forecast, our holding assumption was that RPI would grow in line with CPI at 2 per cent in the long run.

Labour market

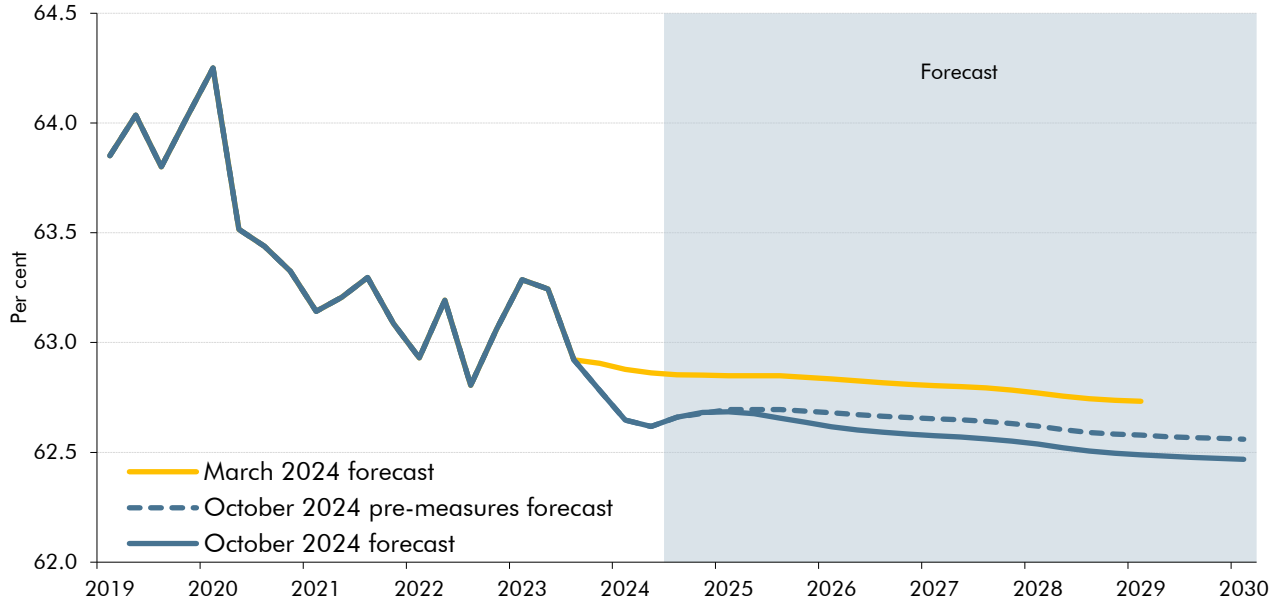
2.33 Despite ongoing volatility in ONS Labour Force Survey (LFS) data, broader evidence points to a recent loosening of labour market conditions. Vacancies continue to fall, wage growth has eased, while administrative measures of employment and unemployment have weakened. The reweighting of the LFS in February 2024 has improved the representativeness of the data. But challenges with low sample sizes and volatility in recent periods will take longer to resolve, so the ONS advises caution when interpreting these

numbers. Analysis from the Bank of England and the Resolution Foundation suggests current LFS estimates substantially underestimate the level of employment.[8] Hence, we continue to place less weight on LFS data for recent months and instead consult a wider range of indicators such as administrative data sources and surveys. The ONS plans a further partial reweighting of LFS estimates by the end of 2024, so they capture more recent trends in net migration and other demographic factors.[9] This will be followed with a fuller reweighting and switchover to the Transformed LFS, which may have further implications for our understanding of the labour market.

Participation

2.34 The participation rate is forecast to gently decline to 62½ per cent by 2029, driven by rising health-related inactivity, the overall ageing of the population, and the rise in employer NICs announced in this Budget (Chart 2.11). This is well down from a peak of 64¼ per cent in the first quarter of 2020. Inactivity due to long-term sickness remains high at around 2.8 million, accounting for a third of total inactivity, although the latest data suggest it may have reached its peak. This is consistent with incapacity benefits caseloads, which rose 36 per cent between 2019-20 and 2023-24, from 2.3 to 3.1 million.[10] Before accounting for Budget measures, we revised the participation rate down by 0.2 percentage points due to a combination of lower-than-expected outturn in the first half of this year and the re-evaluation of some of the previously announced labour market policies (see Box 3.2). The increase in employer NICs announced in this Budget reduces the participation rate by 0.1 per cent from 2025-26 onwards (see Box 2.1 and Chapter 3).

Chart 2.11: Participation rate



Source: ONS, OBR

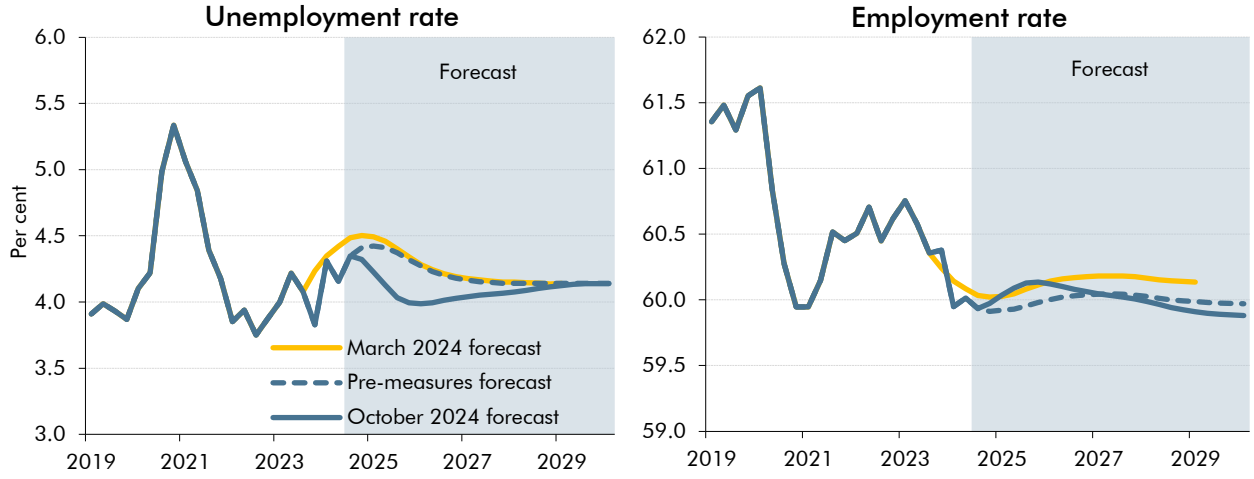
[8] See Bank of England, *Monetary Policy Report*, May 2024, and Resolution Foundation, *Measuring up?*, August 2024.
[9] ONS, *Labour market transformation – update on progress and plans: July 2024*, July 2024.
[10] Incapacity benefits caseloads include universal credit health-related claims, employment and support allowance claims (in the work-related activity group or the support group), and incapacity benefit claims.

Unemployment and employment

2.35 We expect the unemployment rate to peak at 4.3 per cent, equivalent to 1.5 million people, in the third quarter of 2024, before falling to a trough of 4.0 per cent in mid-2025 as a positive output gap opens up. Unemployment then returns to its estimated structural rate of 4.1 per cent in mid-2027 (Chart 2.12, left panel). The unemployment rate has risen since the post-pandemic trough of 3.8 per cent in the second half of 2022, albeit with some volatility related to the Labour Force Survey's shortcomings. This broad trend is consistent with wider evidence of a cooling labour market (as vacancies continue to fall) and the recent rise in the claimant count measure of unemployment. The temporary boost to output from this Budget reduces the unemployment rate by 0.3 percentage points, equivalent to around 90,000 people, on average in 2025 and 2026. Compared to our March forecast, the unemployment rate is lower across most of the forecast, but is in line with its unchanged estimated structural rate by the forecast horizon.

2.36 The employment rate rises a little in the near term and then declines through the rest of the forecast period to just under 60 per cent. This is more than 1½ percentage points below its pre-pandemic peak and is driven mainly by higher inactivity (Chart 2.12, right panel). Employment rises by around 200,000 a year on average between 2024 and 2029, owing to population growth.

Chart 2.12: Unemployment and employment rate



Source: ONS, OBR

Average earnings

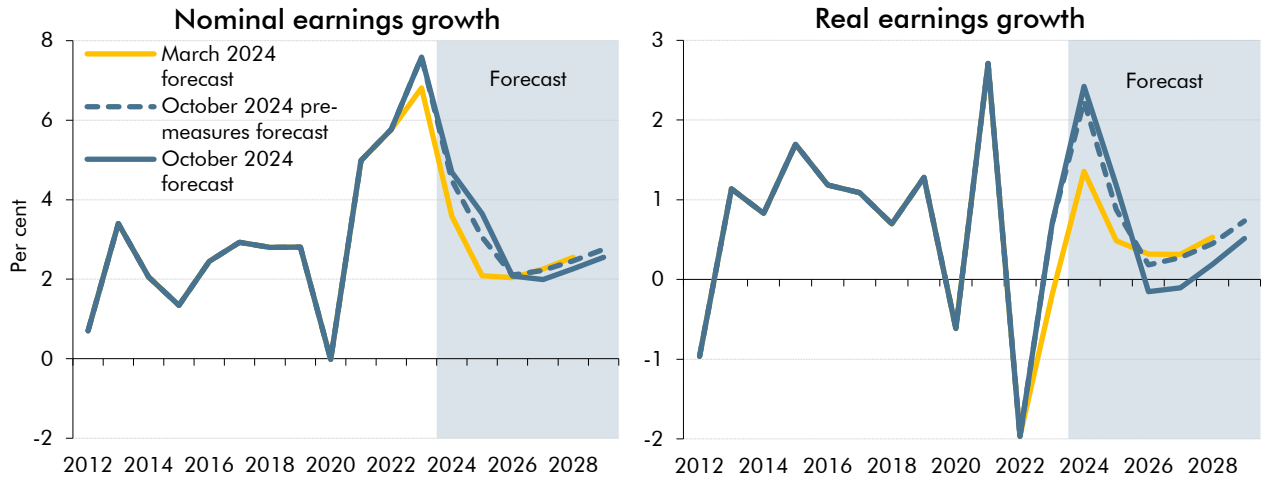
2.37 Relative to our March forecast, we expect stronger nominal earnings growth of 4.7 per cent in 2024 and 3.6 per cent in 2025, 1.1 and 1.6 percentage points higher, respectively (Chart 2.13, left panel). Nominal earnings growth over the first half of 2024 has fallen less than expected in our March forecast, as pay settlements have remained sticky despite falling inflation. Alongside this, Budget policies raise earnings growth by 0.2 and 0.6 percentage points respectively, in 2024 and 2025 but lower it slightly from 2026. In the first two years, there is an uplift to earnings as the fiscal loosening temporarily leads to tighter labour

market conditions, higher productivity growth and inflation. Increases in public sector pay announced in July add around ½ per cent to whole-economy pay growth in 2024.

2.38 Nominal earnings growth is lower from 2026, as the temporary effect of the fiscal loosening fades. The subsequent labour market loosening gives firms more scope to rebuild margins, which have recently been squeezed, and pass on higher labour costs from the rise in employer NICs. Average earnings growth is around 2.2 per cent a year from 2026 onwards. Cumulative growth in nominal wages and salaries, a key determinant of our fiscal forecast, is 0.9 percentage points higher over the forecast than in March as stronger nominal earnings growth more than offsets modestly weaker growth in the number of employees.

2.39 We expect real earnings to grow 2.4 per cent this year and 1.2 per cent in 2025, 1.1 and 0.7 percentage points higher than in March, respectively (Chart 2.13, right panel). Real earnings then stall in 2026 and 2027 as firms rebuild margins and pass on the cost of higher employer NICs. This means we do not expect real wages to resume growing in line with productivity (around 1 per cent a year) until beyond the forecast horizon. In 2028, real earnings are 0.5 per cent lower than our pre-measures forecast due to the pass-through of employer NICs to nominal wages and consumer prices. This leaves real wages around 1½ per cent higher than our March forecast in 2028 due to a higher starting point.

Chart 2.13: Nominal and real earnings growth



Source: ONS, OBR

Household income and saving

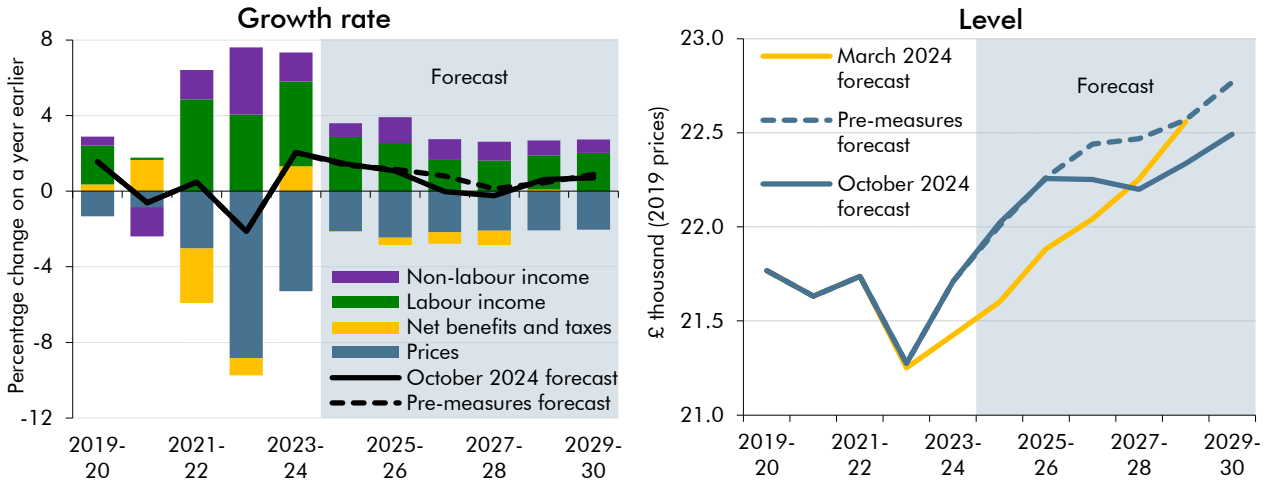
2.40 Real household disposable income (RHDI) per person grows by an average of just over ½ per cent a year between 2024-25 and 2029-30 in our central forecast (Chart 2.14, left panel).[11] This is below the average of around 1 per cent a year in the decade before the pandemic, but RHDI per person still rises 3½ per cent across the forecast. Growth in RHDI

[11] RHDI per person is a measure of living standards but comes with comes with a range of limitations. These include (but are not limited to): no household equivalisation; no consideration of non-tax essential costs (such as housing); and no accounting for the provision of non-market goods and services.

per person averages 1¼ per cent a year in 2024-25 and 2025-26. This strength is due to wage settlement expectations holding up relative to inflation, along with more net interest income. But RHDI per person growth slows sharply in 2026-27 and 2027-28, and the level is broadly flat across those years. The slowdown is explained by five trends: the labour share of income easing back from the recent rise as firms rebuild squeezed profit margins; a substantial part of the employer NICs increase being passed onto real wages; other tax rises in the Budget; non-labour income easing back to medium-term trends; and a rising state pension age dragging on benefit payments. RHDI per person then grows at just under ¾ per cent a year on average in 2028-29 and 2029-30, as net benefits and taxes stabilise and real wage growth picks up. Aggregate RHDI growth is forecast to average 1¼ per cent a year from 2024 to 2028, with population growth averaging 0.6 per cent a year.

2.41 Compared to our March forecast, the level of RHDI per person is over 2 per cent higher at the start of the forecast due to ONS revisions, but 1¼ per cent lower by the start of 2029 (Chart 2.14, right panel). The bulk of this difference (around 85 per cent) is explained by policies announced in this Budget. This implies shifting real resources out of private households' incomes in order to devote more resources to public service provision.

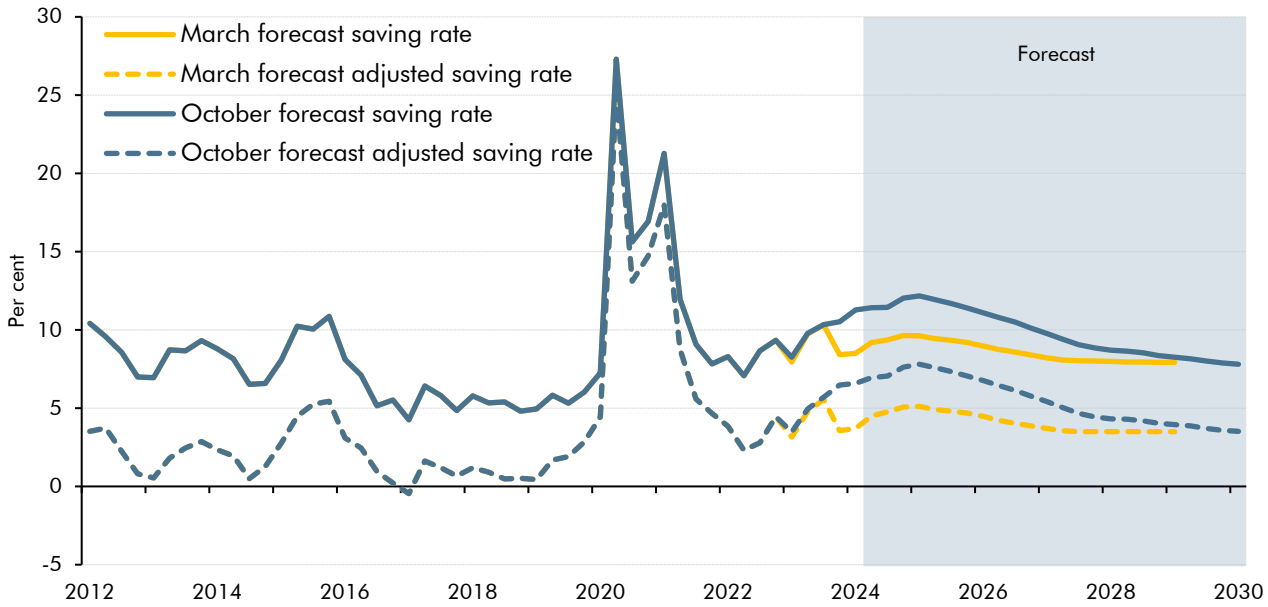
Chart 2.14: Real household disposable income per person



Source: ONS, OBR

2.42 Our central forecast is for the household saving rate (adjusted to exclude pensions) to rise from just under 5¼ per cent in 2023 to over 7¾ per cent in early 2025 (Chart 2.15). We then expect the saving rate to fall throughout the rest of the forecast, reaching 3½ per cent in early 2030. Households remain cautious after the back-to-back shocks of the pandemic and energy crisis, while elevated interest rates encourage saving and discourage borrowing. So our higher near-term income forecast does not fully feed into consumption. In 2026 and 2027, we expect households to run down their rate of saving significantly as they try to maintain consumption growth in the face of stagnant real wages. The saving rate then falls more gradually towards its historical average as real wage growth returns. Compared to our March forecast, higher outturns and interest rate expectations keep the saving rate an average of 2½ percentage points higher from 2024 to 2026. However, we expect the saving rate to trend back towards the March forecast by the forecast horizon.

Chart 2.15: Saving rate



Source: ONS, OBR

The housing market

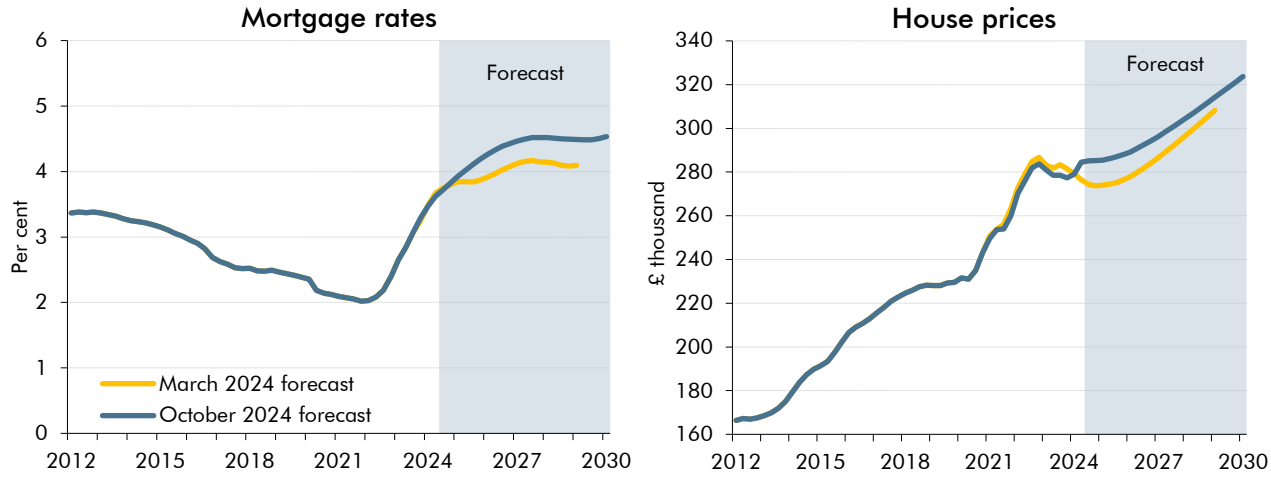
Mortgage rates

2.43 Average interest rates on the stock of mortgages are expected to rise from around 3.7 per cent in 2024 to a peak of 4½ per cent in 2027, then remain around that level until the end of the forecast. The high proportion of fixed-rate mortgages (around 85 per cent) means increases in Bank Rate feed through slowly to the stock of mortgages. Bank of England analysis shows around two-thirds of fixed-rate mortgages have been repriced since the start of this hiking cycle, and they expect the remainder to expire by the end of 2026. Compared to our March forecast, mortgage rates are around 0.3 percentage points higher on average over the forecast, driven by our higher forecast for Bank Rate (Chart 2.16, left panel).

House prices and transactions

2.44 In our central forecast, we expect house price growth to fall back slightly from 1.7 per cent in 2024 to 1.1 per cent in 2025, as the average effective mortgage rate continues to rise. House price growth then averages around 2½ per cent from 2026 until the end of the forecast (Chart 2.16, right panel), supported by nominal earnings growth. House prices have risen by around 3 per cent in the first half of the year, such that the average house price was around 3 per cent higher than our March forecast in mid-2024. Average house prices remain above our March forecast throughout, driven by the recent resilience and our forecast for higher nominal incomes. This would leave the average house price in the UK at £310,000 in 2028, around 2½ per cent higher than our March forecast.

Chart 2.16: Mortgage rates and house prices



Source: ONS, OBR

2.45 We forecast property transactions to rise from around 275,000 a quarter in 2024 to around 350,000 a quarter over the forecast. Property transactions rose by around 10 per cent over the first half of 2024, 8 percentage points higher than we had anticipated in March. Compared to our March forecast, property transactions are therefore higher in the short term but marginally lower in the medium term, reflecting our forecast for fewer net additions to the housing stock, which reduces supply. We expect housing starts, a leading indicator of net additions to the housing stock, to gradually pick up from a decade-low of around 100,000 in 2024 to reach around 160,000 in 2029. Cumulatively over the forecast, net additions are around 1.3 million. The Government has proposed significant changes to the National Planning Policy Framework as part of wider reforms to the planning system, which represent an upside risk to our housing supply forecast (see Chapter 3 for more details).

The current account and sectoral net lending

Current account

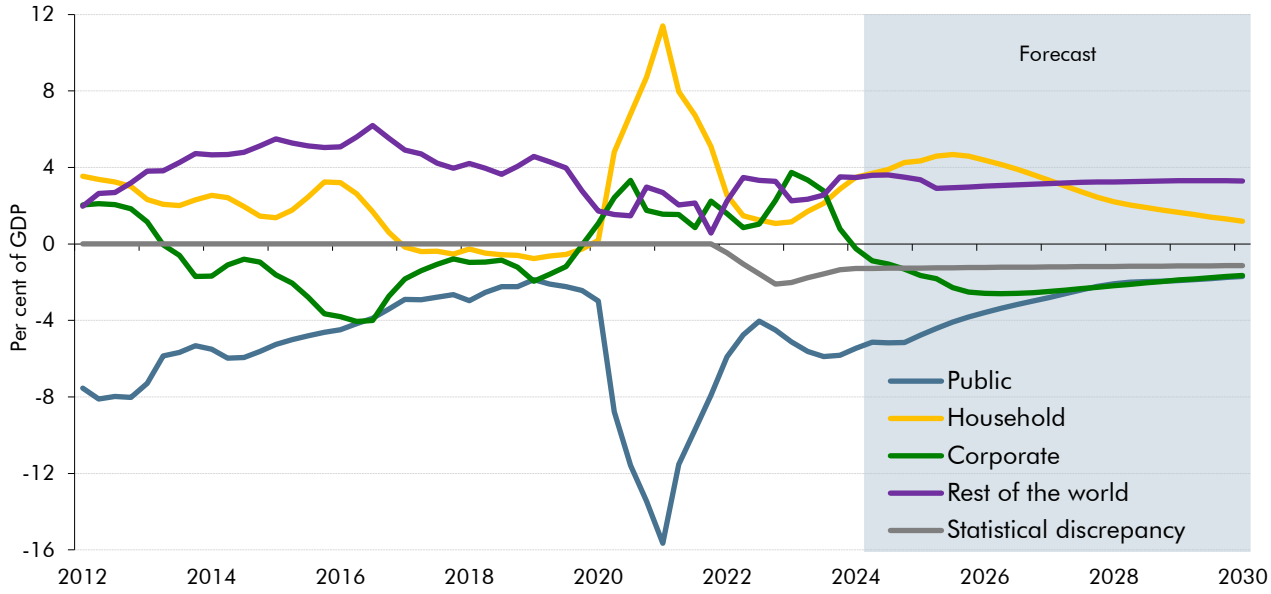
2.46 After widening sharply to 4¾ per cent of GDP in the second quarter of 2024, we expect the current account deficit to fall to just below 3 per cent by the end of 2024. The widening was primarily driven by large downward revisions to the trade balance which we think was mostly due to temporary factors. So in the near term, while the investment income balance is expected to deteriorate due to differentials between foreign and domestic interest rates, this is offset by an improving trade balance. We then forecast the current account to be broadly flat as a share of GDP from 2026 onwards.

Sectoral net lending

2.47 Strong earnings growth and precautionary saving drive the household sector surplus to a peak of over 4½ per cent of GDP in 2025 in our forecast. It then falls back towards historical averages, reaching just over 1 per cent by the end of the forecast (Chart 2.17). A persistent current account deficit means we forecast the overseas sector to lend an average

of around 3¼ per cent of GDP across the forecast. In the near term, a rising labour share and higher costs for employers from the NICs measure in this Budget squeeze profit margins in our central forecast. This pushes the corporate sector into a widening deficit, which troughs at 2½ per cent of GDP in 2026. In the later years of the forecast, firms pass on more of the cost of the NICs measure to workers and rebuild margins. The corporate deficit therefore narrows to around 1½ per cent of GDP by the end of the forecast. At the same time, we expect the public deficit to narrow gradually over the forecast.

Chart 2.17: Sectoral net lending



Note: Four-quarter rolling average.
Source: ONS, OBR

Nominal GDP and its composition

2.48 Growth in nominal GDP and its components is a key driver of our forecast of the public finances, especially for tax revenue. In our central forecast, the level of nominal GDP is 2.2 per cent higher in 2028-29 than in our March forecast. Outturn data in 2023-24 was revised down 0.5 per cent. From this lower starting point, nominal GDP is forecast to grow by 21 per cent over the next five years. This is 3.2 percentage points more than we forecast in March, due to stronger GDP deflator growth (contributing 3.2 percentage points) offsetting weaker cumulative real GDP growth (subtracting 0.2 percentage points). The impact of this Budget accounts for 1.5 percentage points of the difference from March.

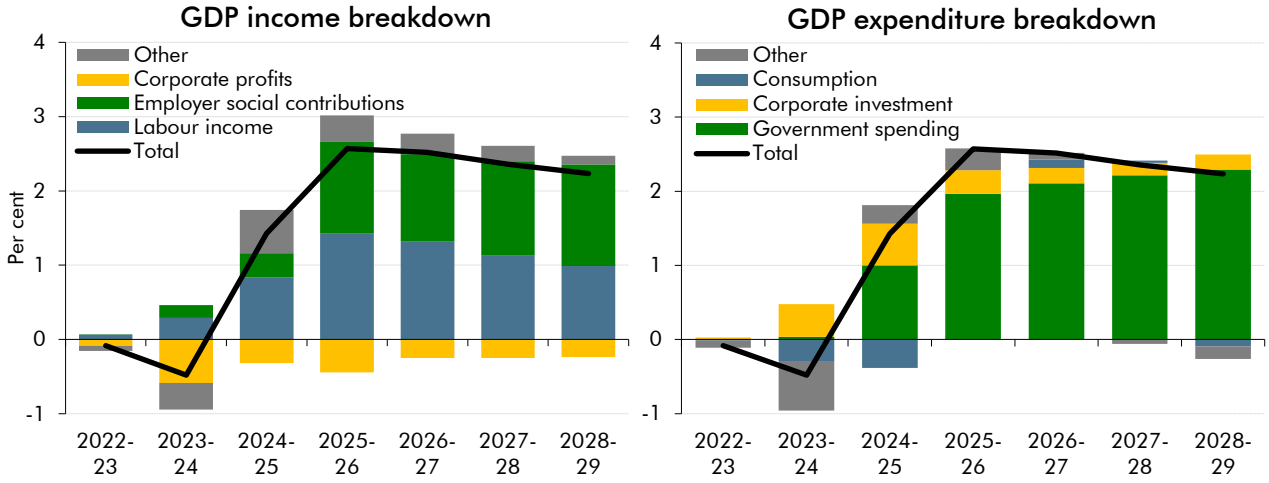
2.49 Higher cumulative nominal GDP growth is not as fiscally beneficial as might be expected via its effect on tax bases because it is driven by the less tax rich components:

- On the **income** side (Chart 2.18, left panel), the change is split between the upward revisions to labour income and rising employer social contributions (which include employer NICs). The former is due to stronger earnings growth and is a key driver of our income tax forecast. The latter is primarily due to the rise in employer NICs.

Corporate profits, a key driver of our corporation tax forecast, are lower than in our March forecast as the rise in employer NICs raises costs for firms, compounding the squeeze from higher labour costs on profit margins.

- On the **expenditure** side (Chart 2.18, right panel), the vast majority of the change since March is due to higher government spending in this Budget. Nominal consumer spending, a key driver of our tax base, is down slightly relative to March.

Chart 2.18: Nominal GDP: changes since March forecast

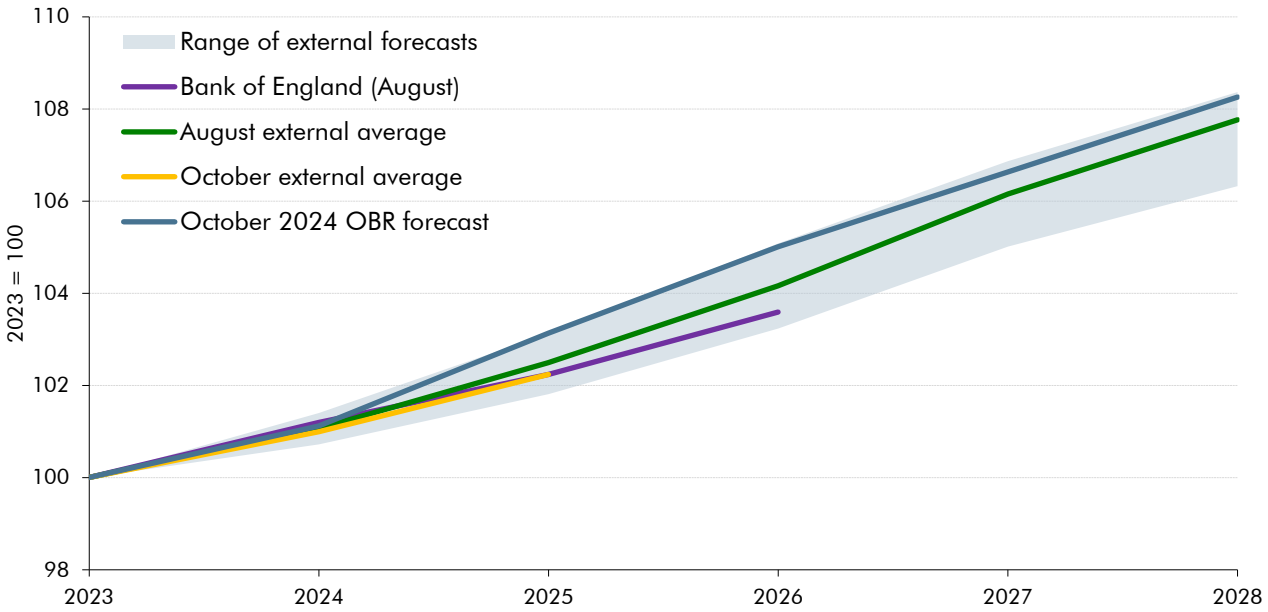


Note: Corporate profits and investment exclude financial corporations. Other income includes operating surpluses and the factor cost adjustment. Other expenditure includes net trade, other investment, inventories, and valuables.
Source: ONS, OBR

Comparison with external forecasters

2.50 Our central forecast for cumulative real GDP growth between 2023 and 2028 is 0.5 percentage points higher than the average of other forecasters (equivalent to around 0.1 percentage points a year). Compared with the Bank of England, we expect marginally lower GDP growth this year but higher growth thereafter. Our forecast for the level of GDP is 1.4 per cent higher than the Bank in 2026 (Chart 2.19). The near-term differences could reflect policies in this Budget, which may not have been fully anticipated by external forecasters or captured in the Bank's August forecast. In the medium term, it also reflects different assumptions around underlying growth in the economy's productive potential.

Chart 2.19: Comparison of forecasts for cumulative growth in real GDP



Note: October external average uses the latest external forecasts for 2024 and 2025 published by HM Treasury in October 2024, using projections received in the month of publication. The range and August average use the latest five-year forecasts, published in August.
Source: ONS, OBR

2.51 Our forecast for CPI inflation is lower than the Bank's forecast and in line with other forecasters this year but higher in 2025 and 2026, likely reflecting the impact of this Budget. Our unemployment projections are significantly lower than the Bank's forecast and other forecasters. This likely reflects different vintages of data in the forecasts, the impact of the Budget, and different views on the equilibrium rate.

Table 2.2: GDP growth, CPI inflation, and unemployment rate forecast comparison

	Per cent				
	2024	2025	2026	2027	2028
GDP growth					
OBR	1.1	2.0	1.8	1.5	1.5
Bank of England	1.2	1.0	1.3		
External average	1.1	1.4	1.5	1.6	1.5
CPI inflation					
OBR	2.5	2.6	2.3	2.1	2.1
Bank of England	2.7	2.5	1.8		
External average	2.5	2.2	2.2	2.4	2.3
Unemployment rate					
OBR	4.3	4.1	4.0	4.1	4.1
Bank of England	4.4	4.6	4.8		
External average	4.4	4.5	4.5	4.4	4.4

Note: Bank of England uses the modal forecast based on market interest rates published in August. External average uses the latest medium-term forecasts published by HM Treasury in August.
Source: Bank of England, HM Treasury, OBR

3 Policy measures

Introduction

3.1 This chapter:

- sets out the **total effect of Government decisions taken in this Budget** on public sector net borrowing and the public sector balance sheet;
- describes the fiscal effects of the **major policy measures announced in this Budget** and in the period since the Spring Budget in March, including how they have been incorporated in our forecast and the uncertainties around them;
- provides an update on selected **previous measures**;
- discusses **policy risks**, including possible measures that are yet to impact our central forecast; and
- summarises our analyses on the **long-term impacts of government policy decisions**.

Total effect of Government decisions

Impact on borrowing

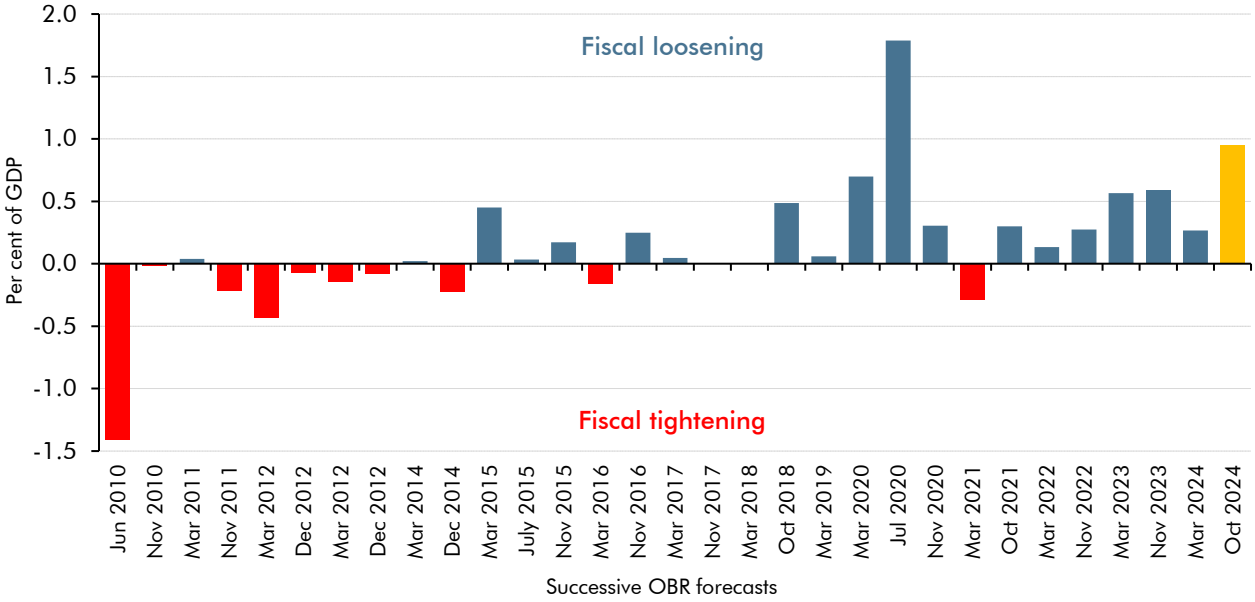
3.2 This forecast incorporates the economic and fiscal implications of policy measures that have been announced since the March 2024 Spring Budget. Policies in this Budget deliver a large and sustained increase in taxation, spending and borrowing. Policy decisions increase spending by £25 billion this year and an average of £69.5 billion (2.2 per cent of GDP) per year in the five years thereafter. Around half of this spending increase over the next five years is offset by tax policies, which increase receipts by £36.2 billion (1.1 per cent of GDP) a year on average from next year onwards. The other half of the spending increase is funded by higher borrowing, averaging £32.3 billion (1.0 per cent of GDP) over 2025-26 to 2029-30.[1]

3.3 This increase in borrowing as a result of policies is one of the largest outside of a crisis since the pre-election Budget in March 1992.[2] Chart 3.1 shows the average size of fiscal packages over the first five years at fiscal events since 2010. For this Budget, this covers the period 2024-25 to 2028-29. This shows that since 2010 the loosening in this Budget is only

[1] This policy-driven change in borrowing includes indirect effects.
[2] Prior to the late 2000s, forecasts covered shorter time horizons, making comparison of the impacts of fiscal packages less like-for-like. Prior to 2010 we compare fiscal events on the basis of the average policy-driven increase in borrowing over the forecast years.

exceeded by the set of policies that formed the initial fiscal response to the Covid pandemic in 2020.[3]

Chart 3.1: Size of fiscal policy packages since 2010



Note: This shows the total impact over the first five years of each forecast of policy decisions (including 'non-scorecard' policies and indirect effects, with the exception of the June 2010 event) on borrowing as a share of contemporaneous GDP for each fiscal event. It is based on our forecast revisions database. July 2020 reflects the Covid-related policy announcements between the March 2020 forecast and the July 2020 Summer Economic Update. The OBR did not produce a forecast alongside the September 2022 Growth Plan, so this is not included.
Source: ONS, OBR

3.4 The **spending** increase of £25.0 billion this year and £69.5 billion a year over the remainder of the forecast period (Table 3.1) includes:

- significant increases to **departmental spending** of £22.6 billion this year and an average of £64.8 billion a year thereafter. Around two-thirds of the increase is to departments day-to-day budgets (RDEL), and one third to capital spending (CDEL);
- the estimated cost of the **infected blood compensation scheme and Post Office Horizon redress schemes**, of £2.3 billion a year on average over the forecast period;
- increased resourcing for **DWP measures to target fraud and error**, which reduces spending on benefits by £1.2 billion a year; and
- tightening eligibility for **winter fuel payments**, which saves £1.6 billion a year.

3.5 **Tax decisions** raise an average of £36.2 billion a year from next year onwards. The largest tax decisions are:

[3] Excluding indirect effects or 'non scorecard' reductions in borrowing, the March 2020 Budget policy package entailed a similar increase in borrowing to that in this Budget.

- increases to **employer National Insurance contributions (NICs)**, which raises revenues by an average of £24.5 billion a year from 2025-26 onwards;

- changes to **capital taxes**, yielding an average of £5.6 billion a year. From next year changes to the capital gains tax and inheritance tax regimes respectively raise £1.7 and £1.1 billion a year on average, and further changes to the non-domiciled regime raise an average of £2.5 billion a year;

- measures to **increase compliance and reduce tax debt**, which increases receipts from next year by an average of £2.1 and £1.9 billion a year respectively; and

- charges to **VAT on private school fees**, raising £1.6 billion a year from next year.

3.6 The **indirect effects** of these decisions on the economy reduce borrowing by an average of £4.2 billion a year for the first four years of the forecast, as a result of the temporary demand stimulus from the fiscal loosening, but increase borrowing by an average of £3.9 billion in the final two years. The latter reflects the effects of the employer NICs increase on wages, employment, and profits, and additional debt interest spending as a result of higher borrowing, inflation, and interest rates. These effects are discussed in more detail below and in Chapter 2.

Table 3.1: Total effect of Government decisions since March

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Total effect of Government decisions	**19.6**	**29.0**	**27.6**	**31.4**	**37.6**	**35.9**
of which:						
Direct effect of tax decisions	-1.3	-24.7	-35.0	-39.4	-40.1	-41.5
Direct effect of spending decisions	25.0	59.6	67.4	72.9	75.8	71.6
Indirect effects of Government decisions	-4.1	-5.9	-4.8	-2.0	1.9	5.9
Direct effect of Government decisions	**23.7**	**34.8**	**32.4**	**33.4**	**35.7**	**30.1**
of which:						
Tax measures	**-1.3**	**-24.7**	**-35.0**	**-39.4**	**-40.1**	**-41.5**
of which:						
Employer NICs rise	0.0	-23.8	-23.7	-24.2	-24.9	-25.7
Capital tax measures	-0.2	-1.5	-5.7	-8.7	-6.9	-5.2
of which:						
Further non-domicile reforms	0.0	0.0	-4.0	-5.9	-2.6	-0.1
Capital gains tax regime changes	-0.1	-1.4	-1.3	-1.4	-2.2	-2.5
Inheritance tax regime changes	0.0	0.0	-0.2	-1.1	-2.0	-2.3
Other capital tax measures	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3
HMRC anti-avoidance and compliance	-0.3	-1.3	-3.3	-4.1	-4.9	-6.2
of which:						
HMRC compliance measures	0.0	-0.3	-1.7	-2.2	-2.8	-3.5
Tax debt measures	-0.3	-1.0	-1.6	-1.9	-2.1	-2.7
VAT on private schools[1]	-0.5	-1.5	-1.6	-1.6	-1.7	-1.7
Other tax measures	-0.3	3.4	-0.8	-0.9	-1.6	-2.7
Spending measures	**25.0**	**59.6**	**67.4**	**72.9**	**75.8**	**71.6**
of which:						
RDEL spending changes	22.9	38.5	42.4	45.5	48.6	48.8
CDEL spending changes	-0.3	13.2	18.9	22.3	24.1	21.6
Compensation schemes	1.8	3.7	3.1	2.0	1.6	1.4
DWP fraud and error	0.0	-0.2	-0.6	-0.8	-2.2	-3.5
Winter fuel payment	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7
Other spending measures	2.0	5.9	5.2	5.4	5.4	4.9
Indirect effects of Government decisions	**-4.1**	**-5.9**	**-4.8**	**-2.0**	**1.9**	**5.9**
of which:						
Employer NICs changes	0.0	5.5	9.1	9.0	9.3	9.6
Memo: direct effect of policies on HM Treasury's Autumn Budget 2024 policy decisions table	*24.7*	*39.6*	*35.3*	*36.6*	*38.8*	*33.0*
Memo: direct effect of policies not on HM Treasury's Autumn Budget 2024 policy decisions table	*-1.0*	*-4.7*	*-2.9*	*-3.2*	*-3.0*	*-2.9*

[1] This excludes the impact of the policy change on VAT refunds, which is neutral for borrowing and reflected in the other tax and other spending measures lines.

Note: A positive sign implies an increase in borrowing. Our online detailed scorecard contains a measure-by-measure breakdown of every line, alongside our subjective assessment of each costing's uncertainty.

Source: HM Treasury, OBR

3.7 In the following sections, we provide explanations for the most significant new policies announced in this Budget and their fiscal implications. We focus on those measures with the largest direct or indirect fiscal impacts, those with complex interactions with other policy, or those that are particularly uncertain.

Receipts measures announced in this Budget

Changes to employer NICs

3.8 The Government has announced a series of changes to employer NICs, which will take effect from April 2025 onwards. Together, these measures are estimated to yield £23.8 billion in 2025-26, growing to £25.7 billion in 2029-30, before accounting for the indirect effects of the measures and compensation to the public sector through higher RDEL budgets. These changes include:

- An **increase to the rate of employer NICs from 13.8 per cent to 15 per cent**. The static element is estimated to yield £11.8 billion a year on average.
- A **reduction to the secondary threshold**, the level at which employer NICs starts being levied on employers, from £9,100 to £5,000 a year. The threshold then rises in line with CPI inflation from 2028-29, and is projected to reach £5,200 by 2029-30. The static element is estimated to yield £17.7 billion a year on average.
- Increasing the **generosity of the employment allowance**, a relief that employers can claim on their total NICs liabilities, by raising it from £5,000 to £10,500, and removing the employment allowance threshold, meaning that all eligible employers can claim this allowance rather than just employers with liabilities below £100,000. Together, the static elements of these changes are estimated to cost £4.6 billion a year on average.

3.9 HMRC estimates that these measures combined will impact around 1.2 million employers from April 2025, with 250,000 employers gaining from the package, 940,000 losing out in net terms, and a further 820,000 employers seeing no change. This results in an average annual tax increase in excess of £800 per employee. The average employer who loses out will see their liabilities increase by around £26,000.

3.10 Table 3.2 shows the main components of the employer NICs costing:

- The **static yield of the measure in 2029-30 is £26.4 billion**. This is the amount the measure yields before accounting for behavioural responses. The tax base is all income subject to NICs from employment and is estimated using HMRC's personal tax model based on data from the 2021-22 Survey of Personal Incomes (SPI). This is projected forward using determinants from our economy forecast.
- A **direct behavioural response** to the measure which is primarily that it increases the incentive for more tax-motivated incorporations (TMIs), together with non-compliance

through increased incentives to form mini umbrella companies. We estimate TMIs will increase by a cumulative 17,000 by 2029-30 as a result of the measure. These combined effects reduce the yield by £0.7 billion by 2029-30.

3.11 The **indirect effects** of the measure in aggregate reduce the yield by £5.5 billion in 2025-26, rising to £9.6 billion in 2029-30 (36 per cent of the static costing). This results in a post-behavioural yield of £16.1 billion in 2029-30. These comprise:

- The **indirect behavioural effects of the measure on nominal and real wages, and profits.** We assume that firms pass on most but not all of their higher tax costs to employees. In 2025-26, the year it is introduced, we assume firms pass on 60 per cent of the higher costs to workers and consumers, via lower wages and higher prices, leaving 40 per cent to be absorbed by the employer in lower post-tax profits. Further adjustment takes place thereafter such that, from 2026-27 onwards, we assume, based on demand and supply elasticities for labour,[4] that 76 per cent of the total cost is passed through lower real wages, leaving 24 per cent of the cost to affect profits. Of the long-run pass-through of this cost to employees' real wages, we assume four-fifths comes through lower nominal wages and one-fifth via higher prices. The pass-through to lower nominal wages results in a £3.4 billion reduction in yield in 2025-26, rising to £7.5 billion in 2029-30 (29 per cent of the static costing).

- The **indirect effects of the measure on labour supply**, as workers and firms, respectively, reduce labour supply and demand in response to lower wages and higher employer costs. We expect the measure to reduce labour supply by around 0.2 per cent, or a little over 50,000 on an average-hours equivalent (AHE) basis, by 2029-30. This is evenly split between a reduction in employment and a reduction in hours by those who stay in work. Because not all of the rise in costs is passed on to workers, firms also reduce their demand for labour. Overall, this reduces potential output by 0.1 per cent by the end of the forecast horizon. There is also a small reduction due to higher universal credit spending as a result of lower net incomes and reduced labour supply from the measure (which increases universal credit spending by £0.4 billion in 2029-30). These effects further lower the yield of the measure by £1.1 billion (4 per cent of the static costing). We also made a small adjustment to the composition of employment to reflect that the measure will increase the tax incentives to be self-employed.

3.12 In addition, the Treasury is compensating **public sector employers** for higher tax costs due to the measure through higher RDEL budgets, which cost around one-fifth of the static yield raised by the end of the forecast period.

[4] We have used demand and supply elasticities of 0.4 and 0.125, respectively. The elasticity of demand lies within a relatively wide spectrum of empirical estimates, including the low-to-high range of -0.15 to -0.75 in Hamermesh, D., *Labor Demand: What Do We Know? What Don't We Know?*, 1991, and figures in Lichter, A., et al., *The own-wage elasticity of labor demand: A meta-regression analysis*, 2014. We used a slightly lower figure in our March 2020 analysis of the National living Wage, to reflect evidence that past minimum wage increases appeared to have had limited effects (for instance, Dube, A., *Impacts of Minimum Wages: Review of the International Evidence*, 2019). The supply elasticity of 0.125 is based on the evidence underpinning Tables A1 and A2 in OBR, *The labour supply effects of the Autumn 2023 National Insurance Contributions cut*, February 2024, and represents the net effect of income and substitution effects along the intensive and extensive margins.

Table 3.2: Costing of the rise in employer NICs

	£ billion				
	Forecast				
	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	**-23.9**	**-24.3**	**-24.7**	**-25.6**	**-26.4**
Direct behavioural response:					
Increased incorporations and mini umbrella company incentives	0.2	0.6	0.5	0.6	0.7
Post-direct-behavioural costing	**-23.8**	**-23.7**	**-24.2**	**-24.9**	**-25.7**
Indirect behavioural response:					
Reduction in wages and salaries	3.4	6.9	7.1	7.3	7.5
Reduction in profits	1.3	1.2	0.9	0.9	1.0
Reduction in employment and hours	0.5	0.6	0.6	0.6	0.7
Welfare impact	0.3	0.4	0.4	0.4	0.4
Post-indirect-behavioural costing	**-18.3**	**-14.6**	**-15.2**	**-15.7**	**-16.1**
Memo: RDEL compensation to public sector employers and adult social care	*5.5*	*5.4*	*5.6*	*5.7*	*5.9*

Source: OBR

Capital tax measures

3.13 This Budget makes several changes to capital taxes. These include increases to some rates of capital gains tax and stamp duty land tax, changes to some thresholds and allowances within inheritance tax, bringing pension benefits within the scope of inheritance tax, and further reforms to the regime for non-domiciled taxpayers. Many of these measures will affect an overlapping and relatively narrow group of taxpayers. Therefore, their costings take account of possible behavioural responses to the overall package, as well as to the individual measures, which are discussed further in Box 3.1). Many of these measures will also drive behavioural responses which change over time, so the long-term fiscal impacts may differ materially from those estimated over the medium-term forecast period. These long-term effects are analysed further in the final section of this Chapter.

Capital gains tax

3.14 The Budget makes the following major changes to the capital gains tax (CGT) regime:

- The main rates of CGT will be aligned with residential property, with a lower rate of 18 per cent and a higher rate of 24 per cent (an increase from 10 and 20 per cent), effective from the day of the Budget. From April 2025, the rate on business asset disposal relief (BADR) and investors' relief (IR) will rise from 10 per cent to 14 per cent, and from April 2026 this rate will rise again to 18 per cent.

- Carried interest refers to income received by fund executives related to the performance of a fund. This is commonly treated as a capital gain in the tax system. From April 2025 the higher rate of CGT on carried interest will increase from 28 to 32 per cent. From April 2026, carried interest will be classified as trading profits under the income tax framework at a discounted tax rate equivalent to 72.5 of income tax plus

NICs rates. This results in an effective marginal tax rate of 34.1 per cent for additional-rate payers (outside Scotland), who receive the vast majority of carried interest income.

Table 3.3: Costing of main changes to the capital gains tax regime

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	**0.0**	**-0.9**	**-3.6**	**-5.5**	**-5.9**	**-6.5**
of which:						
CGT main, BADR and IR rates	0.0	-0.9	-3.3	-4.8	-5.3	-5.9
Carried interest	0.0	0.0	-0.2	-0.7	-0.5	-0.6
Behavioural response	**-0.1**	**-0.5**	**2.3**	**4.1**	**3.7**	**4.0**
of which:						
CGT main, BADR and IR rates	-0.1	-0.5	2.1	3.5	3.2	3.5
Carried interest	0.0	0.0	0.2	0.5	0.5	0.5
Post-behavioural costing	**-0.1**	**-1.4**	**-1.3**	**-1.4**	**-2.2**	**-2.5**
of which:						
CGT main, BADR and IR rates	-0.1	-1.4	-1.3	-1.3	-2.1	-2.4
Carried interest	0.0	0.0	0.0	-0.1	-0.1	-0.1

Note: Excludes the Scottish and Welsh block grant adjustments (BGA).
Source: OBR

3.15 Together, the changes to the CGT regime raise £2.5 billion by 2029-30. Almost all of this is accounted for by the increase in the main and BADR rates of CGT, and only £0.1 billion from the change to the carried interest regime. A significant portion of this yield comes from income tax, rather than CGT, reflecting shifting of gains to income, and the classification change to carried interest.

3.16 The static costing for the increase in the main, BADR and IR rates of CGT captures the mechanical impact of the change in tax rates on the chargeable gains in scope. This grows to £5.9 billion by 2029-30 after accounting for the forestalling of disposals in our pre-measures baseline. As set out in Chapter 4, the pre-measures forecasts for capital gains tax incorporates evidence of forestalling in advance of the Budget – the bringing forward of the disposal of assets based on the possibility of policy changes at the Budget.

3.17 The behavioural response reduces this yield by around 60 per cent. We assume taxpayers may respond to the measure by deferring asset disposals ('locking in'), minimising chargeable liabilities by restructuring their affairs, or shifting some gains into income in light of the reduced wedge between tax rates. These behavioural channels are discussed further in Box 3.1. The staggered increase in the BADR rate also incentivises bringing forward qualifying disposals – we estimate this increases receipts by around £1 billion in 2025-26, and reduces them over the rest of the forecast. Accounting for these effects, the post-behavioural costing is £2.4 billion in 2029-30.

3.18 The increase in the effective tax rate charged on carried interest gains in this Budget has a static yield of £0.6 billion in the medium term. The primary behavioural response to the measure over the forecast is assumed to be the potential migration of carried interest

earners. This policy takes the UK tax rate from being roughly in the middle of the range applied to carried interest gains in other advanced economies, to a rate which is toward the upper end and similar to the rate applied in France and the Netherlands. However, there are a wide range of other factors that determine the relative attractiveness of different jurisdictions for individuals that receive carried interest returns. And there is evidence that tax rates are not the primary factor in determining location decisions of high-net worth individuals.[5] Overall, the costing assumes that around 12 per cent of carried interest earners, who account for a quarter of all carried interest gains, are at high risk of migrating within the forecast period and taking a portion of all their receipts with them. The reduction in declared gains and other tax receipts from this group reduces the yield to £0.1 billion in 2029-30. This modelling is highly uncertain as it is driven by the behaviour of a small number of high-net-worth taxpayers.

3.19 The large majority of carried interest taxpayers are assumed to remain in the UK. These taxpayers are assumed to have limited options available to respond to the tax change in the medium term, because the typical duration of private capital funds prevents restructuring for tax purposes. However, over the long term, restructuring of activity in response to the measure becomes possible which is likely to reduce the yield.

Inheritance tax

3.20 The Government has announced three changes to inheritance tax (IHT):

- From April 2026, a £1 million limit will apply jointly to the value of assets claimed under agricultural property relief (APR) and business property relief (BPR), which allow for a full exemption on IHT for qualifying agricultural land, business assets and unlisted shares. The existing full relief will apply below the £1 million threshold, and a reduced 50 per cent relief above it. BPR on AIM shares will also be reduced to 50 per cent, and will not count towards the cap on the full relief.

- From April 2027, IHT will apply to all pension wealth that is transferrable at death. In practice this affects uncrystallised defined contribution (DC) pensions, crystallised DC pensions not invested in annuities, and lump sum death benefits from defined benefit (DB) pensions.

- The freeze to the nil-rate band, at £325,000 and residence nil-rate band, at £175,000, will be extended for two more years, to 2029-30.

[5] For example, see Friedman, S., et al., *Tax flight? Britain's wealthiest and their attachment to place*, 2024.

Table 3.4: Costing of changes to the inheritance tax regime

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	**0.0**	**0.0**	**-0.3**	**-1.6**	**-3.0**	**-3.8**
of which:						
Inheritance tax on pension wealth	0.0	0.0	0.0	-0.9	-2.1	-2.6
Changes to APR and BPR	0.0	0.0	-0.3	-0.7	-0.8	-0.8
Extension to threshold freezes	0.0	0.0	0.0	0.0	-0.1	-0.4
Behavioural response	**0.0**	**0.0**	**0.1**	**0.5**	1.1	1.5
of which:						
Inheritance tax on pension wealth	0.0	0.0	0.0	0.3	0.8	1.1
Changes to APR and BPR	0.0	0.0	0.1	0.2	0.2	0.3
Extension to threshold freezes	0.0	0.0	0.0	0.0	0.0	0.1
Post-behavioural costing	**0.0**	**0.0**	**-0.2**	**-1.1**	**-2.0**	**-2.3**
of which:						
Inheritance tax on pension wealth	0.0	0.0	0.0	-0.6	-1.3	-1.5
Changes to APR and BPR	0.0	0.0	-0.2	-0.5	-0.5	-0.5
Extension to threshold freezes	0.0	0.0	0.0	0.0	-0.1	-0.4

Source: OBR

3.21 Combined, the three changes raise £2.3 billion by 2029-30. IHT on pension wealth accounts for £1.5 billion by 2029-30, with another £0.5 billion from the changes to APR and BPR. Both the static and behavioural elements of these costings are uncertain. The tax base for inheritable pension wealth – including both the additional liability faced by estates already paying IHT, and estates being brought into paying IHT by the measure – is particularly uncertain, as pensions typically sit outside the data held on death estates.

3.22 Individuals also have a wide range of tax planning options which could be used to respond to these changes, though many of these will not take effect until the long term (see the long-run impact of Government policy section of this Chapter). The costings account for a significant increase in the use of spousal exemption by married estates. For other estates, we have applied an attrition assumption, which accounts for the likelihood of individuals increasing asset disposals before death (though for pension wealth, this is likely to be difficult in the medium term),[6] making greater use of other reliefs and allowances, and increasing pension drawdowns, among various other possible behavioural channels. The costings assume that the behavioural response reduces yield by around 40 per cent in 2029-30.

3.23 The costings of these measures are unlikely to reach a steady state for at least 20 years – with attrition likely to grow over that period, offset by growth in the tax base of inheritable pension wealth. Deaths during the medium-term forecast period will be more weighted towards those who crystallised DC pensions prior to the 2015 pensions flexibility reforms, and purchased non-inheritable annuities, but over the longer term the weighting will shift toward those who crystallised pensions after the 2015 reforms.

[6] Where assets qualify for APR or BPR, even if an estate is above the new shared cap, it is likely that the effective IHT tax rate (20 per cent) is below that for CGT, therefore there would still be a tax benefit from holding assets to death. In addition, for all assets inheritors may take advantage of CGT rebasing on death to minimise their personal tax liability.

Further reforms to the non-domicile regime

3.24 In March 2024, the previous Government announced that the current 'remittance basis' tax treatment for non-domiciled UK residents would be abolished and replaced with a new regime from April 2025. To be eligible for the new regime requires having been non-resident in the UK for at least ten years, and is only available for first four years after becoming tax resident. Those eligible are exempt from paying UK tax on foreign income and gains (FIG) whether or not it is remitted to the UK.

3.25 Those ineligible for the new regime will be subject to UK taxation at the marginal rate on all newly arising FIG. These individuals were offered three transitional protections: only 50 per cent of foreign income arising in 2025-26 would be tax liable; offshore capital gains would be rebased to 2019 prices; and a Temporary Repatriation Facility (TRF) from 2025-26 to 2026-27 would allow them to bring offshore FIG that was 'stockpiled' prior to April 2025 to the UK at a discounted 12 per cent tax rate.

3.26 In this Budget the Government has announced changes to this regime, particularly around these transitional protections for those ineligible for the new regime:

- The 50 per cent reduction in tax on foreign income arising in 2025-26 will no longer be introduced.
- Offshore capital gains will be rebased to 2017, rather than 2019, prices.
- The TRF will operate on a 'designation' basis, meaning individuals can pay the discounted tax charge upfront, without needing to onshore stockpiled FIG to the UK at the same time. FIG arising from offshore trusts and undeclared FIG already in the UK (via the existing Business Investment Relief) will be eligible for the TRF. And the TRF will be extended for a further year, to 2027-28, at a higher 15 per cent tax rate.
- Overseas workday relief, only available to those eligible for the new regime, will be extended from three to four years, but with an annual cap on employment income of the lower of £300,000 or 30 per cent of total income.

3.27 The current regime for non-domiciled taxpayers only levies IHT on assets located in the UK. This was unchanged by the reforms announced in March 2024. The Government has now announced that, alongside the movement to a residence-based tax treatment of FIG, a residence-based regime will also apply to IHT from April 2025. The key features are:

- For deaths after April 2025, the basic test for whether the estate of a previously non-domiciled individual is liable for IHT will be whether the individual was resident in the UK for at least ten of the last twenty years, with these individuals remaining in scope for IHT charges for up to ten years of non-residence.

- Offshore assets in excluded property trusts (EPTs) will be in scope of IHT, and treated in line with other trusts, subject to up to a six per cent charge on ten-year anniversaries (often prorated) or when assets exit the trust.

- Individually held offshore assets by those who do not pass the non-residency test will be subject to IHT at 40 per cent, as well as any relevant reliefs. In practice this creates a new tax liability for the estates of non-domiciled but UK resident individuals, and removes a liability from UK-domiciled but non-UK resident estates.

Table 3.5: Costing of further reforms to the non-domicile regime

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	**0.0**	**0.0**	**-4.7**	**0.2**	**-0.5**	**-0.8**
of which:						
Foreign income and gains	0.0	0.0	-4.6	0.4	-0.2	-0.4
Temporary Repatriation Facility	0.0	0.0	0.0	0.0	0.0	0.0
Inheritance tax	0.0	0.0	-0.1	-0.2	-0.3	-0.3
Behavioural response	**0.0**	**0.0**	**0.7**	**-6.1**	**-2.1**	**0.7**
of which:						
Foreign income and gains	0.0	0.0	2.3	0.2	0.4	0.5
Temporary Repatriation Facility	0.0	0.0	-1.6	-6.4	-2.6	0.0
Inheritance tax	0.0	0.0	0.0	0.1	0.1	0.2
Post-behavioural costing	**0.0**	**0.0**	**-4.0**	**-5.9**	**-2.6**	**-0.1**
of which:						
Foreign income and gains	0.0	0.0	-2.3	0.5	0.2	0.1
Temporary Repatriation Facility	0.0	0.0	-1.6	-6.4	-2.6	0.0
Inheritance tax	0.0	0.0	-0.1	-0.1	-0.1	-0.2

Note: Excludes the Scottish and Welsh BGA. The static costing of the Temporary Repatriation Facility is zero because it raises revenue through take-up by former remittance basis users.
Source: OBR

3.28 Table 3.5 sets out the estimated costing of the new reforms announced at this Budget, broken down by receipts from the TRF (currently classified under other income tax), FIG (classified mainly under income tax and CGT), and IHT. This is net of the re-costing of the March 2024 reforms which increased the estimated yield significantly as explained in paragraph 3.56). The key behavioural judgements underpinning this costing are:

- We have assumed that the new reforms will slightly increase migration relative to the March reforms. The costing now assumes that 12 per cent of non-domiciled taxpayers without trusts ineligible for the new regime will migrate in response to the measure, up from 10 per cent, and 25 per cent of those with trusts, up from 20 per cent. This upward revision reflects the additional tax liabilities as a result of the changes to the transitional protections, the new IHT regime and the salience of IHT as a tax, and the impact of the wider package of capital taxes in this Budget (see Box 3.1). These factors are weighed against the increased generosity of the updated TRF.

- The assumed use of tax planning is unchanged from the March reforms, and scales down the yield outside the TRF by 30 per cent.

- The assumed take-up for the TRF by individuals has been increased compared to March. This is driven by the relative attractiveness of the 'designation' basis, which decouples the payment of the tax charge from the onshoring of income and gains, offering several potential advantages.[7] However, it is only likely to be advantageous to use the designation basis if there is a firm intention on the part of a non-domiciled individual to maintain a presence in the UK. The tax base for the TRF remains highly uncertain but is likely to be significantly larger than estimated in March, as it now incorporates offshore trusts and previously remitted but untaxed income and gains.

3.29 Relative to the policy announced in March 2024, the further reforms are estimated to raise an average of £4.2 billion between 2026-27 and 2028-29, and £0.1 billion in 2029-30. Almost all the additional yield comes from the updates to the TRF which raise £10.6 billion over its three years of operation, while the removal of the 50 per cent reduction to income tax on FIG raises a further £2.3 billion in 2026-27. The residence-based IHT regime raises a small, but growing, amount over the forecast, reaching £0.2 billion by 2029-30 – this is predominantly driven by charges on trusts, as only a very small number of estates face an IHT liability on individually held offshore assets.

3.30 This measure, alongside the original reforms, remain highly uncertain, with significant uncertainty around the size of the tax base and the behavioural response which is contingent on decisions made by a relatively small number of wealthy individuals. It is also unclear to what extent inflows to the TRF are additional over the long term, rather than bringing forward disposals that would otherwise have been made and paid at the full rate of CGT or income tax (see paragraph 3.73).

[7] For example, designating income and gains up to April 2025 but not onshoring them at the same time may allow for further gains to accumulate on an investment before onshoring at a preferable point in future, facilitate inflows to the UK that could not have occurred during the window the TRF is open due to liquidity issues, or enable more flexible future drawdown on a pre-designated stock of income and gains for lifestyle reasons.

Box 3.1: Behavioural responses to capital tax measures

The capital tax measures announced in this Budget affect an overlapping set of taxpayers and tax bases. Together these measures are expected to raise £5.2 billion by the end of the decade, mainly across capital gains tax (CGT), inheritance tax (IHT) and income tax (IT). These costings are among the most uncertain in the policy package, reflecting the range of potential behavioural responses, the sensitivity of the yield to the decisions of a small number of high net-worth individuals, and interactions across measures.

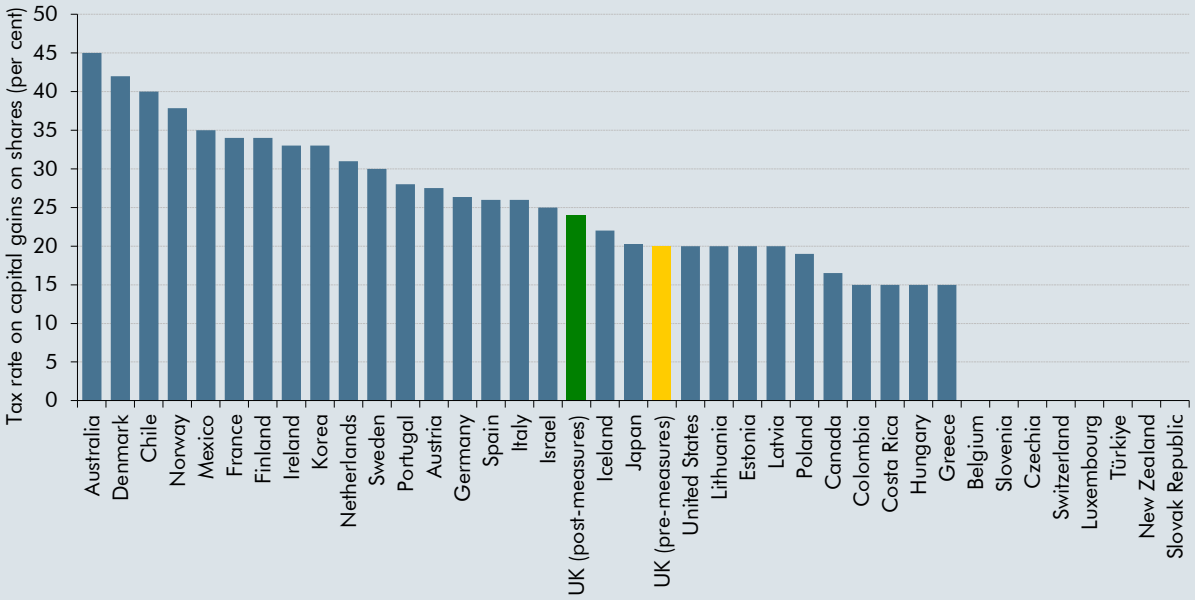
Costings of tax measures produced by HMRC always account for material behavioural responses by individuals or businesses, and we also assess any indirect effects on the wider economy.[a] These responses are typically captured through the use of elasticities, which estimate the extent of the change in behaviour with respect to a change in either the tax rate or the share of gains an individual retains after a disposal or transaction, or parameters applying to specific behavioural channels. Broadly speaking, individuals can respond to an increase in a capital tax liability through:

- **Changing the timing of asset disposals or transactions**, either by forestalling (bringing activity forward) while conditions remain favourable, or 'locking in' (delaying) based on a belief that conditions will be more favourable in future, or even until death, to allow inheritors to benefit from capital gains rebasing.
- **Shifting between different assets, or between gains and income**, to take advantage of differences in effective tax rates. Individuals may also choose to run down their assets, in effect converting them to cash to be gifted or spent, in response to a higher IHT liability.
- **Tax planning** to reduce the effective tax rate faced, through use of reliefs, gifts, or specific vehicles with a more favourable tax treatment.
- **Migration**, either becoming non-UK resident for tax purposes, or diverting some or all activity to jurisdictions where the tax liability is lower.
- **Non-compliance**, by non-payment, misreporting or underreporting of chargeable assets, gains or income.

Forestalling typically takes place when individuals have time to respond to a known change in a tax rate. This is incentivised by the staggered increase to the BADR rate announced in this Budget, but not possible for the increase in main CGT rates as it takes effect on the day of the Budget.[b] Shifting between asset classes, or between gains and income, is generally motivated by changes in relative tax rates. For example, higher main CGT rates reduce the attractiveness of structuring earnings as gains rather than income, while aligning the main rates of CGT with residential property discourages transfers across asset classes.

Migration in response to changes in capital taxes is more likely where the tax base is wealthy and internationally mobile, and where measures reduce the relative attractiveness of the UK as a jurisdiction. As such, we assume migration is not a significant factor in the response to the increase in the higher main rate of CGT at this Budget, as the headline rate in the UK remains among the middle of advanced economies (see Chart A).

Chart A: Highest marginal capital gains tax rates on shares by country



Note: This chart shows the highest marginal combined national and state capital gains tax rate on shares faced by individuals, based on analysis conducted by Tax Policy Associates in February 2024. In practice, the effective marginal rate may vary depending on specific national and state rules, exemptions, and reliefs, holding periods and other local factors. Some jurisdictions do not levy capital gains tax on shares.
Source: Tax Policy Associates, OBR

However, migration is assumed to be a significant behavioural response for non-domiciled taxpayers (as it was for the original reforms in March 2024) and for carried interest earners (where, as discussed in paragraph 3.18, the new effective tax rate is among the upper end of advanced economies). This is influenced both by these policy changes taken in isolation and the wider impacts of the capital tax package. The full package is assumed to increase migration by both these groups by a small amount in addition to the specific effects of the non-domicile and carried interest reforms, driven largely by the increase to the main CGT rates and increased IHT liabilities.

[a] Our approach to policy costings is set out in our *Briefing paper No. 6: Policy costings and our forecast*, March 2014.
[b] The pre-measures CGT forecast assumes some forestalling before the day of the Budget.

Other receipts measures

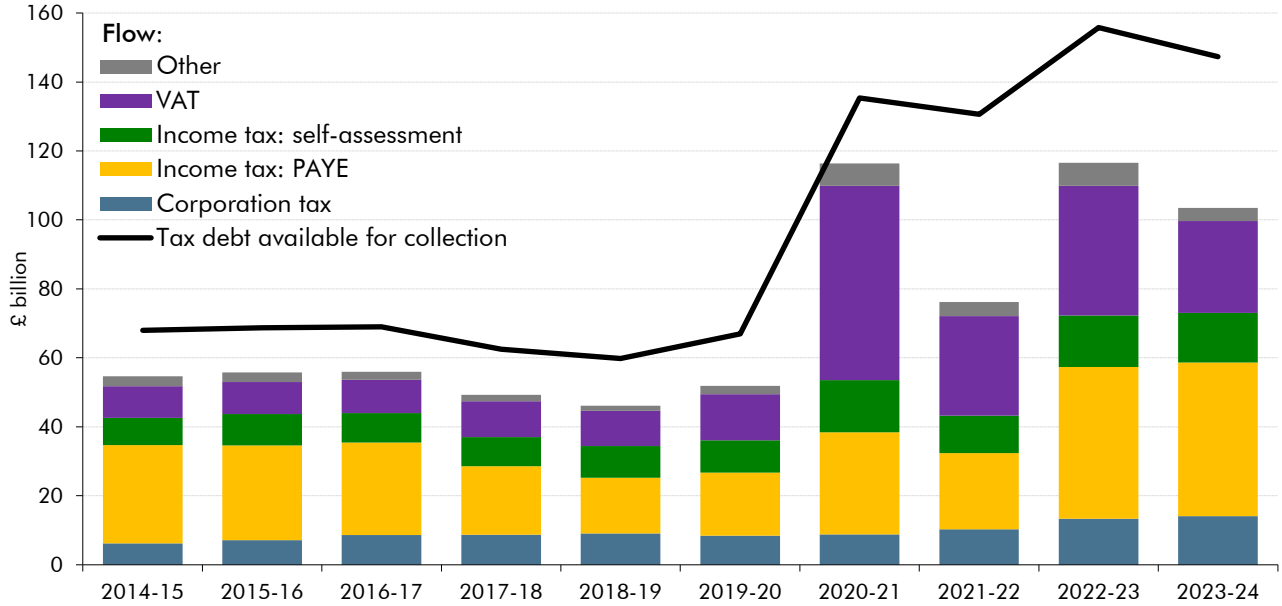
HMRC compliance and debt collection

3.31 The Government has announced a further set of HMRC compliance and debt collection measures in this Budget. These measures are targeted at the recent growth in tax debt and at reducing the overall tax gap through improving compliance activity.

3.32 HMRC tax debt rose sharply during the pandemic and has remained high since. In 2023-24, the flow of tax debt stood at £104 billion, double the pre-pandemic average (Chart 3.2), with the stock of debt available for collection reaching £147 billion. As debt ages, the chance of write-offs increases so the new flow of debt is more important for estimating the yield from debt collection measures. The baseline forecast assumes the flow of tax debt

returns toward the longer-term trend as the economy recovers. In estimating the yield from new debt collection measures we also account for the expected yield from debt collection measures announced in previous events, most notably in Spring Budget 2024 and Autumn Statement 2023 which together we expected to collect almost £2 billion of debt per year.

Chart 3.2: HMRC tax debt available for collection



Source: HMRC

3.33 The overall degree of tax compliance is measured by the tax gap – the difference between the amount of tax that should be paid in theory and what is actually paid – which was estimated to be 4.8 per cent of theoretical liabilities in 2022-23. As set out in Box 3.1 in the March 2024 *Economic and fiscal outlook* (*EFO*), the tax gap has fallen steadily over the last couple of decades from 7.4 per cent in 2005-06. This is likely to reflect previous HMRC compliance activity as well as wider economic factors such as the reduction in the use of cash, which reduces opportunities for VAT non-compliance in particular. However, the tax gap has remained broadly flat since 2017-18 and in our forecast we implicitly assume this trend will continue, aside from the impact of specific compliance measures.

3.34 The main new tax debt and compliance measures in this Budget include:

- **Hiring an additional 5,000 HMRC compliance officers by 2029-30**, representing the recruitment of additional 1,000 officers per year from November 2024 and equivalent to an 18 per cent increase to HMRC's compliance headcount. It is estimated to raise £2.7 billion in 2029-30. The estimate is based on a detailed evaluation of the revenue raised by previous increases in compliance staff. This has been adjusted to reflect factors such as likely delays in recruiting significant numbers of additional staff, an assumption that new staff will have lower productivity for a period relative to existing staff, and broader diminishing returns as the nature of compliance activity inevitably changes. Nevertheless, this costing is still subject to significant uncertainty and we will

evaluate its performance over time and make adjustments to expected yield through our baseline tax forecast where necessary.

- **Retaining and hiring additional HMRC debt collectors**. This measure extends the funding for two previous debt spend-to-raise measures, retaining 500 and 700 debt collectors respectively. This measure also hires an additional 600 debt collectors starting from April 2026. Together by 2029-30, there will be an additional 1,800 HMRC debt collectors as a result of this measure which is estimated to raise £2.0 billion. This estimate is based on an evaluation of the marginal yield gained per debt collector using data from previous measures. This is adjusted to reflect that additional debt collectors will face diminishing returns and so have a lower marginal yield than existing staff, and that over time outstanding debt will become more difficult to collect.

- **Reforming the umbrella company market**. This measure makes recruitment agencies legally responsible for operating PAYE on payments made to workers who are employed through an intermediary umbrella company. This measure is estimated to raise £0.5 billion in 2029-30 though this is highly uncertain given challenges in estimating the extent of fraudulent market activity, the potential increased incentives to form umbrella companies due to this Budget's changes to employer NICs, and the potential for umbrella companies to restructure their activities in response to the measure. The costing assumes the measures effectiveness will fall substantially across the forecast period for this reason, with estimated revenue falling from £0.9 billion in 2026-27 when the measure is first introduced.

- **Other measures** yielding £1.3 billion in 2029-30, including a 1.5 percentage point increase to the interest rate on tax debts, replacing and modernising HMRC's IT systems, and several measures which tackle loopholes such as bringing employee car ownership schemes into the scope of company car tax. The interactions between measures within the debt and compliance packages have been captured by adjusting the tax bases to capture the reduced revenue available to collect as a result of measures targeting the same customer group.

3.35 The measures which increase the numbers of HMRC compliance and debt officers require significant additional DEL funding across the forecast period. As HMRC's full DEL settlement has not been agreed beyond 2025-26, consistent with our approach in previous *EFO*s we requested additional information from the Government to satisfy ourselves that these scorecard measures would be truly additional to the baseline activity. We also asked the Treasury to provide assurances that HMRC would receive the funding necessary to achieve the baseline compliance activity implicit in our forecast. The Treasury has provided this assurance and the funding provision is set out in Table 3.6.

Table 3.6: DEL costs for HMRC baseline and policy compliance

	£ million				
	2025-26	2026-27	2027-28	2028-29	2029-30
Baseline compliance funding	1,385	1,476	1,550	1,659	1,793
Baseline debt funding	138	155	170	182	169
Additional compliance funding	136	237	334	394	434
Additional debt funding	54	81	85	95	111
Cost of total HMRC measures	**1,713**	**1,949**	**2,139**	**2,330**	**2,507**

Source: HM Treasury

VAT on private school fees

3.36 On 29 July 2024, the Chancellor announced plans to introduce VAT on independent school fees at the standard rate of 20 per cent. This will be effective for school terms commencing after 1 January 2025, and include early payments made after the date of announcement. This is estimated to raise £1.7 billion in 2029-30.

3.37 We estimate the policy will apply to the around 600,000 private school pupils in the UK and that the effective VAT rate applied will be 15.4 per cent, less than the standard rate as some input costs will be recovered. Overall, we estimate that around two-thirds of the cost is passed on through higher fees, just less than a quarter is reflected in reduced service provision, and the remainder is absorbed through cost efficiencies and from profits.

3.38 The main uncertainty in the costing is the impact of the measure on the number of students attending private schools. There is limited evidence on how responsive demand for private school places will be to this increase in fees and lower service provision. We have used an estimated price elasticity of demand of 0.5 which is the higher end of the range estimated in an assessment by the Institute for Fiscal Studies.[8] Use of the higher end recognises that some other studies conclude the behavioural response could be higher, though these mainly consider private school demand in the US and therefore are less applicable to the UK. We assume that the elasticity will be lower for existing students, as parents will be more reluctant to disrupt their education, than for prospective future new students. Overall, the costing estimates that as a result of the policy in the steady state there will be around 35,000 (6 per cent) fewer private school pupils, reflecting both leavers and, primarily, fewer new joiners.

3.39 The costing of this measure does not directly include any additional government spending for the cost of educating pupils who move to the state sector. Such costs would be included in spending allocations made by the government at spending reviews. However, the cost of 35,000 additional state sector pupils would be around £0.3 billion, based on a £7,690 per pupil cost in England.[9] The actual additional cost to the Government would depend on a wider set of factors. These include overall trends in total pupil numbers and the ability of state schools to absorb additional pupils from the private sector, which is likely to vary across regions. The changes could also affect costs to local authorities related to the

[8] Institute for Fiscal Studies, *Tax, private school fees and state school spending,* July 2023.
[9] £7,690 is the 2024-25 per-pupil funding allocated to schools for 5-16 year olds. See Department for Education, *School funding statistics,* January 2024.

provision of education for pupils with Education, Health and Care Plans. We discuss pressures on local government in more detail in Chapter 5.

Energy profits levy

3.40 The Government has announced changes to the current energy profits levy (EPL) regime, including extending the levy for another year to 2029-30, increasing the rate by 3 percentage points and removing the EPL's investment allowance for all expenditure except in relation to decarbonisation (for which the allowance has been reduced to 66 per cent). These changes will come into effect on 1 November 2024 and add an average of £0.3 billion a year between 2025-26 and 2028-29. They are then expected to raise almost £1 billion in 2029-30 as a result of the one-year extension.

3.41 The estimated cost of this policy is uncertain given the volatility of oil and gas prices and the policy's impact on firms' decisions around capital expenditure and production, which would both be expected to fall as a result of this policy. Our pre-measures forecast for North Sea production and investment had in effect anticipated some of these behavioural impacts as a result of uncertainties around the licencing regime and ongoing legal cases, and the costing incorporates further reductions in both. Overall, on average, we assume that over the forecast period capital expenditure is 26 per cent lower, oil production 6.3 per cent lower, and gas production 9.2 per cent lower compared to our March forecast.

Spending measures announced in this Budget

3.42 In this Budget, the Government has fixed detailed nominal spending limits for departments for 2024-25 and 2025-26, and set revised assumptions for growth in total departmental spending thereafter. The Government has stated that in 2025 it will set a full three-year spending review for the years 2026-27 to 2028-29. Other substantial spending policy decisions are the compensation schemes for infected blood and the Post Office, measures to reduce benefit fraud and error, and the change to eligibility for the winter fuel payment.

Changes to departmental resource spending

3.43 RDEL covers day-to-day central government spending on public services, grants and administration. The Government's revised spending limits for 2024-25 and 2025-26 and assumptions thereafter imply that RDEL is £22.9 billion higher in 2024-25 and £48.8 billion higher in 2029-30, compared to our March 2024 forecast. We discuss departmental spending in more detail in Chapter 5.

Changes to departmental capital spending

3.44 The Government's revised spending limits for 2024-25 and 2025-26 and assumptions thereafter imply that CDEL is broadly unchanged in 2024-25, but £21.6 billion higher in 2029-30 than in our March forecast. This almost entirely relates to the departmental capital settlements for 2024-25 and 2025-26 and the updated spending assumption for future years. The economic impacts of the increase in CDEL are discussed from paragraph 3.70.

Compensation schemes

3.45 The Government has announced funding in this Budget for the infected blood compensation scheme which is estimated to cost an average of £2.0 billion a year on average, and for the Post Office Horizon redress schemes,[10] which are estimated to cost an average of £0.4 billion a year on average between 2024-25 and 2027-28. These estimates have been produced based on evidence and assumptions from the bodies administering the schemes (the Infected Blood Compensation Authority, the Department for Business and Trade, and Post Office Limited). They are subject to uncertainty around the number of claimants for each scheme, the average amount awarded, and the timing of payments. The Government has introduced separate measures that exempt these payments from tax.

DWP fraud and error

3.46 The Government has announced a package of measures with additional funding for the Department for Work and Pensions (DWP) to further address fraud and error in the welfare system. Altogether, we estimate these measures will save £3.5 billion by 2029-30. These measures include:

- **Extending Targeted Case Review activity** by two years to 2029-30. This measure, announced at Spring Statement 2022 and extended at Autumn Statement 2022, was due to end in 2027-28. Its extension is estimated to save £2.5 billion by 2029-30.

- **Hiring an additional 3,000 staff** to expand DWP's Fraud, Error and Debt (FED) operations. They plan to recruit roughly two-thirds of additional staff in 2025-26 and the remainder over the following two years. This measure will increase total FED staff by a third to around 12,000. We have assumed diminishing returns to savings for the additional staff compared to current operations. We estimate this measure will save £0.7 billion by 2029-30.

- Mandating **periodic redeclaration of circumstances** for universal credit claimants from April 2025. The majority of fraud and error costs come from existing claimants not disclosing changes in their circumstances that affect their entitlement. Therefore, making all claimants update their circumstances every six months should reduce this. We expect this measure to save £0.2 billion in 2029-30.

- Improved **debt recovery powers** to help DWP recover overpayments from debtors that are not engaging in repayment from Autumn 2026. DWP will have the power to recover money directly from debtors' bank accounts. We expect this to increase recoveries by £0.3 billion in 2029-30, though the effectiveness of these powers is highly uncertain.

3.47 These additional DWP measures will require additional DEL funding across the forecast period. As DWP's full DEL settlement has not been agreed beyond 2025-26, we requested

[10] This policy measure includes funding for the Horizon Convictions Redress Scheme, the Group Litigation Order Redress Scheme, the Horizon Shortfall Scheme and the Overturned Convictions Redress Scheme.

additional information from the Government to satisfy ourselves that these scorecard measures would be truly additional to the baseline activity. We also asked the Treasury to provide assurances that DWP would receive the funding necessary to achieve the baseline compliance activity implicit in our forecast. The Treasury has provided this assurance and confirmed the funding profile set out in Table 3.7 will be provided, which DWP has confirmed will be sufficient both for baseline and additional activity.

Table 3.7: DEL costs for baseline and policy DWP fraud and error activity

	£ million				
	2025-26	2026-27	2027-28	2028-29	2029-30
Baseline DWP fraud and error funding	856	871	887	904	922
Additional DWP fraud and error funding	110	173	177	180	184
DWP fraud and error funding	**966**	**1,044**	**1,064**	**1,084**	**1,106**

Source: DWP, HM Treasury

Winter fuel payment

3.48 On 29 July, the Government announced the end to universal eligibility of winter fuel payments for pensioners, largely restricting it to pension credit claimants. This will impact 9.2 million pensioners, with an average loss of £170 a year and it results in a saving of £1.3 billion in 2024-25, rising to £1.5 billion in 2029-30.[11] Due to this reduction in generosity, the measure is expected to result in an increase in pension credit take-up. We estimate an increase of 5 percentage points in take-up, which reduces the overall saving by £0.3 billion in 2024-25, from £1.6 billion to £1.3 billion, but there is significant uncertainty around this element of the costing.

Balance sheet measures

3.49 The Government has announced that the UK Infrastructure Bank is becoming the National Wealth Fund, with an expanded remit and £5.8 billion of additional capitalisation for lending and investment. This reduces borrowing by a small amount over the forecast, as interest income from lending activity is greater than expected loan write-offs, and adds increasing amounts to debt (see Chapter 6 and Annex B for more information).

3.50 The Government has also announced that the investment reserve to the Mineworkers' pension scheme will transferred to the trustees, and then be paid out as additional bonus pension to scheme members. This raises public sector net financial liabilities by £1.8 billion, reflecting the increased liabilities of the scheme, and has a small upward impact on borrowing from the accounting treatment of the greater stock of pension liabilities.

[11] This excludes changes to the block grant adjustment as a consequence of this measure, which are included in Table 3.1.

Measures with highly uncertain costings

3.51 We assign an uncertainty rating to all certified policy costings.[12] The measures that we have given a 'high' or 'very high' uncertainty ratings are set out in Table 3.8.

Table 3.8: Costings of measures with high degrees of uncertainty

		£ million						
	Head	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Uncertainty
Further non-domicile reforms	Tax	0	2	-4,168	-5,896	-2,543	-97	Very high
Infected blood compensation scheme	Spend	1,080	2,925	2,830	2,000	1,570	1,410	High
CGT rate rises	Tax	-88	-1,440	-1,372	-1,350	-2,179	-2,491	High
IHT on pension wealth	Tax	0	0	0	-640	-1,342	-1,458	Very high
CTG: umbrella company reforms	Tax	0	-77	-893	-738	-634	-502	High
Energy profits levy[1]	Tax	-193	-471	-222	-51	-411	-953	High
Changes to IHT APR and BPR	Tax	0	0	-231	-493	-522	-521	High
Horizon redress scheme	Spend	768	726	249	9	0	0	High
F&E: redeclaration of circumstances	Spend	0	-103	-226	-227	-236	-248	High
CTG: IT systems upgrade	Tax	1	-6	-33	-82	-203	-338	Very high
Tobacco duty	Tax	-38	-86	-97	-122	-144	-165	High
Carried interest changes	Tax	0	0	6	-142	-78	-86	Very high
Close company shareholders anti-avoidance	Tax	-7	-10	-7	-5	-5	-5	High

Note: A positive sign implies an increase in borrowing. See our online detailed scorecard for the full, measure-by-measure breakdown of every costing.

[1] This also includes the impacts of tax relief for payments made by oil and gas companies into a CCUS Decommissioning Fund. These impacts cannot be disaggregated for taxpayer confidentiality reasons.

3.52 Those highly uncertain measures that are not discussed in detail above are:

- Replacing and modernising HMRC IT systems to increase productivity in the debt management process. This raises £0.3 billion in 2029-30 and is highly uncertain due to the possibility of delays in the build of new IT systems and uncertainty in the estimates of how time savings translate into additional yield.

- The close company shareholders anti-avoidance measure removes a loophole in anti-avoidance legislation. This seeks to prevent shareholders from extracting value from companies in forms that would avoid taxation.

- From 30 October, duty will rise by 10 percentage points for hand rolled tobacco (HRT). This is a one-off increase that is in addition to the re-stated policy of increasing rates in line with RPI plus 2 percentage points. The main uncertainty in the costing related to the behavioural response, which includes the fall in HRT consumption, as well as switching to related products such as cigarettes and vapes, and the incentive to turn to the illicit market.

[12] See our online *Policy costings uncertainty ratings database*.

Measures not in HM Treasury's policy decisions table

3.53 Our forecasts include the effect of several policy decisions or related impacts that the Treasury has chosen not to present on its policy table. The net effect of these is shown in the memo line in Table 3.1 and can be explained almost entirely by two components:[13]

- Our assumptions regarding underspending relative to additional departmental spending (which we discuss further in Chapter 5); and
- The impact of changes to departmental spending at main estimates, which increases departmental spending by £0.3 billion.

Classification treatment of new policies

3.54 In this Budget the government has incorporated several new transactions and introduced a number of new bodies. On the advice of Treasury classification experts and pending an ONS decision on classification we are recording:

- Receipts under the Temporary Repatriation Facility as taxes on income and wealth, for the time being under other income tax, but likely to be recorded as a new, temporary self-assessed tax head.
- Payments related to the infected blood compensation scheme and Horizon redress schemes as capital transfers.
- Transfers to Ukraine and from the EU under Extraordinary Revenue Acceleration as capital transfers.
- Changes in obligations to members of the Mineworkers' pension scheme as valuation changes impacting public sector net financial liabilities but not public sector net borrowing (PSNB) directly.
- The National Wealth Fund as a central government body like its predecessor the UK Infrastructure Bank.

Update on previous measures

3.55 We cannot review and re-cost all previous measures at each fiscal event, but we do look at those where the original (or revised) costings seem to be under- or over-performing, and costings that were identified as particularly uncertain.

[13] A measure-by-measure breakdown of the costing of each is available in our online supplementary scorecard.

Re-costings

3.56 The March 2024 costing of the **original reform to the regime for non-domiciled individuals** has been updated to account for the latest information on the stock of non-domiciled individuals and for modelling improvements around the tax base for the Temporary Repatriation Facility. These changes have increased the yield from the policy by around £1.6 billion on average from 2026-27. An upward revision to the forecast for world equity prices, based on outturn data, adds a further £0.8 billion on average over the same period. These changes underline the uncertainty around the costings of these reforms. Combined, the March and October reforms to the non-domicile regime are estimated to raise £4.5 billion in 2029-30, mainly from CGT and IT on foreign income and gains, and a small but growing amount from IHT.

3.57 The **Normal Minimum Pension Age (NMPA) is being increased from 55 to 57 in April 2028**. This Budget is the first event at which this measure is included within the forecast period. Retiring below the NMPA usually leads to an unauthorised charge being incurred on any pension withdrawals made. The costing assumes people will avoid paying this charge: in the long term by retiring later, and in the short-term by bringing forward their pension withdrawals to before April 2028. This short-term behaviour leads the policy to reduce receipts by an average of £0.1 billion per year between 2027-28 and 2029-30, as earlier retirements mean fewer hours worked, and therefore lower income tax and NICs receipts. In the longer term, however, this policy is likely to increase revenue by increasing labour force participation as future cohorts aged 55 and 56 retire later.

3.58 There have been several **large changes to personal tax rates and thresholds in recent Budgets**. Table 3.9 sets out the latest estimates of the combined impacts from these measures. These changes include:

- Existing changes to income tax and NICs thresholds that have been announced since March 2021 onwards are estimated to increase yield by £48.0 billion in 2029-30. This is an average increase of £3.1 billion a year from our March 2024 forecast. From 2027-28 onwards, there are now expected to be over four million extra taxpayers brought into tax as a result of these threshold freezes, meaning that the number of taxpayers is expected to surpass 40 million.

- Cuts to the employee and self-employed NICs rates made at Spring Budget 2024 and Autumn Statement 2023 have also been revised, costing £22.7 billion in 2029-30. The estimated cost has increased by £1.4 billion since March.

3.59 Table 3.9 shows the latest costs of these personal tax measures and the yield from the changes to employer NICs at this event (excluding the indirect impact on behaviours). Taken together, the net effect of changes to income tax and NICs over the last four years and at this event is to increase tax receipts by £51.0 billion by 2029-30. The tax reductions from the NICs measures at Spring 2024 and Autumn 2023 are more than offset by the tax increases from changes to Employer NICs at this event.

Table 3.9: Latest costings of personal tax measures

	£ billion						
	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Existing changes to thresholds	**-11.5**	**-26.7**	**-32.7**	**-39.0**	**-45.0**	**-46.7**	**-48.0**
of which:							
PA and HRT freezes	-13.2	-23.3	-27.6	-31.8	-36.0	-37.5	-38.6
Additional rate threshold: reduction	-0.5	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0
NICs: rise in primary threshold	5.4	3.1	2.3	2.4	2.5	2.6	2.7
Class 2 NICs: threshold rise	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Class 1 NICs: threshold freezes	-3.4	-5.8	-6.6	-8.8	-10.7	-10.9	-11.2
Existing rate changes	**2.4**	**20.7**	**21.2**	**21.2**	**21.6**	**22.1**	**22.7**
of which:							
Autumn Statement 2023 NICs reduction	2.4	10.0	10.3	10.3	10.4	10.7	10.9
Spring Budget 2024 NICs reduction	0.0	10.7	10.9	11.0	11.2	11.5	11.7
Autumn Budget 2024 changes	**0.0**	**0.0**	**-23.8**	**-23.7**	**-24.2**	**-24.9**	**-25.7**
Net impact on receipts	**-9.1**	**-6.0**	**-35.2**	**-41.5**	**-47.6**	**-49.5**	**-51.0**

Note: A positive sign implies an increase in borrowing.
Source: OBR

Box 3.2: Monitoring and evaluating the supply-side effects of policy measures

The OBR, the Treasury, HMRC, DWP, DfE and DHSC have established a set of monitoring and evaluation arrangements for the 13 policies for which impacts have been explicitly incorporated in our potential output forecast as indirect effects since the Spring Budget 2023.[a] We use this to assess how implementation, delivery, and new evidence on policy effects align with our original judgements for indirect effects across the forecast horizon, and potentially make adjustments in future forecasts. This is similar to the approach we have used for some time to evaluate and re-cost the fiscal impacts of major policies, and will help inform our approach to assess the supply-side impacts of other policies in the future.

Monitoring of policy implementation

Monitoring of the delivery of these policies to the timetable assumed in our forecasts suggests that most of the more significant labour supply reforms are on track for delivery at this early stage. However, there are potential risks to the delivery of the following policies:

- Although the first phase of the policy announced in March 2023 to offer **30 hours a week of free childcare for working parents** has concluded successfully and rollout remains on track, we continue to closely monitor the delivery of the policy, as, looking ahead, there is a risk of a shortfall in the supply of funded places and staff for the September 2025 expansion, which will be the largest one yet.
- Initial monitoring information suggests that the take-up of the policy announced in March 2024 to **raise the High Income Child Benefit Charge (HICBC) threshold** has been somewhat lower than expected among some population subgroups, but its current profile is not inconsistent with the expected economic impacts.

- The consultation for the reforms to the **Work Capability Assessment (WCA)**, announced in November 2023, is under judicial review, which could cause delays to implementation.

Further, there are three policies for which implementation looks to be clearly behind schedule or low take-up poses a serious risk:

- The rollout of **Universal Support** was paused due to the elections and timelines are being re-worked, which will slow down its labour market impacts.
- The rate of appointments offered under the policy announced in March 2023 **to strengthen conditionality for parents and carers of one- and two-year-olds claiming Universal Credit** is still well below the original policy assumptions and so is the eligible caseload for this policy relative to our initial assumptions.
- And, so far, almost none of the *extra* take-up that we had assumed as a result of the March 2023 **addressing upfront childcare costs in universal credit** measure has materialised since its implementation.

To reflect the crystallisation of these downside risks to the implementation of these policies, we have downgraded our labour supply forecast in 2028-29 by 15,000 AHE (average hours equivalent) (0.04 per cent).[a]

Evaluation of policy impact

With most policies still in their early stages, and in many cases not yet showing up in official economic statistics, evidence to evaluate many of their effects is only now beginning to emerge.

DWP, HMRC, DfE and DHSC, the departments leading on the 13 policies in scope, have all written to the Treasury restating their commitment to evaluation and setting out their plans for evaluating the policies' economic impacts:[c]

- **HMRC and the Treasury**, who are responsible for the tax policies in scope, noted that data, methodological and resourcing issues may hamper the evaluation process, and that it can be challenging methodologically to isolate policy effects. For these policies, formal and detailed evaluation plans are yet to be set out.
- **DWP** are yet to develop evaluation plans for WCA reforms and addressing upfront childcare costs in universal credit measures, and have stated that the evaluation of the labour market impacts of some aspects of the strengthening conditionality for lead carers claiming Universal Credit policy may not be possible, partly due to the delivery issues. Evaluation plans for Restart and Universal Support are concrete.
- **DHSC** has confirmed unreserved commitment to evaluation, and its plans, which will depend crucially on data linkage projects for the relevant datasets, are broadly in place.
- Regarding the 30 hours a week of free childcare for working parents policy, **DfE** has presented comprehensive formal plans for evaluation, with detailed timelines.

We aim to conduct preliminary analysis of the early impacts of the November 2023 and March 2024 NICs cuts, as well as the impacts of frozen tax thresholds, when the relevant *Annual Survey of Hours and Earnings* data starts to be released. In doing so, we will consider the consistency of

our modelling approach to personal tax policies with that of the employer NICs measure introduced in this Budget.[d] Around the same time, we also aim to examine whether the early impacts of the 30 hours a week of free childcare for working parents measure can be seen in the *Labour Force Survey* through preliminary analysis, although isolating this from other simultaneous changes may not be straightforward.

[a] These are: the November 2023 and March 2024 NICs cuts, full expensing (FE), 30 hours a week of free childcare for working parents, Work Capability Assessment reform, Universal Support, Restart scheme expansion, strengthening conditionality for parents and carers claiming Universal Credit, addressing upfront childcare costs in universal credit and increasing the cost cap, expanding access to Talking Therapies, the expansion of Individual Placement and Support, increasing the annual allowance (AA) and abolishing the lifetime allowance (LTA), and High Income Child Benefit charge reform.
[b] This figure is calculated using economy-wide average hours, rather than the average hours of full-time workers. In recent *EFO*s, we have distinguished these changes in total hours from changes in employment using the term 'full-time equivalents' (or 'FTEs') but plan to use this more precise AHE terminology going forwards.
[c] These letters can be found on our website's Autumn Budget 2024 page.
[d] As the employer NICs policy's statutory incidence affected firms' costs rather than workers' wages, we accounted for firms' reduced demand for labour when modelling its economic incidence, lowering the labour supply response significantly relative to our approach for the NICs cuts. For illustration, adjusting the estimates of the March 2024 NICs cuts for 76 per cent pass-through could lower the increase in labour supply from 98,000 to 74,000 in AHE terms. Adjustments to our estimates of some other measures would be similar, and there could be small effects on prices and profits.

Policy risks

3.60 Parliament requires that our forecasts only reflect current government policy. As such, when the Government sets out 'policy ambitions' or 'intentions', we ask the Treasury to confirm whether they represent firm policy. We use that information to determine what should be reflected in our forecast. Where they are not yet firm policy, we note them as a source of risk to our central forecast. A full database of risks to this forecast and changes from previous updates is available on our website. Here we summarise risks that have crystallised or are new since our previous forecast.

3.61 The risks that have crystallised since our previous forecast include compensation payments to individuals in response to the **infected blood inquiry** and **Post Office Horizon redress**, described above. Other risks which have crystallised since March include:

- Octopus Energy completed payments to the Bulb Special Administration Regime with funds returned to the Government. This is reflected within the baseline forecast.
- The Government committed to the re-introduction of the Tobacco and Vapes Bill in the King's Speech, which will legislate for the phased smoking ban. This is now reflected within the baseline receipts forecast.
- The Government has laid legislation in Parliament to ban the sale of disposable vapes from June 2025. This is reflected within the forecast.

3.62 Policy risks which are new since March include:

- The Government has committed to a **Plan to Make Work Pay** and introduced the **Employment Rights Bill** to Parliament on 10 October 2024. The bill introduces legislation to ban exploitative zero hours contracts, establish 'day one rights' of

employment, and aims to make flexible working the default, among numerous other proposed changes to employment legislation. Due to commitments falling outside the scope of the bill, provisions being subject to consultation, and policies within the bill still being subject to policy design decisions, many of which will likely be implemented through secondary legislation, there is as yet insufficient certainty to incorporate the economic and fiscal impacts of the bill into our forecast. The Department for Business and Trade published analysis of the economic impacts of the bill on 21 October 2024, and suggested that the direct costs to businesses could be up to £5 billion per year. We will incorporate a central estimate of the impacts of this measure into our forecast once they are sufficiently certain.

- The Government has proposed significant changes to the National Planning Policy Framework as part of wider **reforms to the planning system**. These changes are yet to be finalised, as responses to a recent public consultation are being processed by the Government. As such, there is insufficient certainty to adjust our current forecast for these measures and we will continue to monitor developments, especially around their implementation given past reform attempts, to judge if and when to incorporate them. These reforms may enable greater delivery of new housing and infrastructure projects, which would boost the associated investment flows, as well as increasing productivity over the longer term.

- The Government has introduced the **Great British Energy Bill** in line with its manifesto commitment. The founding statement commits £8.3 billion of funding over this Parliament. The Treasury has not yet provided information on the profile and allocation of this funding beyond this Budget and intends to do so after the multi-year Spending Review. We will incorporate the impacts of this measure into our forecast once they are sufficiently certain.

- The Government has introduced the **Crown Estate Bill** to widen the borrowing and investment powers of the Crown Estate. Despite an announced partnership between the Crown Estate and Great British Energy, the Treasury has not yet agreed a business case with the Crown Estate concerning its capital expenditure, gross operating surplus or any borrowing from the Treasury. Given the intent of the legislation is to facilitate future capital investment through both drawdown of Crown Estate reserves and borrowing, this is likely to pose an upside risk to borrowing.

- The Labour manifesto committed to restoring the **phase-out date of 2030 for new cars with internal combustion engines**, from its current date of 2035. This poses a small risk to vehicle excise duty and fuel duty receipts.

- The Government is considering changes to the delivery of reforms to **Work Capability Assessments** which were announced at Autumn Statement 2023, including through fundamental reforms of the health and disability benefits system early next year. Savings related to the reforms, which are due to take effect from 2025-26 are

reflected in our forecast, and we will incorporate the impacts of any further reform once they are sufficiently certain.

Extensions of temporary policies

3.63 This Budget includes several extensions to policies which are described as temporary and therefore not included in the forecast beyond the short term. This continues a pattern of such extensions at successive fiscal events. This introduces risk into the medium-term forecast which is produced on the basis of these temporary policies expiring.

3.64 At this Budget fuel duty rates have again been frozen for a further year. The cumulative cost of freezing **fuel duty** rates between 2010-11 and 2025-26, relative to the stated policy that they will increase in line with RPI inflation, has risen to around £100 billion after factoring in the expected negative impact on demand for fuel from higher duty rates. This includes the impact of the 'temporary' 5p cut to rates introduced in Spring Budget 2022, but which has now been extended to a fourth year at this Budget.

3.65 This Budget also again extends temporary **business rates** measures which are estimated to cost £3.0 billion in 2025-26. This includes:

- Extending **business rates relief for retail, hospitality and leisure** properties for an additional year in 2025-26. This is forecast to cost £1.7 billion in 2025-26. Annual extensions have granted varying levels of relief to eligible properties since 2019-20. The relief will now decrease to 40 per cent in 2025-26 from 75 per cent in 2024-25, which the Treasury have said in the Autumn Budget "*aims to support the transition to permanently lower tax rates for retail, hospitality, and leisure (RHL) properties which will be introduced from 2026-27*".

- Extending increased **business rates retention** for local authorities with devolution deals for an additional year in 2025-26. This is forecast to cost central government £1.2 billion in 2025-26 as more revenue is retained locally. Since 2017-18, annual extensions have maintained the share of business rates revenue retained locally at 67 per cent for the Greater London Authority, and 100 per cent for the Liverpool City Region Combined Authority, West of England Combined Authority and Cornwall Council.

- Extending the freeze to the **small business multiplier** for an additional year in 2025-26. This is forecast to cost £0.1 billion in 2025-26, and an average £0.1 billion a year thereafter.

3.66 Other smaller measures which have been extended through repeated short-term policy decisions, including at this Budget, are forecast to cost £0.2 billion in 2025-26. These include extending the freeze on inheritance-tax-free allowances, delaying the reduction of universal credit surplus earnings, delaying the closure of Help to Save accounts, extending some temporary tariff suspensions, and extending the freeze of Carbon Price Support rates.

The long-run impact of Government policy

3.67 We have always highlighted in our *EFO*s, *Fiscal risks and sustainability reports*, and other publications that the long-run fiscal costs of policies can differ from the effects that will have occurred by the five-year timeframe at which we are required to produce our medium-term forecasts. These longer-run differences can be split into the same two categories, of direct and indirect effects, discussed elsewhere in this chapter:

- Over the long run, the **direct fiscal costs of policies** can rise or fall relative to their medium-term impacts. For instance, our 2018 *Working Paper* highlighted that what was then the accounting treatment for student loans caused the PSNB impact of loan outlays to be negligible in the medium term but grow significantly over the long-run.[14] In contrast, our November 2023 *EFO* discussed how allowing businesses to fully expense qualifying investments in plant and machinery against their corporation tax (CT) bills in the year they were made, would initially lower CT receipts by around 0.35 per cent. But recognising more expenses upfront meant less could be recognised in future years, so this cost fell to 0.10 per cent in steady state.

- **Indirect effects on the economy** can also differ over the medium- and long-runs. For example, spending, tax, and regulatory changes, like those associated with planned and past changes in the state pension age, corporation tax rates, and the UK's relationship with the EU, are resulting in gradual adjustments in labour market participation, business investment, and trade flows that will continue beyond the horizon of the current economy forecast.[15] A larger real economy will lower PSNB over the long run via its effect on tax receipts (provided spending plans are not also adjusted in response).

3.68 The revised draft *Charter for Budget Responsibility* requires us to assess the long-term impacts of new Government policies, where these are material.[16] We will therefore report more systematically on new Budget policies' long-run economic and fiscal impacts in this and future *EFO*s.

The long-run economic impact of measures announced in this Budget

3.69 The net economic effect of measures announced at this Budget on the level of output, assuming they are permanent changes which are maintained in the long run, begins to turn positive from 2032-33 onwards (Chart 3.3). This profile reflects that:

[14] This reflected that expected costs associated with student loans would only be recorded in PSNB many years in the future when income-contingent loans began to be written off. Ebdon, J., and R. Waite, *Student loans and fiscal illusions*, 2018. The accounting treatment has since been changed to better reflect these timing effects.
[15] For instance, our September 2024 *Fiscal risks and sustainability report* discussed the expected impact of future state pension age changes on labour market participation. We discussed how our Brexit trade forecast assumptions were performing in Box 2.4 of our March 2024 *EFO* and the gradual effect of corporation tax changes on potential output in our November 2022 *EFO*.
[16] HM Treasury, *Charter for Budget Responsibility Autumn 2024 update (draft)*, 2024. Specifically, it notes that *"where capital investment, or other new policies, may have material impacts beyond the forecast horizon, the OBR should, where appropriate and subject to receiving sufficient information from the Treasury to do so, analyse and report on these at the relevant forecast"*.

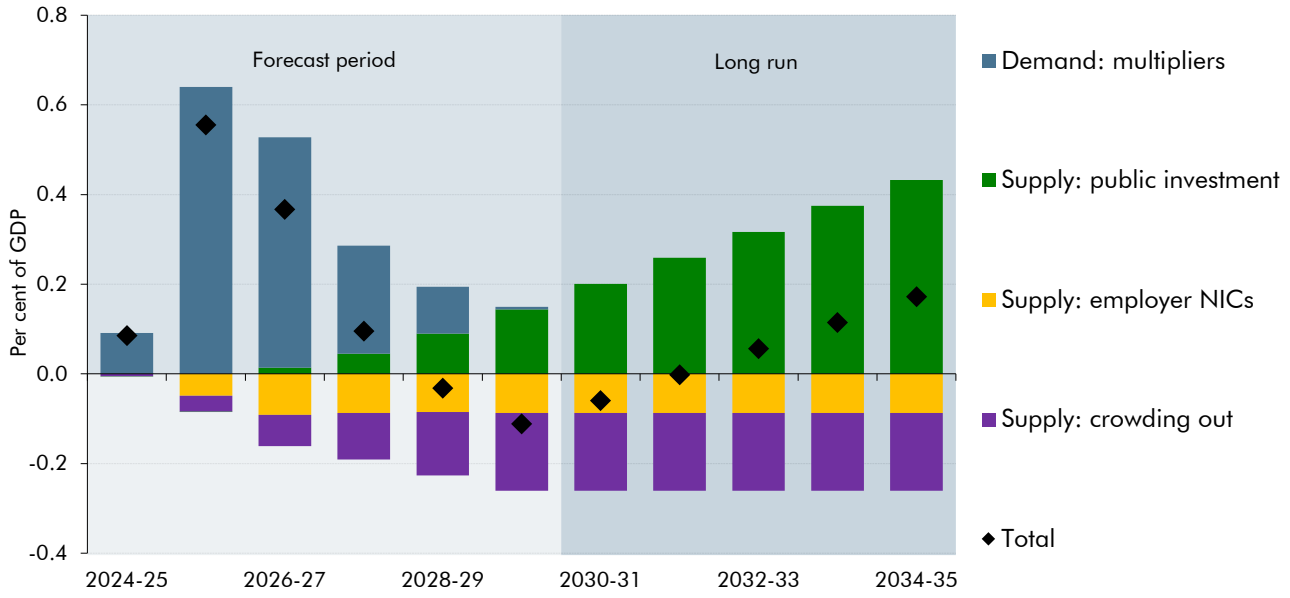
- The fiscal loosening is front-loaded, with the impact on demand peaking at 0.6 percentage points in 2025-26. And, in line with our standard **demand multipliers** as described in Box 2.1, this impact tapers to zero over five years as higher interest rates help to bring demand back into line with supply and inflation back to target.

- We assume that there are significant time lags associated with the time public investment projects take to complete and be fully utilised, so while the 0.6 per cent of GDP expected average increase in **departmental capital spending** increases potential output by only 0.14 per cent after five years, the effect almost triples to 0.43 per cent after 10 years and increases roughly ten-fold to 1.4 per cent in 50 years. As discussed in further detail below, these figures use a production function that implies that public and private capital are complements to each other, so business investment rises in response to a larger public capital stock, and that the additional funding is maintained at its 2029-30 share of GDP thereafter.

- The increase in **employer NICs** has a persistent negative effect on work incentives and both labour demand and labour supply, although one that takes some time to materialise as wage and prices adjust. Once the full impact is reached, from 2026-27, we expect labour supply and demand to be around 50,000 lower in AHE terms which reduces the level of potential output by 0.1 per cent thereafter, provided that higher effective tax rates are maintained.

- **Crowding out**: with the economy operating close to its potential level, with an output gap of -0.2 per cent this year, and the size of the economy little changed at the five-year horizon, the significant and sustained fiscal expansion of around 1 per cent of GDP per year crowds out some private sector economic activity. This lowers consumption, net exports, and business investment over our five-year forecast. Lower business investment reduces the private capital stock, and so potential output. Normally, we would expect this effect to gradually begin to disappear toward the end of our five-year forecast. But with interest rates higher at our forecast horizon as a result of the fiscal loosening, we judge that some effect persists. The estimates in Chart 3.3 assume that this channel has a negative impact on the level of GDP over the next ten years of around 0.2 per cent. Again, this channel is extremely uncertain and depends on future fiscal policy choices. If borrowing fell further beyond the forecast horizon, so would this effect.

Chart 3.3: Long-run impacts of Government policy



Source: OBR

The long-run impact of public investment spending

3.70 Our modelling of the long-run impacts of public investment spending reflects the analytical framework that we set out in our August 2024 *Discussion Paper*.[17] This set out how we would approach modelling the impact of public investment on potential output.[18] It is a continuation of our approach to modelling the supply-side effects of other Government policies. Our analysis combines:

- The **Government's plans to increase departmental capital spending** (CDEL) by £20 billion (0.6 per cent of GDP) per year on average over the next five years. These changes, which are described in further detail in Chapter 5, help increase public sector net investment from 1.7 per cent to 2.4 per cent of GDP in 2029-30.

- A **production function**, which combines inputs of labour supply, public and private capital stocks, and total factor productivity into the production of final output.[19] We assume the output elasticity of public capital is 0.1, in line with the empirical literature.[20] This implies that a 1 per cent increase in the public capital stock raises potential output by 0.1 per cent.

- **Time lags** around the assumed speed with which large changes in capital spending plans affect the economy. Our fiscal forecast (Chapter 5) assumes that not all the

[17] Suresh, N., R. Ghaw, R. Obeng-Osei, and T. Wickstead, *OBR Discussion paper No. 5: Public investment and potential output*, 2024.
[18] Public investment can also affect demand through, for example, additional job creation to carry out projects leading to additional consumption. We explore demand-side impacts of public investment in Box 2.1.
[19] Specifically, a Cobb-Douglas production function in which labour supply (L), public (K_G) and private capital stocks (K_M), and total factor productivity (A) are combined in the production of final output (Y) via the expression: $Y = AK_G^{\frac{1}{10}}K_M^{\frac{1}{3}-\frac{1}{10}}L^{\frac{2}{3}}$. The exponents on each term correspond to their output elasticities (the change in potential output following a per cent change in an input, holding all else fixed).
[20] E.g., Bom, P., and J. Ligthart, *What have we learned from three decades of research on the productivity of public capital?*, 2014.

money allocated to capital projects as part of the Spending Review will be spent (lowering capital spending by £10 billion in 2025-26). Beyond this point, we do not apply an underspend assumption, although we do assume (again in line with historical experience and without the detailed capital spending plans over most of our forecast that would enable us to make an alternate assumption) that only two-thirds of CDEL spending reflects investment in the Government's own assets. Further time lags capture how projects are gradually completed and their full impacts on potential output realised, which mean that around two-thirds of a direct investment's impact on potential output is felt within our five-year forecast horizon, with the full impact on potential output of a given investment only materialising after around 10 years.

- A response from business investment to higher public investment. As these extra public investments complement those made by the private sector, they raise the returns to private investments. In the long-run steady state, higher public investment has a positive impact on business investment of around £0.30 for every £1 increase in public investment spending in the long-run steady state.

3.71 Under this framework, from 2032-33 onwards, higher capital spending more than explains the increases in potential output shown in Chart 3.3. As Chart 3.4 shows, it provides a 0.14 per cent of GDP boost to potential output in 2029-30, which grows to 1.4 per cent of GDP by 2073-74, reflecting the following three channels:

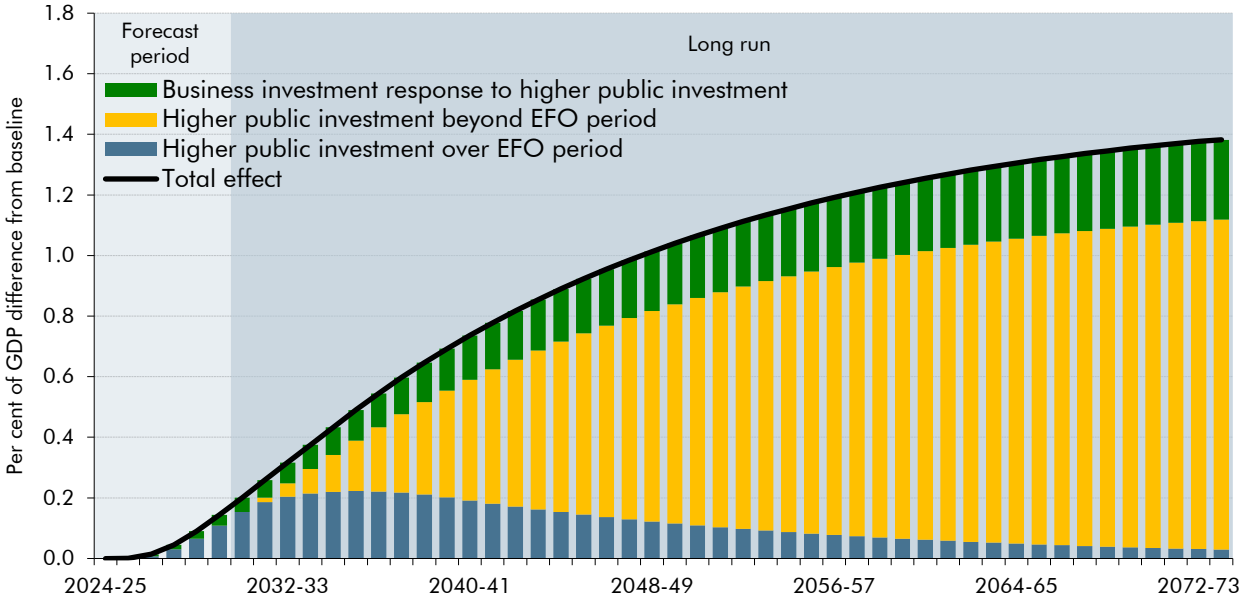
- Higher public investment over the *EFO* period: The plans announced in the Budget raise cumulative capital spending by £100 billion by 2029-30 (0.6 per cent of GDP higher on average over our forecast). Because of time lags associated with the fiscal and economic impact of investment spending plans (and because not all the increase in departmental spending raises the Government's own stock of assets), this increases the stock of completed and fully utilised capital projects in that year by 0.6 per cent of GDP. This period of higher investment spending will continue to increase GDP for years to come, even if plans are not sustained. In fact, our lag structure means the impacts grow modestly from 0.1 to 0.2 per cent of GDP in the mid-2030s as projects complete and are utilised, but attenuate thereafter.

- Higher public investment beyond the *EFO* period: if public sector gross investment remained at around 4.8 per cent of GDP into the long term (so that gross departmental capital spending remained 0.6 per cent of GDP higher than the jumping-off point implied by our pre-measures forecast), the impact on potential output of higher public investment would continue increasing, reaching 1.1 per cent of GDP by 2073-74.

- A business investment response to higher public investment: The extra business investment these changes induce provides a 0.3 percentage point boost to potential output, so that the total impact reaches 1.4 per cent in 2073-74. In modelling this change, we have assumed businesses are somewhat forward-looking, and take the level of profits they expect to see in a year's time into account when investing. This

response is uncertain and depends not just on future investment levels, but also on wider factors. We therefore also provide scenarios in which a larger or smaller effect occurs in Box 3.3.

Chart 3.4: Long-term implications of higher public investment



Source: OBR

Box 3.3: The long-run impact of public investment on potential output: scenarios

In modelling the long-run impact of higher public investment spending on potential output in our central forecast, we used the analytical framework set out in our recent *Discussion Paper*.[a] A key area of uncertainty is the extent to which public investment is, on average, a complement or substitute for business investment. Empirical evidence on the impact of higher public investment on business investment is mixed. For a £1 increase in public investment, the estimates from a range of studies suggest that the impact on business investment could vary from a reduction of £0.30 (so public and private capital are substitutes) to an increase of £2 (so public and private capital are strong complements).[b] The different findings partially reflect different methodologies and samples in the literature. But they also reflect the fact that government investment can have varying impacts on business investment depending on:

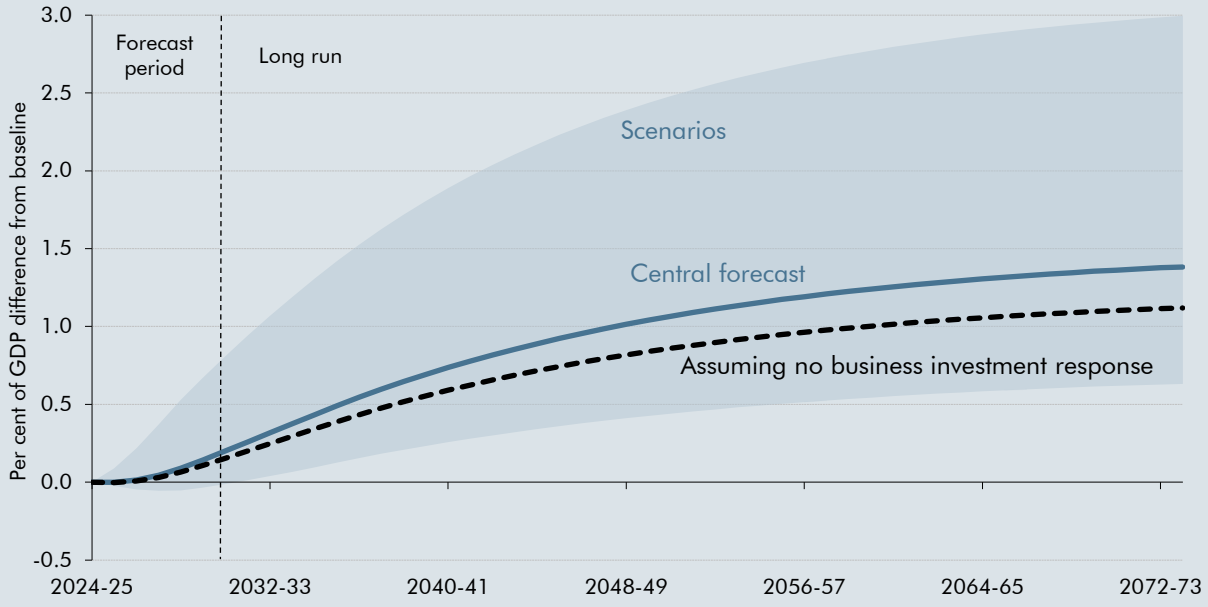
- **The type of investment**: some types of investment are more complementary to private capital, for example economic infrastructure spending is likely to be more complementary to business investment than public sector house building.
- **Source of financing**: financing public investment through higher borrowing or taxes could reduce private investment by, respectively, raising economy-wide interest rates or reducing the post-tax return on investment for businesses.

- **Extent of de-risking**: public investment can reduce uncertainty and risk for private investors in early-stage technologies, encouraging them to enter the market and so increasing business investment.
- **Competition for resources**: public and private investment may be competing for the same labour and other inputs, raising their prices. This could reduce total investment below the level desired by the public and private sector when there is little or no slack in the economy, though over the long term the economy is likely to adjust.

The following alternative scenarios illustrate these upside and downside risks to GDP from the increase in capital spending announced in this Budget, assuming that higher government investment persists beyond the five-year forecast horizon (Chart B):

- In the **upside scenario**, public and private capital are strong complements so every additional £1 of public investment increases business investment by £2 (rather than around £0.30 as in the central forecast). In this scenario, the increase in public investment leaves GDP 3.0 per cent higher at the 50-year horizon than it would otherwise be (rather than 1.4 per cent higher as in our central forecast). The 1.6 percentage point difference reflects a higher stock of private capital.
- In the **downside scenario**, public and private capital are substitutes so every additional £1 of public investment *reduces* business investment by £0.50. The greater lags assumed around public investment spending mean its direct effect on GDP is more than offset by lower business investment at the five-year horizon. In this scenario, the increase in public investment leaves GDP only 0.6 per cent higher in 50 years (the *minus* 0.8 percentage point difference from the central forecast entirely reflects a smaller private capital stock).

Chart B: Impact of higher public investment: different scenarios

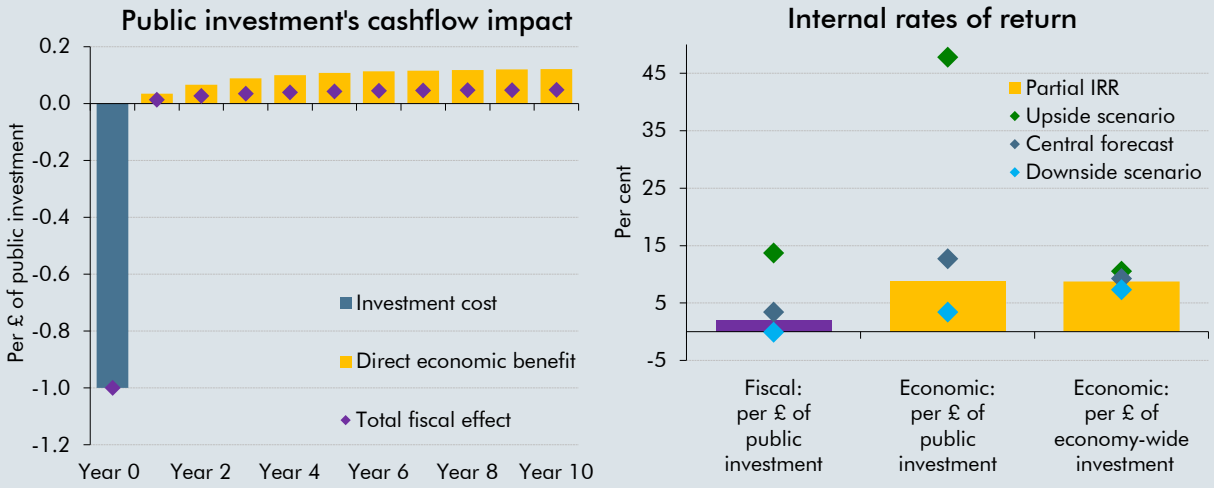


Source: OBR

As the left-hand panel of Chart C shows, our assumptions mean that public investment has upfront costs today, but produces benefits in the future (defined as the extra GDP or tax receipts it creates). As shown on the right-hand panel, these assumptions mean that the real *economic* internal rate of return (IRR) of public investment projects, measured in terms of the GDP produced per pound of upfront cost, is around 9 per cent.[c] The Treasury only captures some of this extra GDP in tax receipts, so the *fiscal* return to the public finances is smaller, at around 2 per cent.

As in our *Discussion Paper*, these are 'partial' rates of return that focus on the extra GDP and tax receipts directly produced by a larger public capital stock. Including the additional GDP or taxes produced by the extra business investment that we have incorporated in our central forecast raises them somewhat: to 13 or 3 per cent of GDP. These figures calculate the return to an extra pound of public investment in terms of higher GDP or taxes including both the direct impact of the public capital itself plus the extra impact from the induced boost to business capital. It attributes that joint impact to the public investment. In effect this does not count as a cost to the government the resources used in the extra business investment, so it is best seen as a 'bang for the buck' measure of public capital spending. They rise significantly further in our upside scenario and fall in our downside scenario. Impacts on the rate of return per pound of economy-wide investment (which incorporate the additional costs of more private sector investment) are closer to the partial rates of return.

Chart C: Rates of return on public investment



Source: OBR

[a] Suresh, N., R. Ghaw, R. Obeng-Osei, and T. Wickstead, *OBR Discussion paper No. 5: Public investment and potential output*, 2024.
[b] Congressional Budget Office, *The Long-Run Effects of Federal Budget Deficits on National Saving and Private Domestic Investment*, 2014 finds that when public investment is financed by additional borrowing, a $1 increase in the federal deficit reduces private investment by $0.33. Matvejevs, O., and O. Tkacevs, *Invest one – get two extra: Public investment crowds in private investment*, 2023 estimates that, across OECD economies, each additional dollar of public investment eventually attracts two dollars of private investment.
[c] Formally, the internal rate of return is defined as the discount rate that would make the present value of the future benefits from an investment equal to the initial cost of the investment. It can also be interpreted as the annual compound rate earned from every unit of investment made for each period. We have used the same illustrative approach for these calculations as in the *Discussion Paper*, such as defining the economic benefits of an investment in terms of the extra GDP it creates and its fiscal benefits as the extra tax receipts produced at an effective tax rate of 40 per cent.

Long run impacts of revenue-raising measures in this Budget

3.72 The revenue raising measures in the policy package are estimated to increase receipts by £41.5 billion by the end of the decade. A significant share of this yield, notably from changes to employer NICs, is likely to continue to increase in a relatively predictable way. But the long-run yield from several other measures may be significantly different from the medium-term estimates, in part reflecting uncertainty around the behavioural changes through which individuals may respond to measures, particularly beyond the forecast window.

3.73 Measures where the long-term cost or yield could be significantly different from the medium term include:

- Individuals can respond to **inheritance tax changes** in a range of ways, many of which will not take effect until well beyond the forecast window. The main upside risk to the long-term yield of the change to the inheritance tax treatment of pension wealth is the degree to which the 2015 pensions flexibility reforms, and subsequent collapse in the share of DC pensions invested into annuities, will drive an increase in inheritable pension wealth in future. Downside risks include increased gift-giving (which, if successful, will reduce receipts after at least a seven-year period) and the potential proliferation of new tax planning strategies. Individuals tend to structure their affairs during their 50s and 60s with a view to inheritance planning. Therefore, the magnitude and direction of the impact such restructuring in response to the measures in this Budget will have on IHT receipts at death will not be fully seen for several decades.

- The 'designation' based **Temporary Repatriation Facility**, part of the Budget reforms to the non-domicile regime, will bring forward some yield at the expense of future receipts. The facility allows non-domiciled taxpayers ineligible for the new regime who pay a discounted 12 or 15 per cent tax charge between 2025-26 and 2027-28 to bring stockpiled offshore income and gains to the UK at a future time. The degree to which inflows to the TRF are additional, rather than at the expense of future remittances charged at the marginal CGT or IT rate, compared to our central costing estimate poses a significant upside or downside risk to receipts. As income and gains must have been realised prior to April 2025 to be eligible for the facility, this risk is likely to fall in the longer term.

- The typical duration of private capital funds defers nearly all the behavioural response to the Budget **carried interest** changes during the forecast window, apart from migration. Over the medium to long term, restructuring of funds and compensation arrangements in response to the higher effective tax rate on carried interest may reduce the yield further.

- The Budget includes several **tax compliance and debt collection measures**. While much of this yield is relatively certain in the medium term, barriers may exist to generating further yield in the long term. There may be diminishing returns to debt collection as,

for example, the remaining stock of tax debt becomes weighted towards more longstanding, and more difficult to collect, outstanding balances. And attrition to existing tax measures may increase in the long term as new tax avoidance strategies proliferate, requiring further compliance measures.

4 Public sector receipts

Summary of the receipts forecast

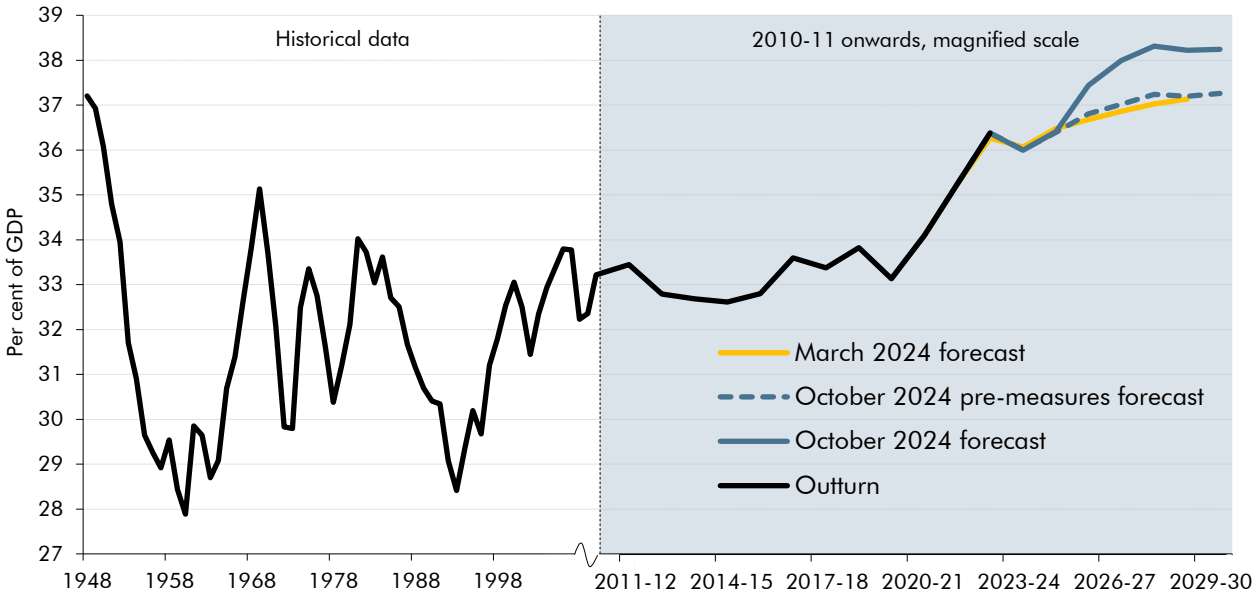
4.1 In 2023-24, total public sector receipts stood at 40.5 per cent as a share of GDP, a 3.6 percentage point increase on the pre-pandemic level of 36.9 per cent of GDP in 2019-20. Receipts are forecast to continue rising as a share of the economy, by a further 1.9 percentage points, to reach 42.4 per cent of GDP by 2029-30. Within that, National Accounts taxes as a share of GDP (the 'tax take') are forecast to increase from 36.0 per cent in 2023-24 to 38.3 per cent of GDP in 2027-28, before stabilising at 38.2 per cent of GDP over the remainder of the forecast period.[1] This would be a historic high and the peak is 5.2 percentage points above the pre-pandemic level of 33.1 per cent of GDP (Chart 4.1).[2]

4.2 The taxes that contribute most to the 2.2 per cent of GDP increase in the tax take over the forecast are personal taxes (income tax and National Insurance contributions (NICs)) and capital taxes (Table 4.1). The rise in personal taxes next year is driven by the employer NICs measures in this Budget and in the following two years by the combination of earnings growth and frozen personal tax thresholds until April 2028. Capital tax receipts rise across the forecast period mainly due to rising equity and property prices, with some support from the policy measures in this Budget.

4.3 Relative to our March forecast, National Accounts taxes as a share of GDP are 0.1 percentage points lower in 2024-25, but 1.1 percentage points higher, on average, over the remainder of the forecast. This is driven primarily by the 1.1 per cent of GDP increase from tax policies announced in this Budget, in particular, the changes to NICs, tax compliance measures, and increases in capital taxes. There has also been a relatively small 0.1 per cent of GDP increase on average in the underlying pre-measures tax forecast, primarily due to earnings growth and higher asset prices compared to our March forecast leading to higher forecast personal and capital tax receipts. These changes are partially offset by the indirect effects of the entire policy package announced at this event which decreases the tax take by 0.2 per cent of GDP on average, as the increase to the nominal GDP denominator driven by the policy package is proportionally greater than the corresponding increase in tax receipts.

[1] National Accounts taxes are a narrower measure than public sector current receipts and are more comparable over longer historical periods as they exclude public sector gross operating surplus, interest and dividend receipts, and other non-tax receipts.
[2] See OBR, *300 years of UK public finance data*, 2023 for more detail.

Chart 4.1: National Accounts taxes as a share of GDP



Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts published on 30 September 2024. All else equal, applying the upward revision to 2023-24 nominal GDP of 1.1 per cent to all years of the forecast would reduce the National Accounts tax-to-GDP ratio by 0.4 per cent of GDP across the forecast. This would still leave the tax-to-GDP ratio at a record level.
Source: ONS, OBR

Table 4.1: Public sector receipts as a share of GDP

	Per cent of GDP						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	10.2	11.1	11.1	11.5	11.8	11.6	11.5
NICs	6.6	5.9	6.7	6.7	6.6	6.6	6.6
Value added tax	6.2	6.1	6.1	6.2	6.3	6.3	6.3
Onshore corporation tax[1]	3.4	3.6	3.5	3.5	3.5	3.5	3.6
Council tax	1.6	1.7	1.7	1.7	1.7	1.8	1.8
Capital taxes[2]	1.4	1.5	1.8	1.8	1.9	2.1	2.2
Business rates	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Fuel duties	0.9	0.9	0.8	0.9	0.9	0.8	0.8
Alcohol and tobacco duties	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Other taxes	3.8	3.8	3.7	3.7	3.7	3.6	3.6
National Accounts taxes	**36.0**	**36.4**	**37.4**	**38.0**	**38.3**	**38.2**	**38.2**
Interest and dividend receipts	1.6	1.5	1.4	1.3	1.3	1.3	1.3
Other receipts	2.8	2.9	2.9	2.8	2.8	2.8	2.8
Current receipts	**40.5**	**40.8**	**41.7**	**42.2**	**42.5**	**42.4**	**42.4**

[1] Includes electricity generator levy and Pillar 2 taxes.
[2] Includes capital gains tax, inheritance tax, property transaction taxes and stamp taxes on shares.
Source: ONS, OBR

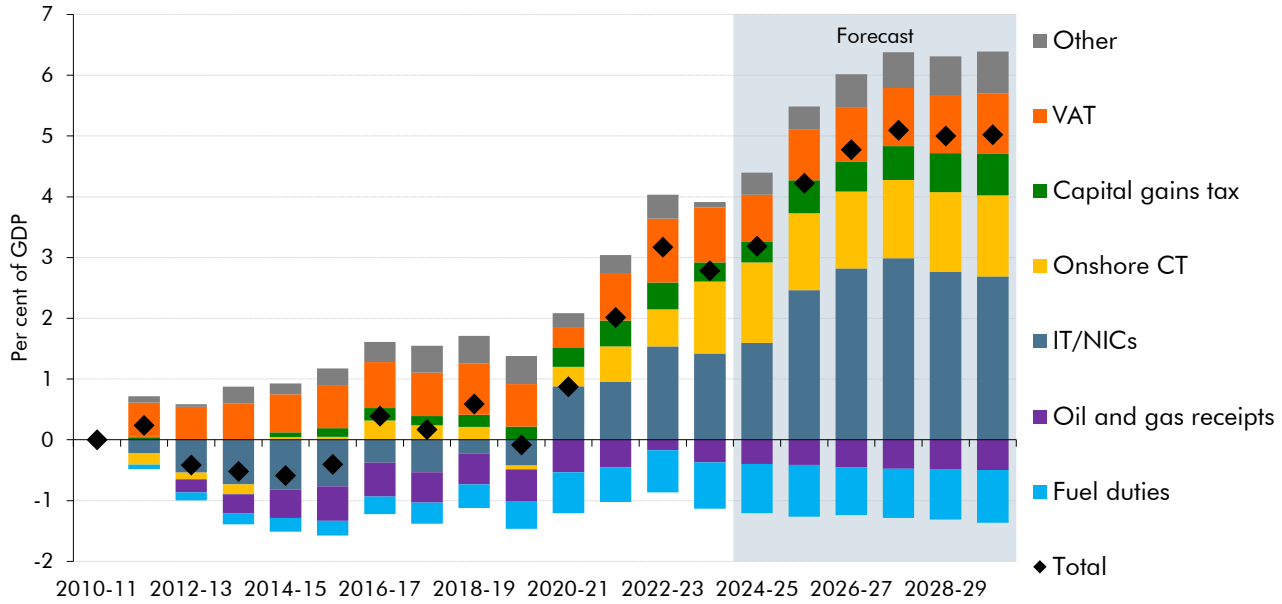
4.4 The tax-to-GDP ratio is forecast to be 5.0 percentage points higher in 2029-30 than it was in 2010-11 following the financial crisis. It was relatively constant for much of the 2010s before rising sharply in the period following the pandemic in 2020:

- **2010-11 to 2019-20**: The tax-to-GDP ratio was broadly flat over this period. VAT receipts increased more than any other tax as a share of GDP due to the increase in the standard rate of VAT from 17.5 per cent to 20 per cent in January 2011, and successive falls in the VAT gap, a measure of non-compliance measured as the difference between actual VAT receipts and estimated theoretical liabilities, from 10.3 per cent in 2010-11 to 7.9 per cent in 2019-20. This was offset by income tax and NICs decreasing as a share of GDP due to subdued earnings growth and increases to the personal allowance, falling oil and gas receipts due to declining North Sea production and low oil and gas prices, and lower fuel duty receipts as a result of successive duty freezes.

- **2019-20 to 2023-24**: Nearly all major taxes grew as a share of the economy in the period immediately after the pandemic. There were significant rises in income tax and NICs due to the policy decision to freeze personal tax thresholds and the subsequent period of high inflation. The substantial increase in onshore corporation tax is mainly due to the increase in the main rate of corporation tax from 19 per cent to 25 per cent in April 2023, as well as resilient profits particularly in higher tax-paying sectors. Oil and gas receipts rose sharply in 2022-23 due to rising oil prices and the Energy Profits Levy, but this increase then abated as oil and gas prices fell closer to historic norms. The only major tax that persistently fell over this period was fuel duty due to successive rate freezes, the 5p rate cut, and the increasing uptake of electric vehicles.

- **2023-24 to 2029-30**: The further increase of 2.2 percentage points in the tax take over the forecast period is mainly driven by personal taxes, due to forecast strong nominal earnings growth coupled with the continuation of frozen thresholds until April 2028, the employer NICs increases announced in this Budget offsetting the previous Government's employee NICs cuts, and the updated Temporary Repatriation Facility (which provides a three-year window for some formerly non-domiciled taxpayers to bring stockpiled offshore income and gains to the UK at a discounted tax rate) boosting income tax receipts in 2027-28. Capital tax receipts rise across the whole period, due to rising equity and property prices and the impact of the measures announced in the Budget (Table 3.3 and Table 3.4). Oil and gas receipts fall as North Sea oil production continues to decline, and fuel duties fall slightly as assumed duty increases are offset by vehicle electrification.

Chart 4.2: Changes in the composition of the tax take relative to 2010-11



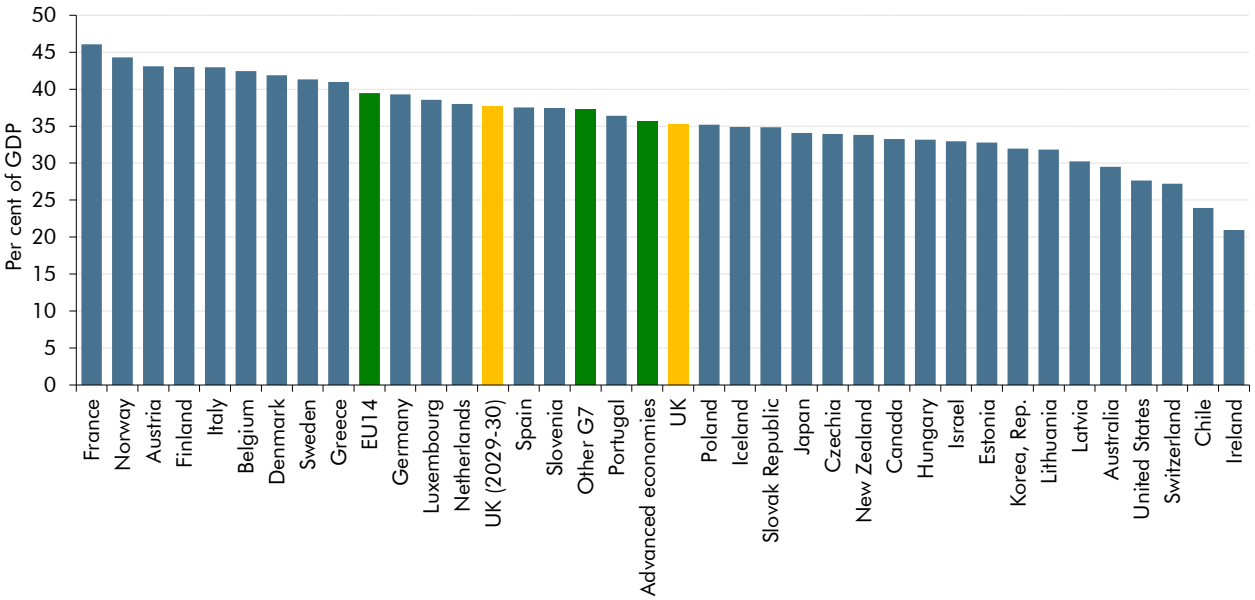
Source: ONS, OBR

4.5 At 35.3 per cent of GDP on the OECD's internationally comparable measure,[3] the UK's tax take was marginally below the advanced-economy average of 35.6 per cent in 2022 (Chart 4.3).[4] It was 1.9 percentage points lower than the 37.2 per cent of GDP average of other G7 nations, and 4.2 per cent lower than the 39.5 per cent of GDP average of the 'EU 14' (14 other western European countries). The UK's forecast tax take in 2029-30 on this measure would rise to approximately 37.7 per cent of GDP, taking it above the current 'other G7' average. However, tax takes in other countries would also likely change over this period.

4.6 Tax-to-GDP ratios have been rising across advanced economies in recent years reflecting the pressures on public finances caused by the global financial crisis, the pandemic, the energy price shock, and rising global interest rates (Chart 4.4). Since 2010, the tax take has risen by 3.3 percentage points in the UK, 3.9 percentage points in other G7 countries, and 2.0 percentage points in the EU14. In the UK, the increase in the tax take was particularly steep in the most recent period after the pandemic, which has closed much of the difference with the 'other G7' average.

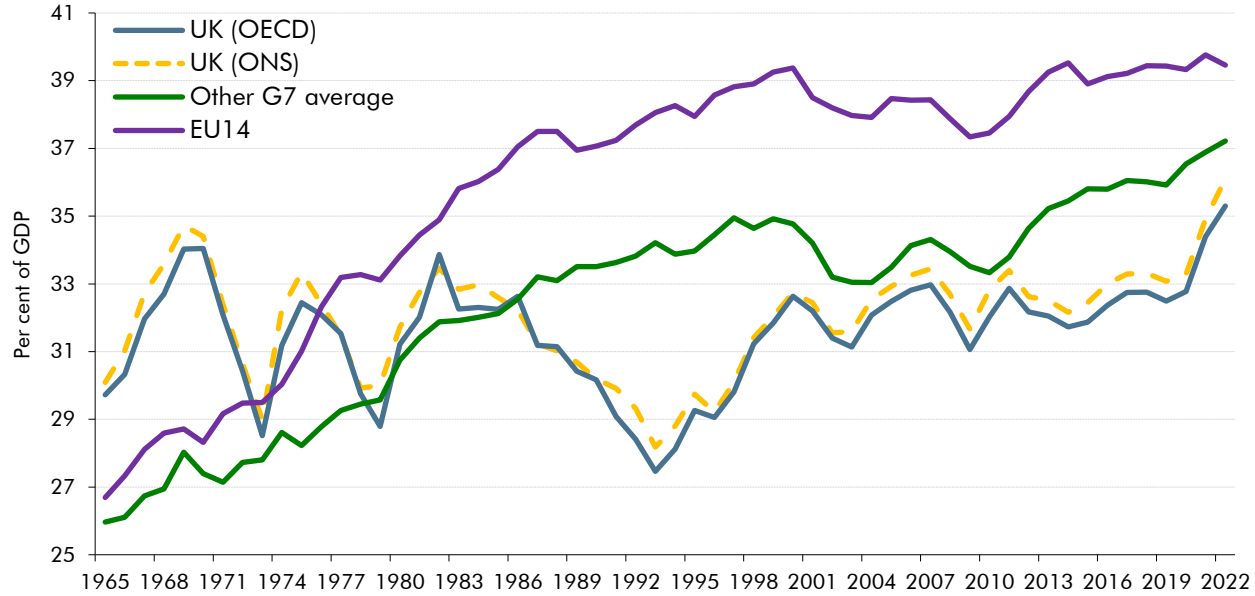
[3] There is a 0.8 per cent of GDP difference between the ONS and the OECD measures of the tax take in 2022. This relates to differences in both measures of tax revenues and nominal GDP. See OECD, *Annex A the OECD classification of taxes and interpretive guide for further information*, 2022.
[4] Based on the average of high-income countries excluding the UK, as defined by the World Bank, where OECD data are available.

Chart 4.3: Tax take in the advanced economies in 2022



Note: Implied tax take for the UK in 2029-30 is based on our latest forecast adjusted for the historical difference in outturn between the ONS and OECD since 2010. 2021 data are used for Japan and Australia.
Source: OECD, ONS, OBR

Chart 4.4: Tax take in the UK, G7, and EU14 since 1965



Source: OECD, ONS, OBR

4.7 Using the ONS definition, the tax-to-GDP ratio was 36.0 per cent of GDP in 2023-24, 2.9 percentage points higher than pre-pandemic. It is forecast to rise by a further 2.2 percentage points over the next five years, reaching 38.2 per cent of GDP by 2029-30. The 5.1 percentage point increase in the tax take over the decade of the 2020s can be explained as the net effect of:

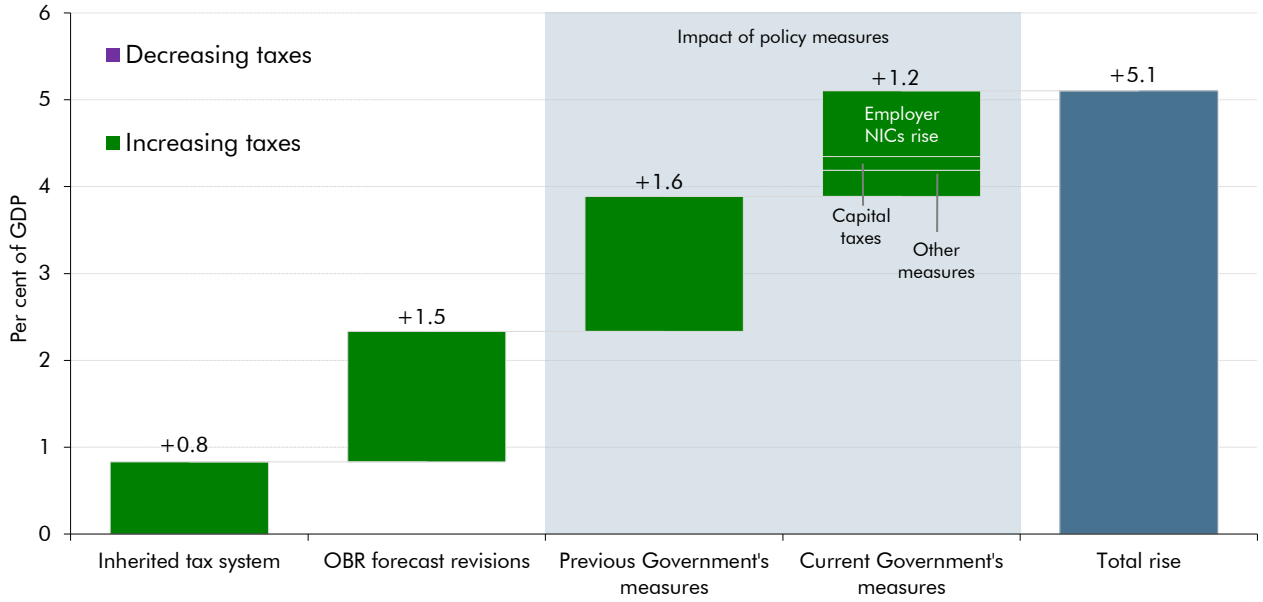
- The **inherited, pre-2019 tax system** adds 0.8 percentage points to the tax-to-GDP ratio.

- **Other forecast changes** add an additional 1.5 percentage points. These include a higher labour share (which generates more personal tax receipts), a falling VAT gap,[5] and profits growth in high paying tax sectors boosting onshore corporation tax receipts.

- The direct impacts of the **previous Government's policy decisions** since Spring 2020 increase it by a further 1.6 per cent of GDP between 2019-20 and 2029-30, primarily through the freezes to personal tax thresholds and the increased headline rate of corporation tax. These more than offset tax cutting measures including reducing employee National Insurance contributions and introducing full expensing for most corporate investment.

- The direct impacts of the **current Government's policy decisions** at this Budget add a further 1.2 percentage points to the tax-to-GDP ratio between 2024-25 and 2029-30, primarily through the increases to employer NICs, tax compliance measures, and increases to capital taxes.

Chart 4.5: The rise in the tax-to-GDP ratio from 2019-20 and 2029-30



Source: ONS, OBR

[5] The VAT gap is the difference between the theoretical VAT liability (the amount of tax that should, in theory be collected if individuals and businesses paid all tax due) and the receipts actually collected.

4.8 There is significant uncertainty around the forecast increase in the tax take. The estimated yield from several of the policies which drive the increase are highly uncertain, as set out in Table 3.8 in Chapter 3, including the central estimate of the yield from capital tax measures which are forecast to collectively raise 0.2 per cent of GDP by 2029-30. The forecast also assumes the seldom-implemented fuel duty indexation which accounts for 0.1 per cent of GDP by 2029-30. There are also significant risks around key economic drivers of the receipts forecast, such as earnings and employment, which are assumed to increase by 17.7 per cent and 1.3 million respectively over the forecast. These underpin the increase in personal taxes which are forecast at 18.1 per cent of GDP in 2029-30.

Change in receipts since our March 2024 forecast

4.9 Relative to our March forecast, and including the impact of Budget measures, total public sector receipts are forecast to be £9.6 billion higher in 2024-25 and an average of £66.3 billion a year higher between 2025-26 and 2028-29. Receipts are expected to be £67.5 billion higher in 2028-29. Forecast changes are driven by a combination of:

- underlying **forecast differences**, especially slightly stronger near-term earnings growth, which boost receipts, largely income tax and NICs, by £9.9 billion in 2028-29;
- **fiscally neutral forecast differences** which are offset in spending, including changes to depreciation, VAT refunds, and most environmental levies, raise receipts by £5.6 billion in 2028-29;
- the **direct impact of policy measures** announced in this Budget increase receipts by £40.1 billion a year in 2028-29, mostly in employer NICs, VAT, and SA income tax. Relative to the size of the economy, the policies in this Budget deliver a similar medium-term tax increase to the yield generated by measures in the March 2021 Budget, a scale of tax raising not seen prior to that since the March 1993 Budget.[6]
- the **indirect effects of the policy measures** announced in this Budget, mainly driven by the larger nominal economy due to the fiscal loosening, which further increase receipts, largely VAT and personal taxes (IT and NICs), by £11.8 billion in 2028-29.

[6] Prior to the late-2000s, fiscal event forecasts covered shorter time horizons, so this comparison is not entirely like for like. We base these comparisons on the costing of the policy package estimated at the time of each fiscal event. The March 2021 Budget included freezes to income tax thresholds whose yield has been much higher than the original costings due to higher inflation and nominal earnings growth than anticipated at the time, as discussed in paragraphs 3.58 and 3.59 in Chapter 3.

Table 4.2: Receipts: changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	1,102	1,139	1,174	1,222	1,272	1,322	
October 2024 forecast	1,101	1,149	1,229	1,291	1,346	1,390	1,440
Difference	**-1.4**	**9.6**	**55.3**	**68.9**	**73.5**	**67.5**	
By policy and forecast differences							
of which:							
Underlying forecast differences (ex PSNB-neutral)	-0.9	1.5	15.7	16.1	15.5	9.9	
PSNB-neutral forecast differences[1]	-0.5	2.4	3.2	3.7	5.1	5.6	
Direct impact of policy	0.0	1.3	24.7	35.0	39.4	40.1	41.5
Indirect impact of policy	0.0	4.3	11.6	14.2	13.5	11.8	10.1
By tax head							
of which:							
Income tax	-1.8	8.7	12.9	21.9	24.0	16.3	
NICs	-0.1	-0.7	25.2	25.0	24.3	24.7	
Onshore corporation tax	-1.1	-0.3	1.9	2.0	2.4	2.0	
VAT	-1.9	-4.4	-0.9	-0.4	0.5	-0.7	
Capital taxes[2]	-0.4	1.8	8.7	6.1	7.5	9.3	
Oil and gas revenues[3]	-0.2	0.7	0.7	0.3	-0.3	0.3	
Fuel duties	0.2	-0.4	-3.0	-0.6	-0.6	-0.6	
PSNB-neutral receipts	-0.5	3.5	6.3	7.3	9.4	10.5	
Other receipts	4.3	0.7	3.5	7.4	6.4	5.8	
Memo: difference in receipts ex PSNB-neutral	*-0.9*	*6.1*	*49.0*	*61.6*	*64.1*	*57.1*	

[1] Includes depreciation, VAT refunds and most environmental levies.
[2] Includes property transactions taxes, capital gains tax, inheritance tax, and stamp duty on shares.
[3] Offshore corporation tax, petroleum revenue tax and energy profits levy.
Source: ONS, OBR

Tax-by-tax analysis

Income tax (excluding self-assessment)

4.10 Income tax (excluding that from self-assessment) is expected to be £258.2 billion (9.2 per cent of GDP) in 2024-25, a rise of £23.5 billion (10.0 per cent) on a year earlier, boosted by the combination of stronger average earnings growth and frozen tax thresholds. There is continued strong growth forecast in PAYE income tax to 2027-28, of 4.4 per cent a year on average, driven by earnings growth and continued frozen tax thresholds. In the final two years, income tax growth slows, to reach £313.8 billion (9.2 per cent of GDP) in 2029-30, with tax thresholds rising in line with CPI inflation from 2028-29.

4.11 Relative to our March 2024 forecast, we have revised up non-self-assessed IT by £16.7 billion a year on average (Table 4.3). Drivers of these changes include:

- The **pre-measures wages and salaries forecast** has been revised up by an average of 1.9 per cent since our March 2024 forecast, increasing the forecast by £1.8 billion in

2024-25. This is consistent with higher-than-expected income tax receipts seen so far this year and higher average earnings growth over the forecast – growing on average 0.3 per cent a year faster than March 2024, with more strength in the earlier years.

- The **effective tax rate (ETR)** is on average 0.5 percentage points higher than in our March forecast on a pre-measures basis. This reflects fiscal drag, with upward revisions to nominal earnings growth alongside frozen tax thresholds bringing more income into tax and leading to more income tax being paid at higher rates (see Table 3.9 for the most recent recostings of these freezes). This fiscal drag slows in the final two years of the forecast when thresholds are unfrozen and as wages and salaries grow at a slower rate than GDP, with the ETR reaching 23 per cent by the end of the forecast.[7]

- **Policy changes announced in this Budget** are expected to raise an average of £3.5 billion a year in PAYE and other IT from 2025-26. The tax compliance and debt measures on average add £1.2 billion a year, the changes to the Temporary Repatriation Facility (TRF) made as part of the non-domicile tax regime reforms increase other IT by an average of £3.5 billion over 2026-27 to 2028-29.[8] The effect on PAYE receipts from higher incorporations related to the employer NICs measure provides a partial offset – reducing receipts by an average of £0.5 billion each year (see Table 3.2 for further details).

- As set out in Chapter 3, the Budget policy package is assumed to have a set of **indirect effects** on the economy. The overall fiscal expansion is assumed to temporarily boost demand, inflation, and average earnings. The specific changes to employer NICs increase the costs of employment for firms which is mainly assumed to be passed on to employees through lower real wages, and which also reduces employment. Overall, the package initially raises PAYE and other IT by £3.4 billion in 2025-26, as the effect of the fiscal expansion outweighs the fall in wages due to the NICs measure, but this impact falls away and leaves a small reduction of £0.1 billion by the end of the forecast due to lower employment.

[7] The effective tax rate here is calculated as total non-self-assessed income tax as a percentage of total wages and salaries.
[8] Other income tax' (other IT) includes tax streams such as company income tax, investigation settlements and (mainly PAYE) repayments. The latter element means that other IT will typically be negative in each year. In this *Economic and fiscal outlook*, the now three-year Temporary Repatriation Facility (TRF) within the non-domicile tax regime has been recategorized to be within 'other income tax' rather than self-assessed income tax. This change (from both March and October Budgets) impacts 2026-27 to 2028-29, boosting receipts by £4.4 billion, £9.2 billion and £2.5 billion in the three years respectively. The ONS is yet to classify the TRF but we expect it to be a self-assessed tax head. For this forecast we have included it as part of 'other IT'.

Table 4.3: Non-SA income tax: changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	236.7	247.3	257.3	268.1	280.0	290.6	
October 2024 forecast	234.7	258.2	272.2	287.8	303.0	305.5	313.8
Difference	**-1.9**	**10.9**	**14.9**	**19.7**	**23.0**	**14.9**	
of which:							
Forecast changes to earnings and employment		1.8	3.5	3.7	3.8	3.7	
Pre-measures effective tax rate		7.3	7.4	10.0	9.6	6.2	
Direct impact of policy		0.1	0.6	2.9	7.7	4.0	2.1
Indirect impact of policy		1.7	3.4	3.0	2.0	1.0	-0.1

Source: ONS, OBR

National Insurance contributions (NICs)

4.12 NICs are expected to fall by £11.6 billion (6.5 per cent) in 2024-25 compared to a year earlier, to reach £167.5 billion (5.9 per cent of GDP), reflecting the previous Government's cut to NICs rates in early 2024 for both employees and the self-employed, which reduced the effective tax rate to 14.3 per cent (Chart 4.6).[9] The decision in this Budget to increase the employer NICs rate and reduce the secondary threshold from April 2025 is estimated to drive an 18.7 per cent rise in receipts in 2025-26, boosting the effective tax rate to 16.5 per cent. From 2026-27 onwards NICs are forecast to rise by 2.9 per cent a year on average, with higher earnings driving the steady increase, reaching £223.1 billion (6.6 per cent of GDP) by the end of the forecast.

4.13 Relative to March 2024, NICs have been revised up by an average of £19.7 billion (10.8 per cent) over the forecast period – the majority of which is due to the measures announced in this Budget:

- on a **pre-measures** basis, upward revisions to the forecast of wages and salaries drives an average £2.2 billion increase in NICs over the forecast.
- the **direct effect of the Budget policy** on employer NICs is expected to raise £23.7 billion in NICs in 2025-26 rising to £25.7 billion by the end of the forecast.
- as set out in paragraph 4.11 above, the **indirect effect** of the NICs measure is to lower real wages and employment, though this is initially offset by the temporary boost to demand and nominal earnings from the wider Budget policy package. As a result, the indirect effects of the package as a whole initially raise NICs receipts by £2.1 billion in 2025-26 but by the end of forecast result in a reduction of £0.2 billion. Table 3.2 in Chapter 3 shows the indirect effect of the NICs measure alone which substantially reduce its yield.

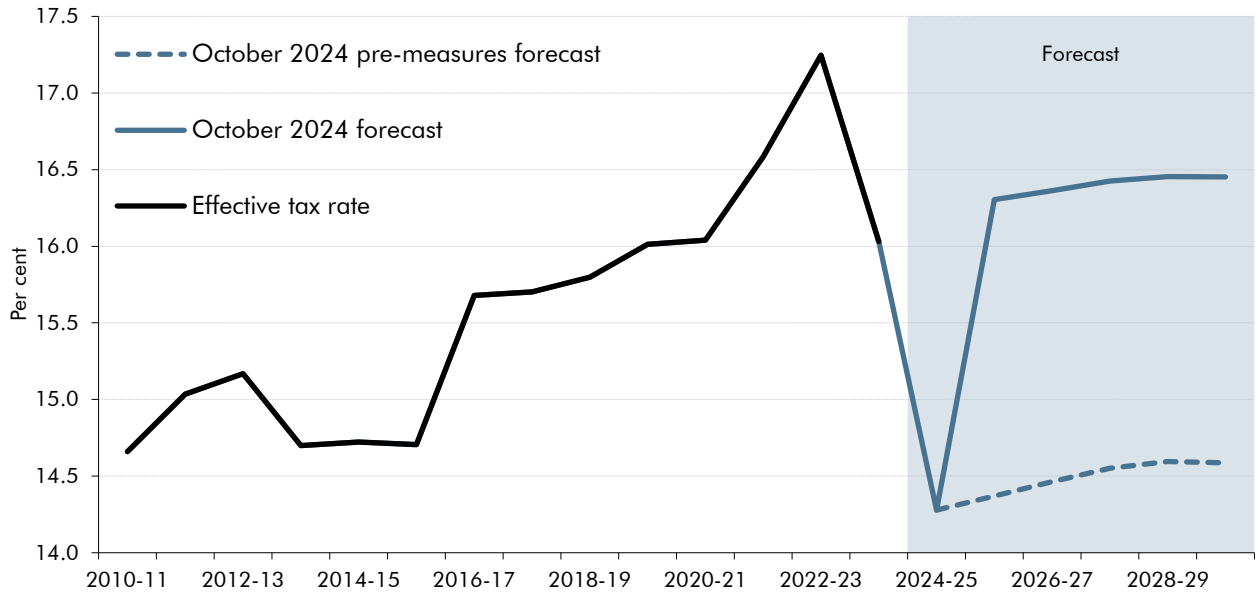
[9] The effective tax rate is total NICs – including employee, employer and self-employed – as a percentage of total wages and salaries.

Table 4.4: NICs: changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	179.2	168.1	173.6	179.8	186.1	192.1	
October 2024 forecast	179.1	167.5	198.8	204.7	210.5	216.8	223.1
Difference	**-0.1**	**-0.7**	**25.2**	**25.0**	**24.3**	**24.7**	
of which:							
Forecast changes to earnings and employment		1.3	2.4	2.5	2.5	2.4	
Pre-measures effective tax rate		-3.0	-3.0	-3.3	-3.4	-3.2	
Direct impact of policy		0.0	23.7	24.0	24.2	25.0	25.7
Indirect impact of policy		1.0	2.1	1.8	1.0	0.5	-0.2

Source: ONS, OBR

Chart 4.6: NICs effective tax rate pre- and post-measures



Note: Effective tax rate is total NICs – including employee, employer and self-employed – as a percentage of total wages and salaries.
Source: ONS, OBR

Self-assessment (SA) income tax

4.14 Self-assessed income tax is levied on income from savings, dividends, property and self-employment. Receipts in 2024-25 are forecast to rise by £10.5 billion (25 per cent) from 2023-24 to reach £53.2 billion (1.9 per cent of GDP), boosted by the reduction in the additional rate threshold (in place from April 2023), rising interest rates on savings, and a return to a more usual level of dividend income after it had been depressed by the unwinding of previous forestalling. Over the rest of the forecast, SA income tax is expected to grow by around 6.1 per cent each year, to reach £78.3 billion (2.3 per cent of GDP) in 2029-30, apart from 2026-27 where stronger growth is expected mainly due to Budget policy changes to the non-domicile tax regime.

4.15 Relative to the March 2024 forecast, SA income tax has been revised down by an average of £2.2 billion this year and next. This reflects new information on SA returns received in 2023-24 that showed a larger shortfall in income from savings than expected in March. From 2026-27 onwards, receipts have been revised up by £1.5 billion a year on average, which primarily reflects the impact of Budget policy measures. The upward revisions largely reflect the re-costing of the March 2024 reforms to the non-domicile tax regime (see paragraph 3.56 in Chapter 3). The further reforms announced in this Budget raise receipts in 2026-27, due to the removal of the 50 per cent reduction in tax on foreign income for non-domiciled taxpayers ineligible for the new regime in 2025-26, but lower them thereafter. Other measures which raise SA income tax receipts include the HMRC compliance measures (£0.6 billion by the end of the forecast) and changes to the capital gains tax (CGT) regime (£1.2 billion by the end of the forecast), discussed further below.

Value added tax (VAT)

4.16 VAT receipts are expected to rise by £2.3 billion (1.4 per cent) in 2024-25 compared to 2023-24, to £171.2 billion (6.1 per cent of GDP). This relatively weak growth would bring VAT receipts as a share of GDP further back toward pre-pandemic levels, partially reflecting a fall in the share of consumption that is on VAT standard-rated goods. Over the forecast period, VAT receipts rise by an average of 4.5 per cent each year to reach £213.7 billion (6.3 per cent of GDP) by 2029-30. Forecast growth in VAT receipts is slightly stronger than the 3.9 per cent average expected increase in nominal consumption over this period. This reflects a slight recovery in the standard-rated share of consumption, alongside policies announced at this Budget to decrease non-compliance and to charge VAT on private schools.

4.17 Relative to our March 2024 forecast, receipts have been revised down by £4.4 billion in 2024-25. This reflects lower-than-expected outturn VAT receipts so far this year, which is consistent with a downward revision to nominal consumption in the first half of 2024-25 particularly concentrated in VAT standard-rated goods. Over the rest of the forecast period, VAT receipts have been revised down by an average of £0.4 billion relative to March, as policies announced at this Budget offset the lower 2024-25 starting point.

4.18 The policies announced at this Budget have both direct and indirect effects on VAT receipts:

- the **direct effects** of VAT policies increase receipts by an average of £3.2 billion from 2025-26 onwards. Charging VAT on private school fees is estimated to raise an average of £1.6 billion a year, and the tax compliance package is expected to increase VAT by £0.5 billion in 2025-26 rising to £2.6 billion in 2029-30. This would represent a further 1.2 percentage point decrease in the VAT gap, to 4.7 per cent in 2029-30.

- the **indirect effects** of the wider Budget policy package increase VAT receipts by an average of £1.8 billion each year from 2025-26 onwards. Higher departmental

spending increases the VAT which is paid on government procurement.[10] This is only partially offset by lower nominal consumption in the private sector caused by crowding out from higher government spending, as discussed in Box 2.1 in Chapter 2.

Onshore corporation tax

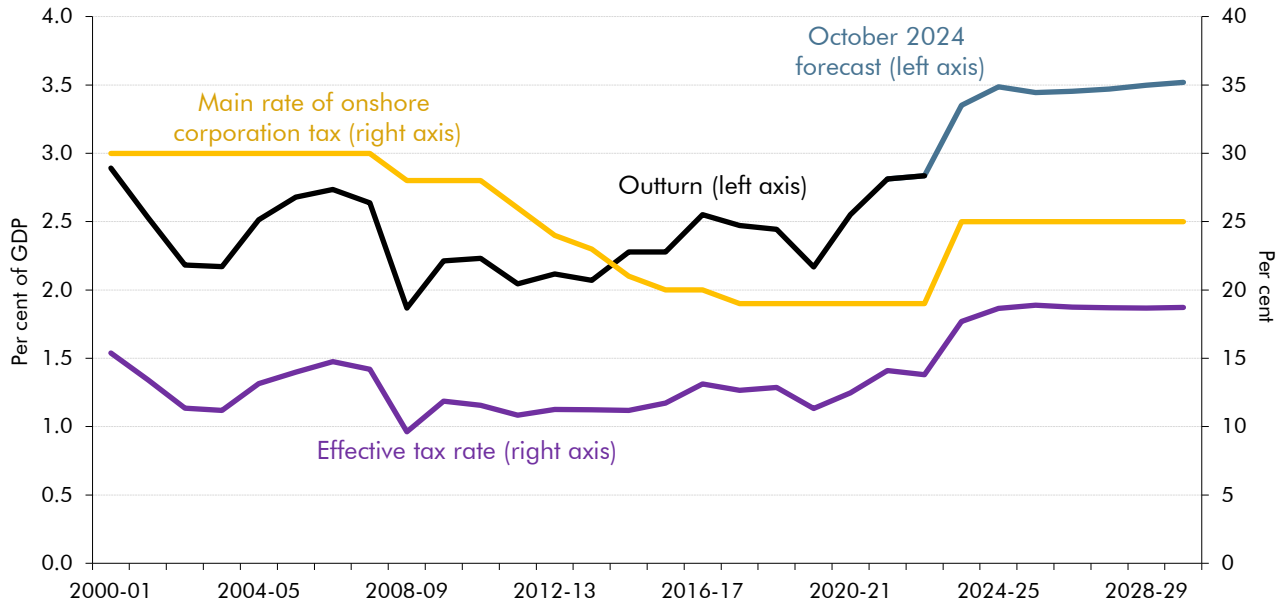
4.19 Onshore corporation tax is expected to raise £98.1 billion (3.5 per cent of GDP) in 2024-25, a rise of around 7.6 per cent from 2023-24. The rise is primarily driven by companies being subject to a full year of the higher rate of corporation tax which was introduced in April 2023. Profits for non-financial companies are expected to drop by 1.1 per cent in 2024 while there is some indication that the net interest margins of retail banks have started to moderate.

4.20 Relative to March, onshore corporation tax is expected to be £0.3 billion lower in 2024-25 but around £2 billion higher in subsequent years of the forecast. Non-financial profit growth is squeezed in 2025 by higher paybill costs from the employer NICs measure, although this is partly offset by the broader temporary demand boost from the fiscal expansion. Thereafter, profits are modestly stronger than in the March forecast and are the main driver of the upward revision to receipts. Receipts from very large companies in both the financial and non-financial sectors have surprised on the upside in 2024-25, while receipts from small companies have been lower than expected. This information from outturn receipts has largely been pushed through to future forecast years. Policy announcements at this Budget add an average of £0.5 billion each year with the biggest element being the boost from the compliance measures.

4.21 Onshore corporation tax is expected to stabilise at around 3.5 per cent of GDP from 2024-25 onwards. This would be the highest level since the introduction of corporation tax in 1965. Onshore corporation tax has risen from 2.6 per cent of GDP as recently as 2020-21. The rise in the main rate of corporation tax (which is only partly offset by the new full-expensing capital allowances regime) is one factor, but a combination of resilient profits growth and a higher effective tax rate on those profits (abstracting from measures) has also boosted receipts. The latter has been helped by strong receipts growth from historically big payers of corporation tax such as retail, financial and professional services.

[10] This change represents the impact of increased government spending on VAT receipts net of refunds, meaning the impact captured here excludes increases to departmental spending that receives VAT refunds.

Chart 4.7: Onshore corporation tax as a share of GDP



Source: ONS, OBR

Oil and gas receipts

4.22 Offshore corporation tax and the energy profits levy (EPL) are due to fall by £0.5 billion to reach £4.5 billion in 2024-25. They continue to decline in each year of the forecast by an average of £0.5 billion, primarily due to the expected continued fall in oil and gas production, to reach £2.0 billion in 2029-30. Oil and gas receipts have been revised up since our March 2024 forecast by an average of £0.3 billion a year. These changes reflect higher gas prices, lower capital expenditure, and the impacts of Budget policy, which more than offset downward revisions to production, oil prices, and a stronger sterling exchange rate against the US dollar.

4.23 The Government has announced changes to the current energy profits levy (EPL) regime, including extending the levy for another year to 2029-30, increasing the rate by 3 percentage points and removing the EPL's investment allowance for all expenditure except in relation to decarbonisation (for which the allowance has been reduced to 66 per cent). These changes add around £0.3 billion a year to the forecast between 2025-26 and 2028-29, primarily from the higher EPL rate and the less generous capital allowances regime. Policy changes then increase receipts by £1.0 billion in 2029-30, reflecting the one-year extension. However, the changes to the EPL regime will lower the post-tax return from investment, reducing capital expenditure and production. These behaviours had in large part already been incorporated in our pre-measures forecast due to uncertainties around the future licencing regime and the Finch court ruling on environmental impacts (see paragraphs 3.40 and 3.41 of Chapter 3 for further details).

4.24 As described in Chapter 3, there is significant uncertainty around the behavioural response of firms to Government policy. The path of capital expenditure and of production could therefore remain higher or decline faster than expected. Oil and gas prices have also been

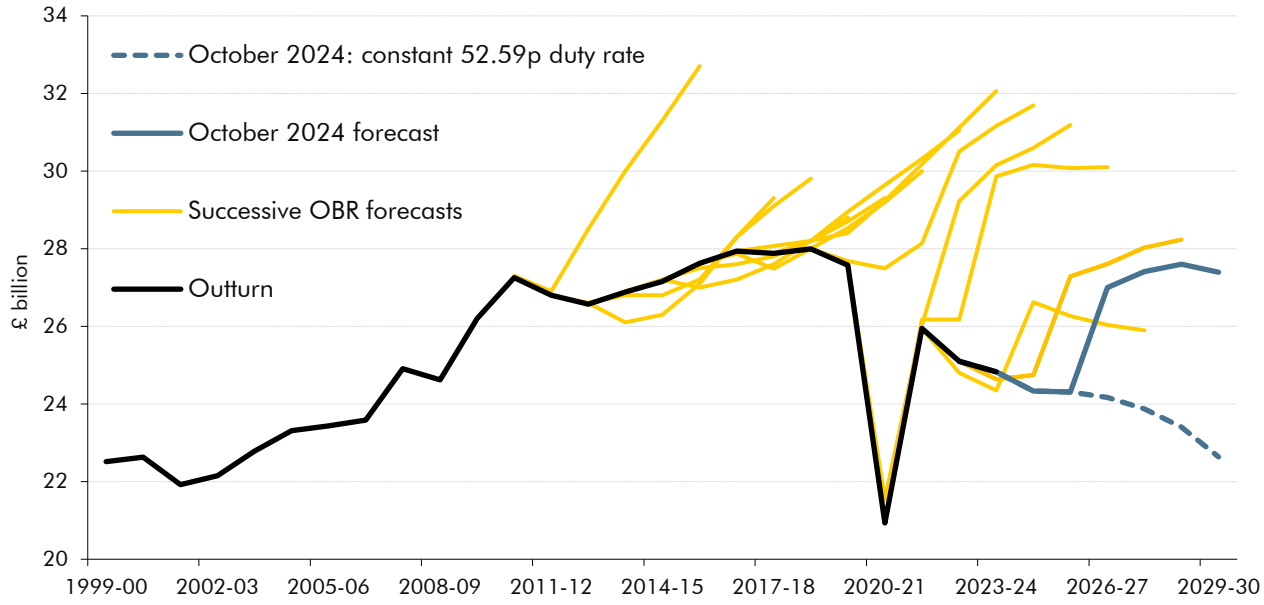
volatile recently due to the conflict in the Middle East and so are a significant risk to this forecast.

Fuel duties

4.25 Fuel duty is expected to raise £24.3 billion (0.9 per cent of GDP) in 2024-25 and remain relatively flat next year as a result of the extension of the 5p cut and the freezing of duty rates announced at this Budget. Receipts are then forecast to increase by £2.7 billion (11.1 per cent) in 2026-27, on the assumption that the reversal of the 5p cut is implemented and duty rates are uprated with RPI. Thereafter receipts are forecast to rise more slowly as assumed increases to duty rates are increasingly offset by the growing electric vehicle (EV) share reducing the tax base, reaching £27.4 billion (0.8 per cent of GDP) by 2029-30. This would be £0.2 billion lower than in 2028-29 as an inflection point is reached where the rising EV share begins to outweigh the increase in fuel duty rates.

4.26 The forecast now assumes that fuel duty will rise by 5p in March 2026 and will be uprated with RPI in every year from April 2026 onwards, in line with stated Government policy. In practice, these policies have rarely been implemented and the new Government is now continuing this practice. The reversal of the 5p cut has now been delayed three times and fuel duty has not been uprated with RPI since 2011. To illustrate the risk associated with this assumption, Chart 4.8 shows that if the duty rate were to remain unchanged at its current level throughout the forecast period, it would reduce receipts compared to the baseline by £3.8 billion on average between 2026-27 and 2029-30, and by £4.8 billion in 2029-30. In Chapter 7 we show how this affects headroom against the Chancellor's fiscal targets.

Chart 4.8: Fuel duty: forecasts versus outturns



Source: ONS, OBR

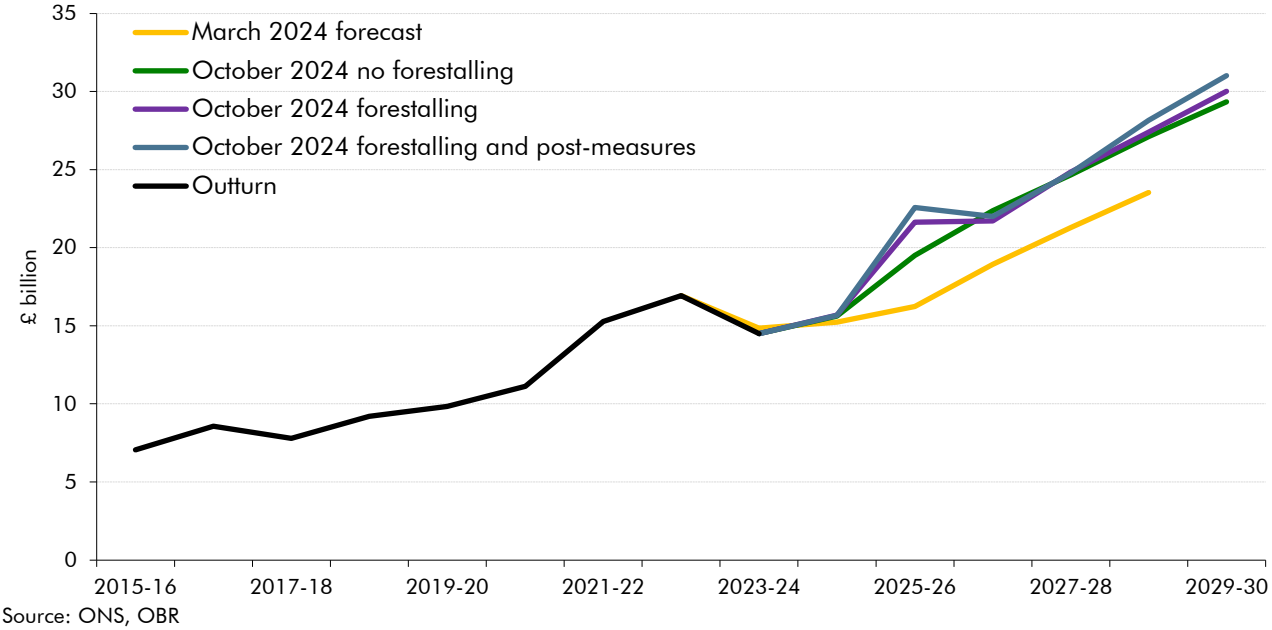
Capital taxes

4.27 **Capital gains tax (CGT)** receipts are expected to raise £15.7 billion in 2024-25, an 8.1 per cent increase from last year. Receipts continue to increase over the forecast, reaching £31.0 billion in 2029-30. Relative to our March forecast, before the impact of policy measures, receipts are forecast to be £2.8 billion a year higher on average. This is due to stronger-than-expected asset price growth in the first half of 2024-25 which affects self-assessment receipts in 2025-26 and beyond.

4.28 The first part of 2024-25 has seen evidence of forestalling – bringing forward the disposal of assets in advance of the possibility of CGT increases at the Budget. We have assumed that this will increase CGT revenues by £2.0 billion in 2025-26 (most 2024-25 gains will be paid through self-assessment in 2025-26), with an offsetting reduction in future years. This adjustment is based on the forestalling seen ahead of the Spring Budget in 2021, following the publication of an Office for Tax Simplification report recommending the alignment of capital gains and income tax rates.

4.29 Policy changes announced in this Budget add a further £1.0 billion in receipts by 2029-30. These include the increases to CGT rates, measures to reduce the tax gap, and the impact of the reforms to the non-domicile tax regime. There is significant uncertainty around the estimates of the yield from these measures, which is discussed in Chapter 3.

Chart 4.9: CGT receipts



Source: ONS, OBR

4.30 **Inheritance tax (IHT)** receipts are expected to raise £8.3 billion in 2024-25, a 10.7 per cent increase from last year. Receipts continue to increase over the forecast, following the paths of house and equity prices, reaching £13.9 billion in 2029-30. Relative to our March forecast, before the impact of policy measures, receipts are £0.9 billion a year higher on average, due to asset prices being stronger than expected. Policy changes announced in this

Budget add a further £2.5 billion in receipts by 2029-30. These include charging IHT on pension wealth transferrable at death, limits to agricultural and business reliefs, and extending the freeze in nil-rate bands to 2029-30, discussed further in Chapter 3. These changes contribute to the proportion of deaths subject to inheritance tax rising over the forecast from 5.2 per cent in 2023-24 to 9.5 cent in 2029-30, while the average tax bill for taxpaying estates remains roughly constant.

4.31 **Property transaction taxes** receipts are expected to raise £14.1 billion in 2024-25, a 10.5 per cent increase from last year. They are forecast to increase to rise to £25.4 billion in 2029-30, following the path of house prices. Relative to our March forecast, before the impact of policy measures, receipts are £0.6 billion higher on average, driven by a stronger house price forecast. The policy change increasing the higher rate of stamp duty for additional dwellings raises a further £0.4 billion by 2029-30.

Other receipts

4.32 **Alcohol duty** receipts are expected to raise £12.4 billion this year, falling by 0.6 per cent compared to last year as rates remain frozen until February 2025 and alcohol consumption decreases. Receipts are forecast to increase by 5.0 per cent a year on average over the rest of the forecast period to reach £15.9 billion in 2029-30, driven by alcohol consumption rising in line with longer-term averages and RPI-linked duty rates. Relative to our March forecast, alcohol duty has fallen by £0.5 billion a year, driven by lower-than-anticipated in-year receipts as a result of lower-than-anticipated alcohol consumption in 2024-25, and a reduction in alcohol consumption growth over the medium term.

4.33 **Tobacco duty** receipts are expected to raise £8.7 billion this year, down 2.7 per cent on 2023-24. They are forecast to decline by 0.5 per cent a year on average over the rest of the forecast period to £8.5 billion in 2029-30, as declining tobacco consumption offsets increasing duty rates. This forecast is the first to incorporate the smokefree generation policy, which prohibits those born on or after 1 January 2009 from purchasing cigarettes or other tobacco products. This reduces tobacco duty receipts by an increasing amount over the forecast, decreasing receipts by £0.1 billion in 2029-30. Relative to March, the forecast has increased by an average of £0.2 billion each year, most of which relates to policy measures, most notably increases to tobacco duty rates, including the RPI+2 per cent escalator on tobacco duty rates until the end of the Parliament and the one-off RPI+12 increase to hand-rolled tobacco rates in 2024-25.

4.34 **Air passenger duty (APD)** receipts are expected to raise £4.2 billion in 2024-25. From 2025-26 they are forecast to increase by 9.0 per cent a year on average to £6.5 billion in 2029-30, driven by increasing passenger numbers and higher duty rates. Relative to our March forecast, receipts have been revised down by £0.2 billion a year in 2024-25 and 2025-26 due to a reduction in our passenger numbers forecast, but have been revised up by £0.3 billion over the remainder of the forecast due to higher duty rates introduced from 2026-27.

4.35 **Vehicle excise duty (VED)** receipts are expected to raise £8.2 billion in 2024-25, up by £0.5 billion (6.5 per cent) compared to 2023-24, and are expected to increase through the forecast period to £11.2 billion, driven by an increasing number of cars, more cars paying the Expensive Car Supplement (ECS), and the extension of VED to electric vehicles (EVs) from 2025. Receipts have been revised up by an average of £0.2 billion a year since March, which is explained by an increase in the first year VED rate for petrol, diesel and hybrid vehicles and a first year duty rate freeze for EVs announced at this Budget, which increases receipts by £0.3 billion on average each year from 2025-26.

4.36 **Emissions trading scheme (ETS)** receipts are expected to raise £3.5 billion in 2024-25, which is £0.1 billion lower than in March due to lower-than-anticipated carbon prices. Receipts are then £0.3 billion a year higher on average from 2025-26 onwards due to an increase in carbon prices, with receipts in 2029-30 totalling £1.6 billion.

4.37 **Landfill tax** receipts are expected to raise £0.6 billion in 2024-25, which is £0.04 billion lower than in our March forecast.[11] Receipts are then forecast to fall by 46.1 per cent over the forecast to reach £0.3 billion in 2029-30. The majority of this decline occurs from 2027-28, where receipts have approximately halved compared to our March forecast from around £0.6 billion on average each year to around £0.3 billion. This is driven primarily by upward adjustments to the Department for Environment, Food and Rural Affairs forecasts for waste incineration infrastructure, which reduces the amount of waste sent to landfill and subsequently reduces the tax base.

4.38 The **electricity generator levy (EGL)** is forecast to end a year sooner than expected at the time of our March 2024 forecast – by the end of 2025-26. This is due to a lower forecast of wholesale electricity spot prices which drops below the benchmark price in 2026. Lower electricity prices are also the key reason for the downward revisions in the EGL forecast to £1.0 billion in 2024-25 and to £0.3 billion in 2025-26.

4.39 Receipts from **environmental levies** are expected to be £12.0 billion in 2024-25. Relative to March, receipts are expected to be £3.4 billion higher by 2028-29 primarily due to the contracts for difference (CfD) and capacity markets schemes. The sixth allocation round for the CfD scheme concluded in early September and led to an increase in expected renewables generation towards the end of the forecast period. In addition, lower wholesale electricity prices relative to March increase the forecast level of subsidy under the CfD, which is recouped by a levy on consumer bills. The capacity market scheme is designed to ensure security of energy supply. The auction for supply to be provided in 2027 cleared at a higher price than we had assumed in our March forecast. Both these schemes are fully offset in our spending forecast, and so are fiscally neutral for public sector net borrowing.

4.40 **VAT refunds** are projected to be £30.4 billion in 2024-25, and then grow over the forecast, in line with government consumption, to £36.5 billion in 2029-30. The forecast has increased by £3.7 billion a year on average compared to March. This is primarily driven by

[11] These numbers include receipts from Scottish Landfill Tax (SLfT) and Welsh Land Disposal Tax (LDT) in addition to England and Northern Ireland landfill tax receipts.

higher government spending on procurement, which increases VAT refunds by £2.4 billion a year. The remaining increase relates to an increased (pre-measures) effective tax rate on government spending boosting receipts by £1.0 billion each year, and a £0.4 billion increase from the policy to charge VAT on private schools (as local authorities will receive VAT refunds on the private school fees they pay). VAT refunds are offset in spending, and so are fiscally neutral for public sector net borrowing.

4.41 **Interest and dividend receipts** are expected to fall slightly this year to £43.1 billion in 2024-25, but this is still more than double the level in 2020-21 when interest rates were at a record low. In recent years the return on interest-rate-sensitive elements such as the Government's bank deposits and foreign exchange reserves has risen, while the accrued interest on student loans has been boosted by high RPI inflation. Receipts are forecast to fall further to £40.8 billion in 2025-26 as Bank Rate is expected to fall to 3.9 per cent, before increasing by small amounts in each year thereafter to peak in the final year at £45.4 billion. Compared to our March forecast, receipts are on average £1.7 billion higher a year reflecting a higher path for Bank Rate, higher near-term RPI inflation boosting student loan interest, and stronger equity prices increasing the return on funded pensions.

4.42 **Business rates** are expected to raise £32.1 billion in 2024-25, growing by 9.6 per cent on last year. Business rates are calculated by multiplying the rateable value of a non-domestic property by the multiplier (which is uprated by CPI inflation in the absence of policy to the contrary). The 6.7 per cent rise in the standard multiplier in 2024-25 is a key driver of growth in 2024-25 along with less generous transitional relief related to the 2023-24 revaluation. This Budget announced, for the fifth consecutive year, a further extension of relief for the retail, hospitality and leisure (RHL) sectors for 2025-26, albeit on a less generous basis than previously, and the freezing of the small business multiplier. This is partly offset by ending the eligibility of private schools to claim charitable relief. Compared to March 2024, the effect of the extension of RHL relief lowers receipts by £1.5 billion in 2025-26. Thereafter receipts are over £1 billion a year higher, reaching £39.8 billion by 2029-30, with the largest effect being from the higher path of CPI inflation pushing up the multiplier.

4.43 **Gross operating surplus (GOS)** is the sum of public sector depreciation and public corporations' trading surplus.[12] It has been revised up compared to March by an average of £2.9 billion a year to reach £92.1 billion by 2029-30. This reflects upward revisions to forecast depreciation in light of the latest outturn data, the upward revision to the GDP deflator and to public corporations' trading surplus, and the expansion in departmental capital spending. Public sector depreciation is offset in spending, and so is neutral for public sector net borrowing.

[12] The ONS have classified the Bank of England Levy as a tax on production. In this forecast the proceeds of the Levy remain in public corporation GOS pending advice from the ONS on how to incorporate it.

5 Public sector expenditure

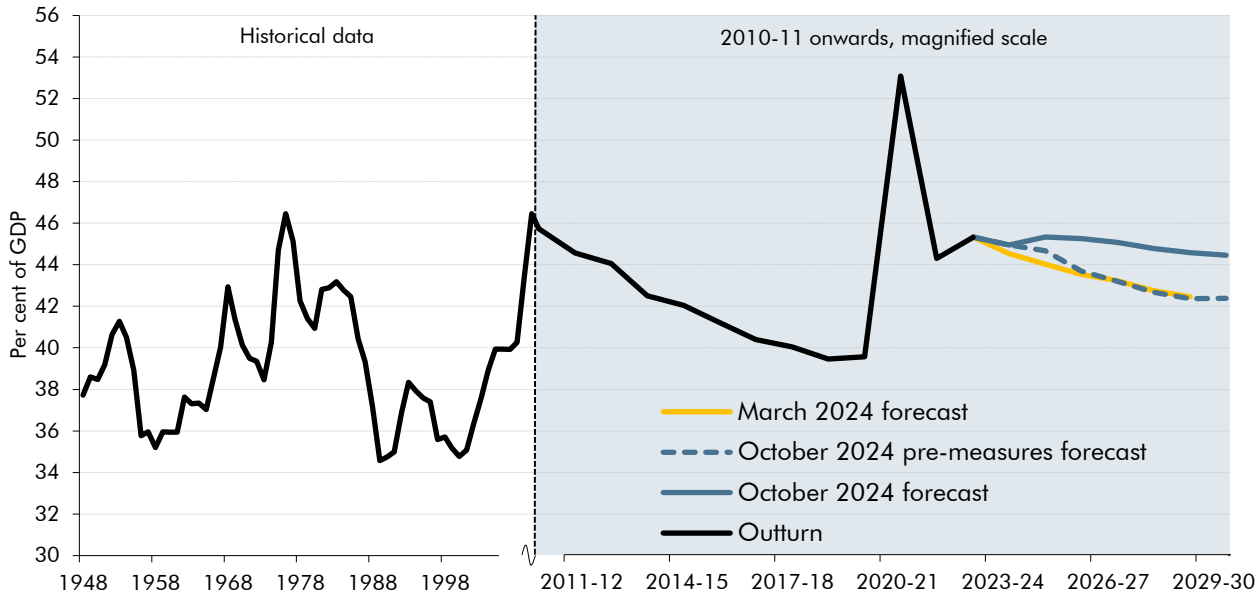
Summary of the expenditure forecast

5.1 Having fallen from a pandemic peak of 53.1 per cent of GDP in 2020-21 to 44.9 per cent of GDP last year, total public spending increases as a share of the economy this year to 45.3 per cent of GDP. It then declines gradually thereafter, settling at 44.5 per cent of GDP by the end of the decade, a level that is almost 5 percentage points higher than before the pandemic (Chart 5.1 and Table 5.1).

5.2 The increase in 2024-25 mainly reflects a rise in departmental and welfare spending more than offsetting a small fall in debt interest costs. The gradual decline from next year onwards reflects a further small fall in debt interest spending and a decline in other elements of annually managed expenditure (AME), including unfunded public service pensions and student loans. Resource departmental spending (RDEL) is higher this year compared to 2023-24 and then broadly flat as a share of GDP over the forecast period, at just over 16 per cent of GDP. Departmental capital spending (CDEL) is set to rise next year as a share of GDP and then fall slightly over the final two years of the forecast back to its starting level of 3.6 per cent of GDP in 2029-30.

5.3 Spending is an average of 1.8 per cent of GDP a year higher than forecast in March based on the plans of the previous Government. There has been only a small pre-measures forecast revision to spending as a share of GDP in the medium term, so the increase very largely reflects the direct and indirect effect of policy measures in this Budget. More than four-fifths of the upward revision to spending relative to March is explained by this Government's decision to increase RDEL and CDEL significantly compared to the previous Government's plans, with RDEL alone comprising around three-fifths of the medium-term increase. In our March forecast, departmental spending was set to fall by 1 per cent of GDP between 2023-24 and 2028-29. The current Government's uplifts instead leave overall departmental spending broadly level as a share of the economy over the forecast.

Chart 5.1: Public spending as a share of GDP



Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts published on 30 September 2024. All else equal, applying the upward revision to 2023-24 nominal GDP of 1.1 per cent to all years of the forecast would reduce the National Accounts spending-to-GDP ratio by 0.5 per cent of GDP across the forecast.
Source: ONS, OBR

Table 5.1: Total managed expenditure as a share of GDP

	Per cent of GDP						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Total managed expenditure	**44.9**	**45.3**	**45.3**	**45.1**	**44.8**	**44.6**	**44.5**
of which:							
Departmental expenditure limits	**19.1**	**19.6**	**20.0**	**20.0**	**19.9**	**19.8**	**19.7**
of which:							
Resource DEL	15.5	16.1	16.2	16.2	16.1	16.1	16.1
Capital DEL	3.6	3.5	3.8	3.8	3.8	3.7	3.6
Annually managed expenditure	**25.9**	**25.7**	**25.3**	**25.1**	**24.8**	**24.8**	**24.8**
of which:							
Welfare spending	10.9	11.1	11.1	11.1	11.0	11.0	11.1
Debt interest, net of APF	3.9	3.7	3.6	3.5	3.6	3.6	3.6
Other AME	11.0	10.8	10.6	10.4	10.2	10.2	10.1

Note: Total managed expenditure can be divided into two components of roughly equal size: departmental expenditure limits (DELs) mostly cover spending on public services, grants and administration ('resource' spending), and investment ('capital' spending). These items can be planned over multiple years. Annually managed expenditure (AME) covers items less amenable to multi-year planning.
Source: ONS, OBR

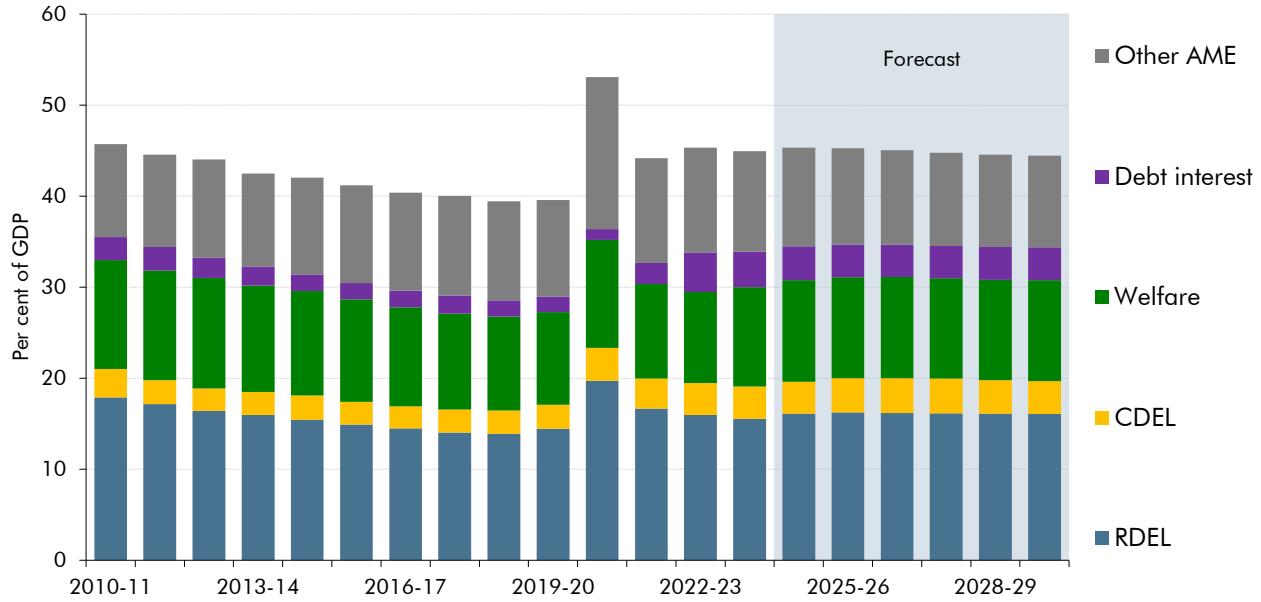
5.4 The spending-to-GDP ratio in 2010-11 was 6.1 percentage points higher than the pre-pandemic level in 2019-20, and by 2029-30, the spending-to-GDP ratio is forecast to be 4.9 per cent of GDP above this pre-pandemic level. The composition of spending has shifted substantially over these two decades (Chart 5.2):

- **2010-11 to 2019-20**: Over this period spending fell by 6.1 per cent of GDP, driven by policy decisions to reduce RDEL spending (3.4 per cent of GDP), and falls in welfare spending (1.8 per cent of GDP) which reflected both policy changes and the economic recovery from the financial crisis.

- **2019-20 to 2024-25**: In the wake of the pandemic, spending spiked upward in 2020-21 to 13.5 per cent of GDP above 2019-20 levels, driven by higher departmental and welfare spending and the introduction of temporary Covid-related income support schemes and loan guarantees. By 2024-25, RDEL and welfare fall back closer to their pre-pandemic levels. However, CDEL spending remains around 0.9 per cent of GDP above 2019-20 levels, and debt interest costs are 2.0 per cent above 2019-20 levels.

- **2024-25 to 2029-30**: Over the next five years, the forecast 0.9 per cent of GDP fall in spending from this year to 2029-30 reflects a small decline in debt interest spending next year, and falls in other elements of AME including unfunded pensions and student loans. RDEL and welfare spending are forecast to be broadly level at around 1.7 and 0.9 per cent of GDP above 2019-20 levels, respectively, while CDEL spending is forecast to be around 1.1 per cent of GDP above 2019-20 levels.

Chart 5.2: Spending as a share of GDP by category



Note: To present a consistent series, departmental spending is presented on its current definition, and therefore RDEL excludes Scottish Government AME and CDEL excludes Scottish Government capital AME throughout. Single use military expenditure (SUME) is not classified as DEL spending throughout.
Source: ONS, OBR

5.5 By 2029-30, public spending as a share of GDP is forecast to be 4.9 per cent of GDP higher than it was in 2019-20, prior to the pandemic (Chart 5.3). That reflects both pre-existing trends and subsequent policy changes:

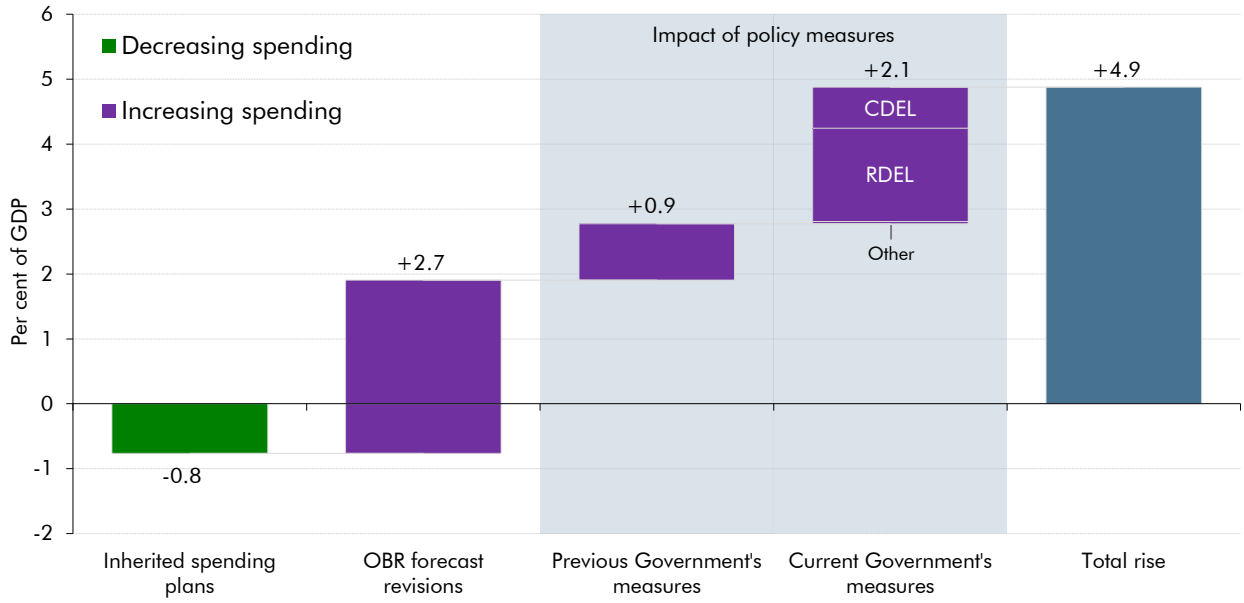
- All else equal, the **spending plans in place in the pre-pandemic Budget in March 2020** would have resulted in the spending-to-GDP ratio falling by 0.8 per cent of GDP over this period.

- **Underlying forecast revisions** raise spending by 2.7 per cent of GDP relative to pre-pandemic expectations. This is driven mainly by higher debt interest spending – due to both upward revisions to the amount of debt and the cost of servicing it – and to welfare spending – due to higher inflation and higher health-related caseloads.

- **Discretionary spending increases announced by the previous Government** would have raised the spending-to-GDP ratio by 0.9 percentage points, reflecting net increases to RDEL and CDEL spending.

- The **policies announced in this Budget** raise spending by a further 2.1 per cent of GDP in 2029-30, around two-thirds of which is driven by higher RDEL spending and one-third by higher CDEL spending.

Chart 5.3: The rise in the spending-to-GDP ratio from 2019-20 to 2029-30



Source: ONS, OBR

Changes in spending since the March 2024 forecast

5.6 Relative to our March forecast, spending in cash terms has been revised up in each year of the forecast, by £49.8 billion this year and then an average of £91.8 billion in the four years thereafter (Table 5.2). On average over the forecast:

- £15.2 billion is due to **changes in the underlying pre-measures forecast**. This is mainly due to higher debt interest spending which has increased by £14.4 billion this year and then by £3.4 billion on average over the forecast, on a pre-measures basis,

reflecting upward revisions to RPI and Bank Rate. A range of fiscally neutral spending lines (discussed in Chapter 4) are also slightly higher across the forecast.

- £60.1 billion is due to the **direct effect of policy changes in this Budget**, the largest sustained increase in spending in at least the past 15 years.[1] Two-thirds of the policy-driven spending increase goes on current spending and one-third on capital spending. Policy changes increase spending by £25.0 billion this year and then by amounts rising to £75.8 billion in 2028-29. As discussed above this is almost entirely driven by higher departmental spending allocated at this Budget (£37.2 billion on average each year over 2024-25 and 2025-26), and an increase to the DEL envelope for remaining forecast years (£67.3 billion on average each year between 2026-27 and 2028-29). The 2024-25 increase in current spending reflects a combination of the funding of undisclosed spending pressures that existed at the time of the March Budget and have since come to light, and the cost of new policies announced by this Government.[2] In addition, significant funding has now been allocated for the infected blood and Post Office compensation schemes.

- The **indirect effects** of the policy package raise spending by a further £8.1 billion a year on average, principally due to higher debt interest costs.

Table 5.2: Total managed expenditure: changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	1,216	1,226	1,252	1,290	1,323	1,362	
October 2024 forecast	1,223	1,276	1,335	1,379	1,418	1,462	1,510
Difference	**6.4**	**49.8**	**83.4**	**88.7**	**95.1**	**100.0**	
By policy and forecast differences							
of which:							
Underlying forecast differences (excl. PSNB-neutral)	6.9	22.2	14.8	8.2	5.7	4.8	
PSNB-neutral forecast differences[1]	-0.5	2.4	3.2	3.7	5.1	5.6	
Direct impact of policy	0.0	25.0	59.6	67.4	72.9	75.8	71.6
Indirect impact of policy	0.0	0.2	5.7	9.4	11.5	13.7	16.0
By spending category							
of which:							
Departmental spending	0.8	23.0	51.7	61.3	67.8	72.7	
Debt interest	2.0	15.9	16.9	12.0	9.9	8.3	
Welfare spending	0.5	-1.6	-1.5	0.8	1.3	1.3	
Other current spending	2.7	9.0	10.0	7.4	6.8	7.2	
PSNB neutral spending	0.5	3.5	6.3	7.3	9.4	10.5	
Memo: difference in spending ex. PSNB-neutral	*5.9*	*46.4*	*77.1*	*81.4*	*85.7*	*89.5*	

[1] Includes depreciation, VAT refunds and most environmental levies.
Source: ONS, OBR

[1] Our policy measures database only documents increases in spending as a result of measures at fiscal events since 2010. Changes to the control of public spending prior to that date prevent consistent comparison over a longer historical period.
[2] See our *Review of the March 2024 forecast for departmental expenditure limits*, October 2024.

Analysis of spending by category

Spending within departmental expenditure limits

5.7 Spending subject to departmental expenditure limits (DELs) makes up a little over 40 per cent of all public spending and is divided into a set of nominal limits for each of 17 government departments in periodic spending reviews. In this section, 'RDEL spending' refers to departmental resource, or day-to-day, spending, and 'CDEL spending' refers to departmental capital, or investment, spending.[3] The latest forecast reflects departments' detailed plans for 2024-25 and 2025-26, as announced in this Budget, and the Government's spending assumptions for 2026-27 and beyond. The latter entails two overall spending totals (one for total resource DEL and one for total capital DEL) but provides no detailed plans for how these are to be divided between each government department – these will be set in the Government's planned 2025 Spending Review.

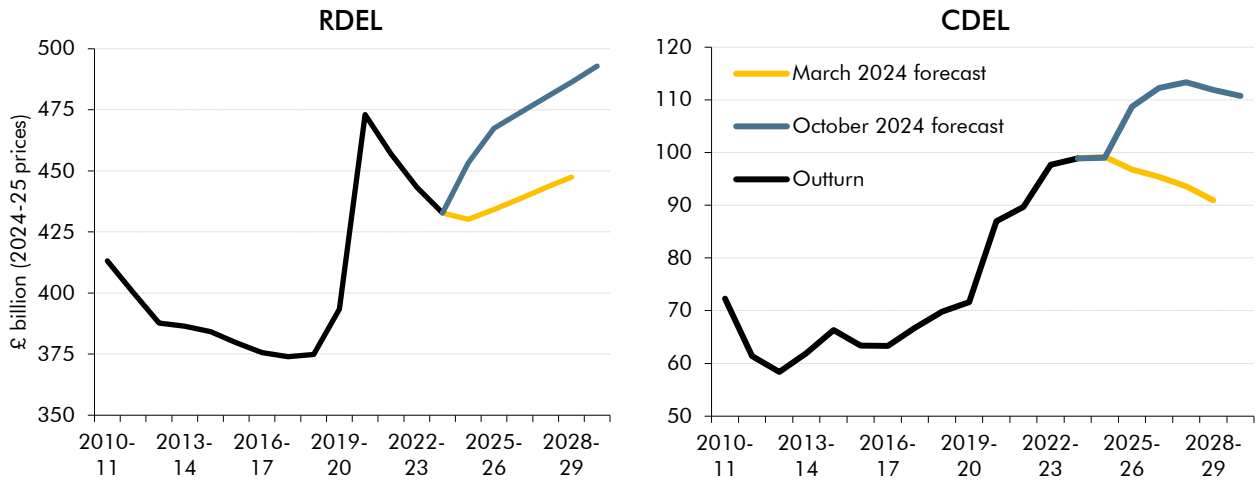
5.8 Compared to the March forecast, total departmental spending is an average of £55.3 billion (9.1 per cent) a year higher over the forecast period, with a £23 billion increase this year that rises to an increase of £72.7 billion in 2028-29. Chart 5.4 and Table 5.3 show the composition of these significant uplifts across RDEL and CDEL, and their impacts on the path of real spending over the forecast:

- **RDEL spending** is higher than the March forecast by £23.2 billion this year and an average of £43.8 billion in the four years thereafter. Having fallen by 2.4 per cent in 2023-24, RDEL now grows in real terms by 4.8 per cent this year, 3.1 per cent next year and then by an average of 1.3 per cent in the years thereafter. Real RDEL spending now grows by 2.4 a year on average between 2023-24 and 2028-29, compared to an average real growth rate of 1.0 per cent a year in the March forecast.

- **CDEL spending** is £0.2 billion lower than the March forecast this year (reflecting reductions at this Budget more than offsetting the in-year transfers from RDEL to CDEL at 2024-25 main estimates) but an average of £19.6 billion higher in the four years thereafter. CDEL spending grows sharply in real terms next year by 9.8 per cent, and then flattens and falls slightly thereafter, resulting in average annual real growth between 2023-24 and 2028-29 of 2.6 per cent, compared to average annual real falls of 1.1 per cent in the March forecast.

[3] More formally, unless otherwise stated these terms refer, respectively, to public sector current expenditure (PSCE) in RDEL and public sector gross investment (PSGI) in CDEL, which is the spending within DELs that is recorded within the National Accounts measure of total managed expenditure.

Chart 5.4: Real departmental resource and capital spending



Source: HM Treasury, OBR

Table 5.3: Departmental spending: changes since March

	£ billion, unless otherwise stated						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast							
Total DEL spending	518.5	529.4	538.1	550.6	563.9	576.5	
TDEL real growth rate (per cent)	*-2.1*	*1.3*	*0.3*	*0.6*	*0.5*	*0.3*	
of which:							
RDEL spending	422.9	430.2	440.0	452.3	465.6	479.2	
RDEL real growth rate (per cent)	*-2.6*	*0.9*	*0.9*	*1.0*	*1.0*	*1.0*	
CDEL spending	95.6	99.2	98.1	98.3	98.3	97.4	
CDEL real growth rate (per cent)	*-0.1*	*3.0*	*-2.5*	*-1.4*	*-1.8*	*-2.9*	
October 2024 forecast							
Total DEL spending	519.3	552.4	589.8	611.9	631.7	649.2	668.2
TDEL real growth rate (per cent)	*-1.7*	*3.9*	*4.3*	*1.7*	*1.2*	*0.8*	*0.9*
of which:							
RDEL spending	422.7	453.4	478.6	494.7	511.0	527.8	545.6
RDEL real growth rate (per cent)	*-2.4*	*4.8*	*3.1*	*1.4*	*1.3*	*1.3*	*1.4*
CDEL spending	96.6	99.0	111.3	117.2	120.7	121.4	122.6
CDEL real growth rate (per cent)	*1.2*	*0.1*	*9.8*	*3.3*	*1.0*	*-1.3*	*-1.0*
Difference							
Total DEL spending	0.8	23.0	51.7	61.3	67.8	72.7	
of which:							
RDEL spending	-0.2	23.2	38.5	42.4	45.5	48.6	
CDEL spending	1.0	-0.2	13.2	18.9	22.3	24.1	

Source: HM Treasury, OBR

5.9 The following sections assess the path of departmental spending in the years in which department allocations have now been set (2024-25 and 2025-26), and in the later years of the forecast, in more detail. This includes its allocation across departments and economic categories, pressures and risks on those allocations and the Treasury's central reserve, and our judgements on the level of likely over or underspending against the limits set by the Treasury. The analysis reflects a new and more detailed approach to forecasting

departmental spending which implements the recommendations of our *Review of the March 2024 forecast for departmental expenditure limits* published alongside this *Economic and fiscal outlook* (*EFO*).

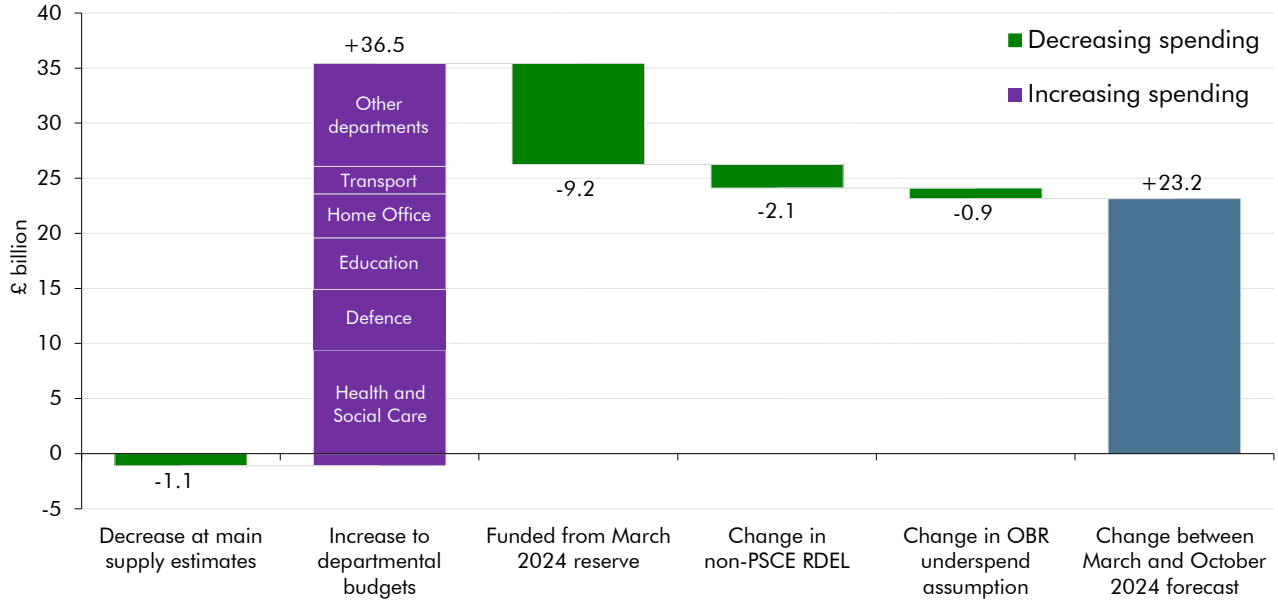
Departmental spending allocations in 2024-25 and 2025-26

RDEL spending

5.10 Compared to the March forecast, RDEL this year is £23.2 billion higher (Chart 5.5). Following a small decrease of £1.1 billion at July main estimates, departmental budgets were then increased by £36.5 billion. Of this £36.5 billion in-year increase, £9.2 billion was funded from the RDEL reserve and so does not increase aggregate PSCE in RDEL spending. A further £2.1 billion reflects changes in RDEL that are not included within the forecast measure of PSCE in RDEL, and £0.9 billion reflects a small increase in our underspend assumption.

5.11 This increase in 2024-25 RDEL relative to the March forecast reflects a combination of the funding of undisclosed spending pressures that existed at the time of the March Budget and have since come to light, and the cost of new policies announced by this Government. The *Review of the March 2024 forecast for departmental expenditure limits* found that £9.5 billion of pressures within RDEL were not disclosed to the OBR at the time of the February 2024 challenge panel meeting that informed our pre-measures forecast. The upward revision to RDEL in 2024-25 reflects a combination of the funding of these and other pressures and subsequent new policy choices, albeit not one which we can split quantitatively.

Chart 5.5: Change in 2024-25 RDEL spending since March



Note: Non-PSCE RDEL includes non-PSCE items that compose the difference between the Treasury's measures of RDEL excluding depreciation and the PSCE in RDEL measure that we forecast.
Source: HM Treasury, OBR

5.12 Because part of the substantial in-year increase to RDEL was in response to baseline pressures and higher pay settlements, we assume that most of the higher in-year RDEL allocation will be spent. Reflecting this, overall, we have assumed a small underspend of £3.9 billion against the Treasury's final 2024-25 RDEL limit (up from our £2.9 billion assumption in March), equivalent to 0.9 per cent of the current forecast for in-year RDEL. This is below the average since 2016-17 of a 4.9 per cent underspend against departments' RDEL forecasts at this point within the fiscal year.

5.13 There are upside and downside risks to the forecast for in-year RDEL. On the upside, in-year RDEL budgets are now almost fully allocated to departments, with only a £1.1 billion reserve for the rest of the year, reflecting the reset of in-year departmental budgets at this fiscal event. This is much lower than the £13.2 billion in-year RDEL reserve at the time of the November 2023 forecast. If there were material changes in volume pressures on service – for example if the asylum backlog takes longer to clear, the winter pressures on the NHS are unusually severe, or transport passenger numbers do not rise as quickly as expected – this might create pressure on the Government to respond by allocating additional RDEL. On the downside, departments could underspend their budgets by more than the relatively low level currently assumed, which would result in lower overall RDEL spending than forecast.

5.14 The Government also set departmental budgets for 2025-26 at the Budget, which increased RDEL by £33.0 billion compared to the March 2024 forecast (Table 5.4). On the Treasury's control total definition of RDEL, higher spending on NHS England and the Department for Education makes up £14.6 billion (just over 40 per cent) of the increase between 2024-25 and 2025-26, with the remaining increase distributed evenly across most of the other departments.

Table 5.4: RDEL spending totals by department

	£ billion			Per cent		
	Outturn	Forecast		Real annual growth		
	2023-24	2024-25	2025-26	2024-25	2025-26	Ave. 23-24 to 25-26
Health and Social Care	177.9	190.1	200.5	3.8	3.0	3.4
of which: NHS England	*171.0*	*181.4*	*192.0*	*4.7*	*3.3*	*4.0*
Education	81.8	88.8	93.0	4.7	2.2	3.5
of which: core schools	*57.7*	*61.6*	*63.9*	*2.3*	*1.4*	*1.8*
Home Office	19.0	20.8	20.6	-3.1	-3.3	-3.2
Justice	10.4	11.0	11.8	3.4	5.1	4.3
Law Officers' Departments	0.8	0.9	1.0	8.5	6.8	7.6
Defence	34.8	37.5	38.4	3.2	0.1	1.7
Single Intelligence Account	2.8	2.8	3.0	-0.6	6.3	2.8
FCDO: Foreign Office	7.7	8.4	8.3	5.2	-3.7	0.6
MHCLG: Local Government	9.6	12.5	14.3	8.1	12.3	10.2
MHCLG: Housing and Communities	3.3	3.8	3.8	16.3	-0.7	7.5
Culture, Media and Sport	1.5	1.5	1.5	-1.5	-3.5	-2.5
Science, Innovation and Technology	0.3	0.4	0.4	22.2	3.4	12.4
Transport	7.9	8.2	8.2	1.2	-2.5	-0.7
Energy Security and Net Zero	1.3	1.6	1.9	18.7	19.2	8.8
Environment, Food and Rural Affairs	4.7	4.8	4.8	-1.0	-2.8	-1.9
Business and Trade	1.6	1.8	1.8	9.9	-2.1	3.7
Work and Pensions	8.4	9.0	10.1	3.2	9.7	6.4
HM Revenue and Customs	6.0	5.2	5.8	-0.9	9.3	4.1
HM Treasury	0.4	0.3	0.4	-7.1	9.2	0.7
Cabinet Office	0.9	0.8	0.8	-6.9	-2.2	-7.4
Scotland	37.4	39.3	41.1	2.2	2.3	2.3
Wales	16.4	16.9	17.7	0.2	2.4	1.3
Northern Ireland	14.8	15.2	16.0	0.2	2.9	1.5
Small and independent bodies	2.3	2.6	2.8	9.7	3.9	6.8
Reform and Innovation Fund	0.0	0.0	0.2	-	-	-
Allowance for direct impact of tax changes	0.0	0.0	4.7	-	-	-
Reserves	0.0	0.0	4.1	-	-	-
Total RDEL spending	**452.2**	**484.2**	**517.2**	**3.5**	**4.3**	**4.0**

Note: This table shows the Treasury's measure of RDEL, including non-PSCE RDEL but excluding any assumptions about underspending. The real growth rates are calculated against a baseline excluding one-off items, so the real growth rates in the right columns do not match the cash figures in the left columns. The 2024-25 RDEL reserve is £1.1 billion, but is not presented in the 2024-25 baseline figure.
Source: HM Treasury, OBR

5.15 For a number of departments, the profile of RDEL spending growth over the next two years is significantly front-loaded, reflecting the shape of the overall spending envelope:

- The NHS England budget, approximately two-fifths of RDEL, grows by 4.7 per cent in real terms this year and 3.3 per cent next year, with the latter below the average annual real growth in spending since the 1950s of 3.6 per cent.

- The Department for Education's (DfE's) budget, approximately one-sixth of RDEL, grows at 4.7 per cent in real terms this year but 2.2 per cent in 2025-26. Some of this

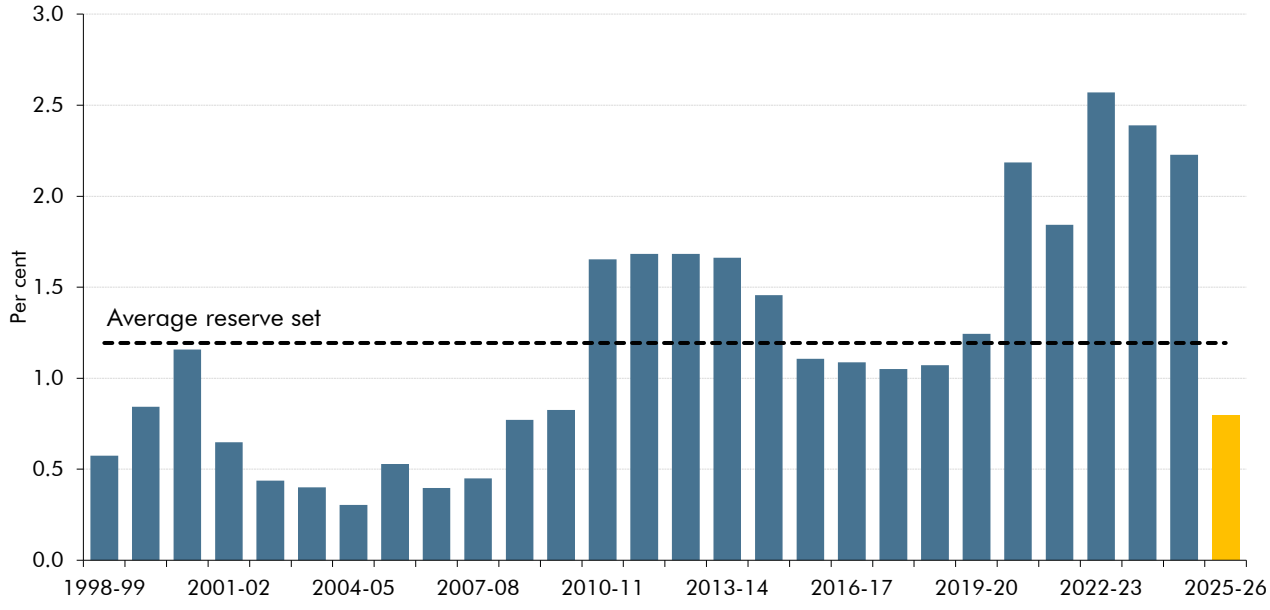
slowdown reflects the DfE's forecast for a 0.2 per cent fall in state school pupils in 2025, compared to the 0.3 per cent rise in 2024.

- The Home Office's RDEL budget falls in real terms by 3.1 per cent this year and by a further 3.3 per cent in 2025-26. These savings are partly attributed to the Government's new migration and asylum policy, which is forecast to save £1.4 billion in 2025-26. Part of the savings stem from ending the Migration and Economic Development Partnership with Rwanda and repealing the retrospection of elements of the Illegal Migration Act, and part depend on the Home Office reducing the asylum backlog by restarting case-working of asylum claims and increasing the capacity of the courts to process appeals.

- The Department for Transport's RDEL budget rises by 1.2 per cent in real terms this year but falls by 2.5 per cent next year, primarily due to a declining rail passenger services subsidy. This reduction assumes that revenue will increase faster than costs.

5.16 The Treasury has set a £4.1 billion RDEL reserve for 2025-26, which, at 0.8 per cent of total RDEL, is just below the 1.2 per cent average RDEL reserve as a share of the total envelope set at spending reviews since 1998, but less than half the 2.2 per cent reserves set aside at each spending review since 2015 (Chart 5.6).

Chart 5.6: RDEL reserves set at spending reviews as share of RDEL



Note: Includes special reserves set in the 2007, 2010, and 2013 Spending Reviews.
Source: HM Treasury, OBR

5.17 The level of risks to the RDEL reserve for 2025-26 – that is known risks which the Treasury has some conditional agreements, or expects, to share with departments – is low by historical standards. As of 25 October 2024, the Treasury had identified up to £1.1 billion of risks against the RDEL reserve, or 27 per cent of the total reserve in 2025-26. This is compared with £6.5 billion, or 61 per cent, of the reserve set at the 2021 Spending Review.

5.18 In light of these departmental allocations and level of the reserve, we assume that there will be an underspend of £6.4 billion (1.3 per cent) against the Treasury's final 2025-26 RDEL limit (Table 5.5). There are upside and downside risks to the forecast for 2025-26 RDEL. On the upside, NHS, Education, and Defence RDEL budgets are growing more slowly than 2024-25, and there are seven departments facing real cuts to their RDEL budgets next year. The reserve to cover pressures is also small relative to recent history. On the downside, RDEL allocations are significantly higher than in the current year and there are fewer commitments on the reserve compared to the year-ahead RDEL reserve set in the 2021 Spending Review.

Table 5.5: Departmental resource spending: changes since March

	£ billion, unless otherwise stated		
	Outturn	Forecast	
	2023-24	2024-25	2025-26
March 2024 forecast			
Limits	427.6	433.1	440.0
Assumed underspend	-4.7	-2.9	0.0
Actual spending	422.9	430.2	440.0
October 2024 forecast			
Limits	422.7	457.2	485.0
Assumed underspend		-3.9	-6.4
Actual spending	422.7	453.4	478.6
Difference			
Limits	-4.9	24.1	44.9
of which:			
Main estimates		-1.1	
Change at October 2024 Budget		25.0	44.9
Other		0.2	
Assumed underspend		-1.0	-6.4
Actual spending		23.2	38.5

Note: The 2024-25 changes in actual spending presented include the impact of PESA updates over the summer and differ slightly from the RDEL policy changes in 2024-25, presented in Chapter 3.

Source: HM Treasury, OBR

CDEL spending

5.19 CDEL in 2024-25 is now estimated to be £0.2 billion lower than in the March forecast. Following a small increase of £1.4 billion at July main estimates, in-year CDEL budgets were reduced by £1.4 billion at this Budget. This net reduction reflects large gross increases for some departments – including Defence and the Home Office – offsetting large reductions for others – including Transport and Education.

5.20 The Treasury has set a £2.8 billion CDEL reserve for the rest of the year, which is less than half of the £6.2 billion in-year CDEL reserve at the time of the November 2023 forecast. The level of risks to the CDEL reserve – that is, known risks which the Treasury might have to cover with departments – materialising is £3.3 billion, around one-sixth higher than the reserve.

5.21 In light of these pressures, we have assumed an underspend of £6.7 billion against the Treasury's final 2024-25 CDEL limit, equivalent to 6.4 per cent of the limit set. This is in line with the historical average underspend against departments' CDEL forecasts at this point in the year, which has averaged 6.3 per cent in the fifth month of the year since 2016-17.

5.22 The Government has also now set departmental capital budgets for 2025-26, raising total spending limits on the Treasury's control total definition of CDEL by £14.6 billion relative to our March forecast (Table 5.6). The largest year-on-year CDEL budget increases as a result of this budget-setting process are for the Department for Energy Security and Net Zero (£3.3 billion), Department for Health and Social Care (£1.8 billion), Department for Science, Innovation and Technology (£1.4 billion), and Department for Education (£1.2 billion), which make up just over half of the increase in CDEL totals between 2024-25 and 2025-26.

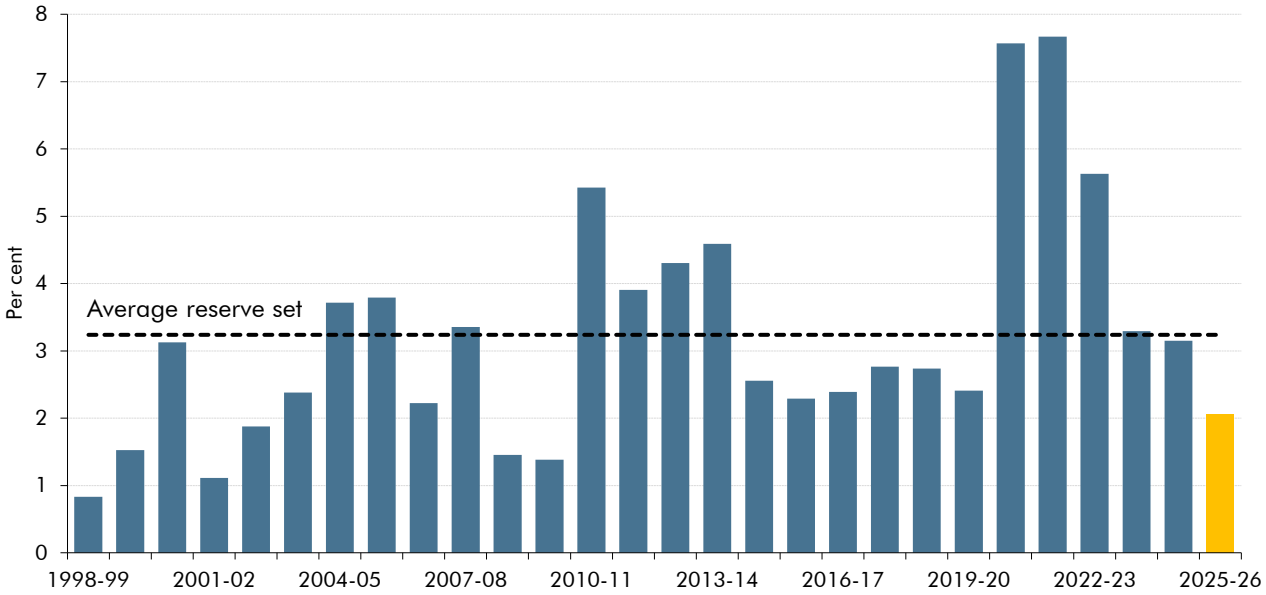
Table 5.6: CDEL spending totals by department

	£ billion			Per cent		
	Outturn	Forecast		Real annual growth		
	2023-24	2024-25	2025-26	2024-25	2025-26	Ave. 23-24 to 25-26
Health and Social Care	10.5	11.8	13.6	9.1	12.8	10.9
Education	6.2	5.5	6.7	-12.4	19.3	2.2
Home Office	1.3	1.9	1.5	39.9	-20.9	5.2
Justice	1.5	1.8	2.0	18.9	11.0	14.9
Law Officers' Departments	0.0	0.1	0.1	-	7.1	2.4
Defence	19.1	19.5	21.4	-0.7	7.6	3.4
Ukraine - ERA	0.0	0.8	0.8	-	-	-
Single Intelligence Account	1.4	1.4	1.5	-2.5	6.1	1.7
FCDO: Foreign Office	3.4	2.8	3.9	-19.6	35.3	4.3
MHCLG	6.8	8.5	8.8	21.5	0.9	10.7
Culture, Media and Sport	0.5	0.8	0.7	52.1	-11.3	16.2
Science, Innovation and Technology	12.4	13.3	14.7	5.1	7.6	6.4
Transport	22.1	20.6	21.8	-9.1	3.3	-3.1
DESNZ	5.1	7.5	8.4	42.4	10.1	25.2
DESNZ - CCUS and Hydrogen	2.1	1.4	3.7	-	-	-
Environment, Food and Rural Affairs	1.0	2.3	2.7	-	16.8	12.6
Business and Trade	0.6	1.7	1.5	-	6.1	19.8
Work and Pensions	0.7	0.7	0.7	-2.7	-1.2	5.0
HM Revenue and Customs	0.0	0.7	0.9	-	22.0	7.1
HM Treasury	0.0	0.0	0.1	-	-	-
Cabinet Office	0.4	0.4	0.5	-	0.5	-1.1
Scotland	6.0	6.0	6.5	-2.3	7.1	2.3
Wales	3.1	3.2	3.4	-2.3	2.4	1.3
Northern Ireland	2.1	2.0	2.2	-6.7	6.6	-0.3
Small and independent bodies	0.3	0.4	0.4	17.9	1.8	9.6
Reserves	0.0	2.8	2.7	-	-	-
Budget Exchange	0.0	-1.2	0.0	-	-	-
Total CDEL spending	**106.8**	**116.6**	**131.3**	**6.7**	**9.9**	**8.3**

Note: This table shows the Treasury's measure of CDEL, including non-PSGI CDEL but excluding any assumptions about underspending. As CDEL can vary substantially between years, we do not present growth rates above or below 100 per cent.
Source: HM Treasury, OBR

5.23 The Treasury has set a £2.7 billion CDEL reserve for 2025-26, which is around two-thirds of the average CDEL reserve as a share of the CDEL envelope set at spending reviews since 1998 (Chart 5.7). The level of risks to the CDEL reserve – that is known risks which the Treasury has some conditional agreements, or expects to share with departments – stands at £2.1 billion (80 per cent of the reserve set) in 2025-26. This is compared with £2.2 billion, or 52 per cent, of the reserve set at the 2021 Spending Review.

Chart 5.7: CDEL reserves set at spending reviews as share of CDEL



Note: Includes special reserves set in the 2007, 2010, and 2013 Spending Reviews.
Source: HM Treasury, OBR

5.24 We have assumed a CDEL underspend of £9.7 billion (8.0 per cent) for 2025-26 (Table 5.7). This is based on analysis in the March 2020 *EFO* which was the last time significant increases in CDEL limits were incorporated into the forecast.[4] That analysis showed that departmental capital budgets are almost always underspent, particularly in years when capital budgets are increased sharply. For example, over the 1998 to 2007 period, one-year-ahead capital spending fell short of forecast by an average of 10 per cent. Based on our assessment of specific departmental plans for capital spending in 2025-26 and the historically small and 'high-risk' reserve, we have assumed slightly lower underspending of 8.0 per cent. As set out above, this relatively large underspend still leaves real annual growth in CDEL spending in 2025-26 at 9.8 per cent, which is at the upper end of growth rates achieved over the past decade-and-a-half.[5]

[4] See Box 3.2 of our March 2020 *EFO*.
[5] Excluding 2020-21 which was significantly affected by the pandemic, CDEL spending grew in real terms by 7.2 per cent in 2014-15, 5.4 per cent in 2017-18 and 8.9 per cent in 2022-23.

Table 5.7: Departmental capital spending: changes since March

	£ billion, unless otherwise stated		
	Outturn	Forecast	
	2023-24	2024-25	2025-26
March 2024 forecast			
Limits	101.4	105.6	98.1
Assumed underspend	-5.8	-6.4	0.0
Actual spending	95.6	99.2	98.1
October 2024 forecast			
Limits	96.6	105.7	120.9
Assumed underspend		-6.7	-9.7
Actual spending	96.6	99.0	111.3
Difference			
Limits	-4.8	0.2	22.9
of which:			
Main estimates		1.4	
Change at October 2024 Budget		-1.4	22.9
Other		0.1	
Assumed underspend		-0.3	-9.7
Actual spending		-0.2	13.2

Note: The 2024-25 changes in actual spending presented include the impact of PESA updates over the summer and differ slightly from the CDEL policy changes in 2024-25, presented in Chapter 3.

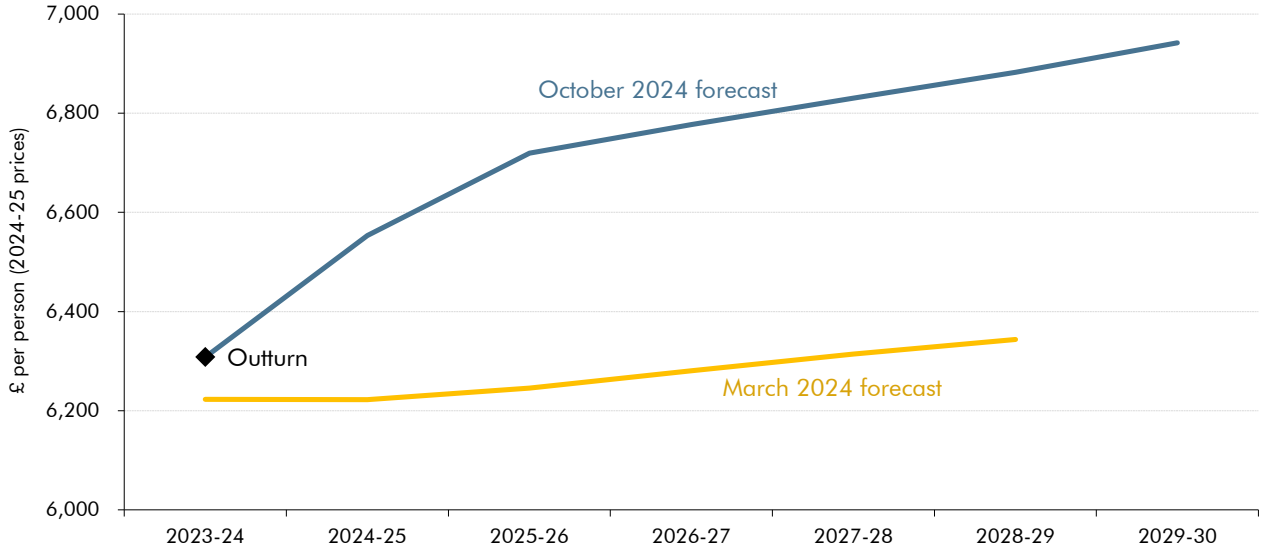
Source: HM Treasury, OBR

Departmental spending after 2025-26

5.25 At this Budget and in advance of the 2025 Spending Review, the Government has set an assumption for DEL spending totals for the year 2026-27 and beyond. These assumptions are for RDEL to grow by 1.3 per cent each year in real terms and for CDEL to grow by 0.5 per cent each year in real terms between 2025-26 and 2029-30 (as shown above in Table 5.3). At this forecast, we have continued to assume there will be no underspend or overspend in the years not covered by a spending review.

5.26 Given the substantial increase in RDEL in 2024-25, the level of real RDEL per person is now forecast to be an average of £510 (8.0 per cent) higher than our March 2024 forecast in each year after 2024-25 (Chart 5.8). Overall, total DEL by 2028-29 would be 1.8 per cent of GDP higher than implied by the plans set by the previous Government, and 2.7 per cent of GDP above the pre-pandemic level.

Chart 5.8: Real resource departmental spending per person



Source: HM Treasury, OBR

5.27 For the years after 2025-26, the Government has not allocated DEL budgets to departments. As in previous *EFO*s, we set out the implications of the assumed DEL totals by considering what existing input targets and commitments in some areas of spending imply for growth in spending in areas not covered by such targets – often called 'unprotected' spending. Looking at day-to-day (RDEL) departmental spending, we assume:

- Spending on the **NHS** in England grows by 3.6 per cent a year in real terms, using the IFS's central scenario for the Government's Long-Term NHS Workforce Plan. This is in line with the long-run (1949-50 to 2022-23) average real-terms growth rate of UK health spending, and NHS average growth between 2023-24 and 2025-26.

- **Defence** spending is held flat as a share of GDP, consistent with the Government's commitment to keep such spending above the NATO minimum of 2 per cent of GDP. Meeting the Government's ambition to increase defence spending to 2.5 per cent of GDP would add an additional £10.3 billion to RDEL in 2029-30.

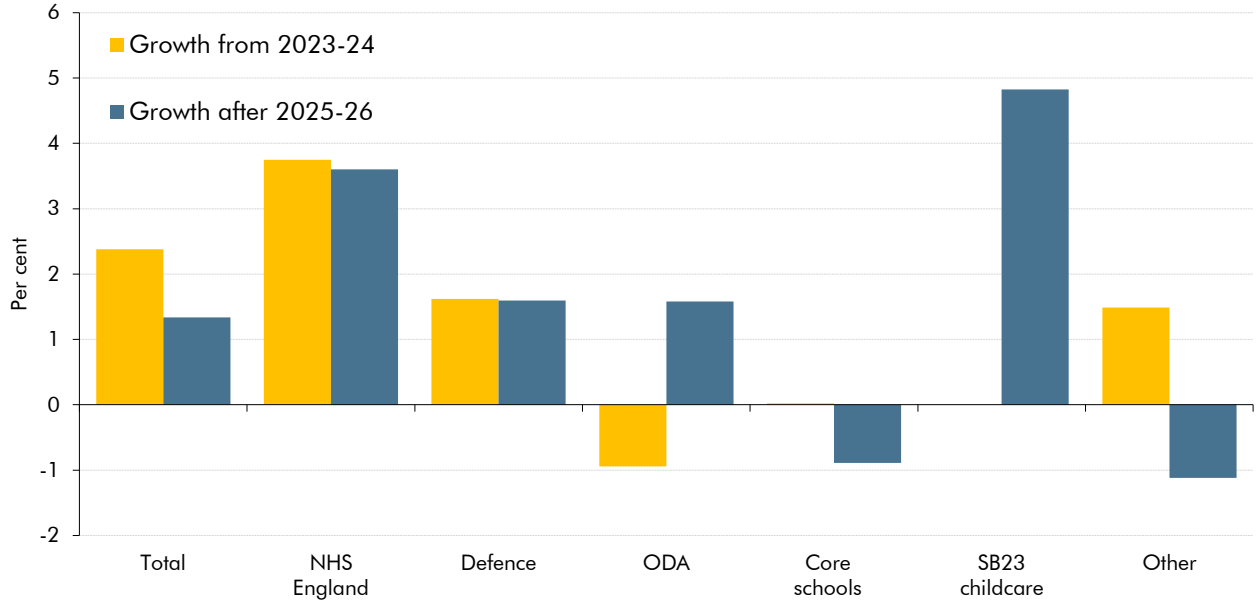
- Spending on **Official Development Assistance (ODA)** is maintained at 0.5 per cent of gross national income (GNI) throughout the forecast. If the Government were to return ODA spending to 0.7 per cent of GNI – as it has committed to "as soon as fiscal circumstances allow" – this would add an additional £4.3 billion to RDEL in 2029-30.

- Core **schools** spending is held flat per-pupil in real terms, which we assume as a policy-neutral baseline.

- The additional £3.9 billion a year announced in the March 2023 Budget to fund the extension of 30 hours of free **childcare** to parents of nine-month- to two-year-olds is protected in cash terms.

- The consequences of our NHS and schools spending assumptions for **devolved administrations** are captured using the Barnett formula.

Chart 5.9: Implied average annual growth in RDEL spending



Note: There is no growth rate for Spring Budget 2023 childcare after 2023-24 as the policy was not in place in the base year.
Source: HM Treasury, OBR

5.28 Within the assumed envelope for total RDEL spending provided by the Treasury, these assumptions would leave other '**unprotected**' RDEL spending (accounting for just under a third of day-to-day departmental spending) growing by 1.5 per cent a year in real terms over the next five years but falling by 1.1 per cent a year in real terms from 2025-26. This is less than the average 2.3 fall in unprotected spending between 2025-26 and 2028-29 implied in our March 2024 forecast. Unprotected spending would have to be £7.1 billion higher in 2029-30 for unprotected services not to fall in real terms from 2025-26. If defence and ODA spending increased in line with the Government's ambitions outlined above, this would lead to unprotected spending remaining near-flat in real terms from 2023-24 and falling by 3.5 per cent after 2025-26, with unprotected spending £14.5 billion lower in cash terms in 2029-30.

5.29 The substantial increases to DEL announced in this Budget mean that much of the risk highlighted in previous *EFO*s of relatively tight departmental spending settlements has now crystallised. Delivering this profile of day-to-day spending for 'unprotected' departments from 2025-26 would present fewer challenges than the previously estimated 2.3 per cent real fall. At the same time, this includes departments responsible for policy areas where the Government has significant policy ambitions, including tackling climate change, addressing rising economic inactivity, and increasing housebuilding.

5.30 There is a risk that previously set overall spending envelopes are increased when governments come to allocate envelopes between departments. At the 2015 Spending Review, the most recent review in which the DEL envelope and allocation were set

separately, the Government increased RDEL by £6.6 billion (2.1 per cent of the original RDEL envelope) in each year of the Spending Review between setting the envelope in July 2015 and allocating it to departments in November 2015.

5.31 In economic terms, the current RDEL envelope implies that the aggregate public sector pay bill will grow faster than the overall RDEL spending envelope and our central estimate of the equivalent pay bill in the private sector this year. Some of this faster growth will reflect the Government's policy ambitions, in particular to reduce NHS waiting lists, recruit more teachers, and increase tax compliance, and decrease welfare fraud and error, all of which will require recruiting significant additional staff. Other spending items grow at just below the overall RDEL envelope across the forecast. The share of CDEL used to build fixed assets increases slightly next year, after which we assume the share of CDEL in each category remains constant over time.

Table 5.8: Departmental resource spending by economic category

	£ billion, unless otherwise stated						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
PSCE in RDEL	**422.7**	**453.4**	**478.6**	**494.7**	**511.0**	**527.8**	**545.6**
of which:							
Pay	172.0	186.9	197.3	203.9	210.7	217.6	224.9
Procurement	149.3	161.8	170.8	176.6	182.4	188.4	194.7
Subsidies	4.1	2.9	3.1	3.2	3.3	3.4	3.5
Net social benefits	2.2	2.3	2.5	2.5	2.6	2.7	2.8
Net current grants abroad	5.9	7.7	8.1	8.4	8.7	9.0	9.3
Current grants (net) within public sector	72.1	74.0	78.1	80.8	83.4	86.2	89.1
Other current grants	17.1	17.8	18.7	19.4	20.0	20.7	21.4
Memo: public sector pay budget growth (per cent)		*8.6*	*5.6*	*3.4*	*3.3*	*3.3*	*3.4*
Memo: private sector wage bill (per cent)		*4.5*	*4.0*	*2.5*	*2.6*	*2.7*	*3.2*
Memo: growth in PSCE in RDEL (per cent)		*7.2*	*5.6*	*3.4*	*3.3*	*3.3*	*3.4*
Memo: growth in non-pay items (per cent)		*6.3*	*5.6*	*3.4*	*3.3*	*3.3*	*3.4*

Source: HM Treasury, OBR

Table 5.9: Departmental capital spending by economic category

	£ billion, unless otherwise stated						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
PSGI in CDEL	**96.6**	**99.0**	**111.3**	**117.2**	**120.7**	**121.4**	**122.6**
of which:							
Gross domestic fixed capital formation	63.1	66.2	74.4	78.3	80.6	81.2	81.9
Inventories	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	13.9	11.6	13.0	13.7	14.1	14.2	14.3
Capital grants to/from private sector	19.8	21.3	23.9	25.2	25.9	26.1	26.3

Source: HM Treasury, OBR

Welfare spending

5.32 Total welfare spending in the forecast refers to AME spending on social security and tax credits. Around half is subject to the Government's 'welfare cap', which excludes the state

pension and those payments most sensitive to the economic cycle (we discuss performance against the cap in Chapter 7). The welfare spending forecasts are based on the determinants in the latest economy forecast – principally population, unemployment, earnings, and inflation – and informed by the latest outturn data and Department for Work and Pensions models.

5.33 Welfare spending is forecast to rise sharply this year (by £17.3 billion, or 5.8 per cent) driven by the uprating of most benefits with CPI inflation,[6] to £313.6 billion (11.1 per cent of GDP). It is then forecast to rise by an average of £12.8 billion (3.8 per cent) a year over the rest of the forecast period, reaching £377.7 billion (11.1 per cent GDP) in 2029-30. The main drivers of this increase are higher pensioner spending due to the ageing population and the triple lock, and rising caseloads for health and disability benefits. Spending on these components explains more than nine-tenths of the increase in total welfare spending between 2024-25 and 2029-30.

Table 5.10: Total welfare spending

	£ billion, unless otherwise stated						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Pensioner spending[1]	141.7	150.7	159.9	167.1	169.7	174.6	182.7
UC and legacy equivalents[2]	87.5	88.3	88.9	90.3	92.1	95.1	98.5
Disability benefits[3]	36.3	41.2	44.8	48.4	52.1	55.5	59.4
Child benefit	12.5	13.4	13.4	13.5	13.7	13.7	13.8
Other spending[4]	18.2	19.9	20.5	21.2	21.9	22.5	23.2
Total welfare spending	**296.3**	**313.6**	**327.5**	**340.5**	**349.5**	**361.4**	**377.7**
of which:							
Inside welfare cap	146.2	156.6	161.3	166.6	172.6	179.6	187.3
Outside welfare cap	150.1	157.0	166.2	173.9	176.9	181.8	190.4
Memo: total welfare (per cent of GDP)	*10.9*	*11.1*	*11.1*	*11.1*	*11.0*	*11.0*	*11.1*
Memo: health and disability benefits [5]	*64.7*	*74.9*	*80.4*	*85.2*	*90.3*	*95.3*	*100.7*
of which:							
Children	*3.7*	*4.4*	*5.0*	*5.6*	*6.2*	*6.7*	*7.2*
Working-age adults	*48.5*	*56.4*	*60.4*	*64.1*	*68.1*	*71.9*	*75.7*
Pensioners	*12.5*	*14.1*	*14.9*	*15.5*	*16.0*	*16.7*	*17.8*

[1] Pensioner spending includes pensioner housing benefit, pension credit, winter fuel payment and state pension expenditure.

[2] UC and legacy equivalents includes personal tax credits, housing benefit (excluding pensioner part), incapacity benefits (which comprise employment and support allowance, income support for incapacity, severe disablement allowance and incapacity benefit), income support and income-based and contributory jobseeker's allowance.

[3] Disability benefits includes disability living allowance, personal independence payment and attendance allowance.

[4] Other spending includes Northern Ireland social security expenditure.

[5] Health and disability benefits includes standard allowance and health element expenditure for UC health-related claimants, employment and support allowance, disability living allowance, personal independence payment, carer's allowance, and attendance allowance. Excludes Northern Ireland disability benefits expenditure and cost-of-living payments.

Source: DWP, HMRC, OBR

[6] Growth in 2024-25 is forecast to be lower than the 6.7 per cent uprating due mainly to the withdrawal of cost-of-living payments in 2024-25, which totalled £8.2 billion in 2022-23 and £10.3 billion in 2023-24.

5.34 Relative to the March 2024 forecast, welfare spending is broadly unchanged overall, up £0.1 billion a year on average across the forecast. However, this reflects some large, but offsetting, changes within the forecast. Table 5.11 shows that the revision is explained by:

- Higher **uprating**, due to increases in the inflation and earnings forecasts, raises the forecast by on average £5.4 billion a year from 2025-26.[7] Higher inflation, which drives higher child and working-age uprating, explains roughly two-thirds of this increase (£3.5 billion a year), with the remaining third explained by higher earnings increasing triple lock state pension uprating (£1.9 billion a year).

- Lower spending on **universal credit** (UC), due to incorporating post-Covid data into DWP's caseload model, which reduces forecast spending by £4.1 billion a year. Prior to this forecast, the UC caseload model used 2019-20 data to predict future onflows and off-flows.[8] Incorporating post-Covid caseload data is likely to give a more stable and accurate indication of future UC flows, given that pre-Covid, UC was still in the early stages of implementation. The compositional impact of this change is explained in paragraph 5.35.

- Higher forecasts for **disability benefits** demand and average awards, which together raise spending by £1.4 billion a year. This is driven by changes across all age groups, mostly explained by higher average awards for personal independence payment (£0.6 billion) and higher demand for disability living allowance and attendance allowance (£0.4 billion and £0.2 billion respectively).

- **Other forecasting changes** which increase spending by £0.2 billion a year on average. These include higher housing benefit spending on supported housing cases and lower UC spending due to higher earnings leading to higher tapering of awards.

- **Policy measures** in this Budget, which decrease spending by an average of £1.9 billion a year over the forecast. This is mainly explained by the means testing of winter fuel payment (£1.4 billion) and further measures to prevent and identify fraud and error (£1.0 billion). With this latest round of fraud and error measures, which we discuss in paragraphs 3.46 and 3.47, we now forecast the prevalence of fraud and error in UC to fall to 9.3 per cent of spending in 2029-30 (£8.7 billion), down 3.1 percentage points from its 2023-24 prevalence of 12.4 per cent.

[7] The forecast is based on working-age benefit uprating for 2025-26 of 2.1 per cent and state pension triple lock uprating of 4.0 per cent. After the forecast was finalised, inflation and earnings outturn data and revisions were released which, if we had incorporated in the forecast, would have changed this to working-age uprating of 1.7 per cent and state pension triple lock uprating of 4.1 per cent. These would together have reduced the welfare forecast by roughly £0.7 billion a year from 2025-26 onwards.

[8] In particular, 2019-20 data had very high levels of 'churn', where UC claimants would regularly move between different groups within UC as well as regularly moving on and off the benefit. This churn seems to have been a feature of the early days of UC and is no longer present to the same degree in recent outturn. The high levels of churn in the pre-Covid base data were leading to an overestimation of both onflows onto UC and the average award of those onflows.

Table 5.11: Welfare spending: changes since March

	£ billion					
	Outturn	Forecast				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
March 2024 forecast	295.8	315.1	329.0	339.7	348.2	360.1
October 2024 forecast	296.3	313.6	327.5	340.5	349.5	361.4
Difference	**0.5**	**-1.6**	**-1.5**	**0.8**	**1.3**	**1.3**
of which:						
Uprating[1]		0.1	1.4	5.7	7.1	7.5
Universal credit base data		-1.1	-2.9	-4.5	-5.6	-6.2
Disability benefits modelling		0.8	1.1	1.3	1.6	2.1
Other		-0.1	-0.2	-0.2	0.1	1.6
Direct effects of Government decisions		-1.3	-0.9	-1.6	-1.9	-3.7

[1] This captures the effects of changes to the inflation and earnings forecasts on all benefit uprating linked to CPI, earnings and the triple lock.

Source: DWP, HMRC, OBR

5.35 As a result of the changes set out above, the composition of expected growth in the UC caseload is now strongly geared to health-related claims, with very low forecast caseload growth in other areas of UC. After the managed migration of all legacy benefits into UC is completed by the end of 2025-26, the UC health-related caseload is forecast to grow by a further 420,000 households by the end of the forecast period, whereas the rest of the UC caseload is forecast to fall by 150,000 households. In 2022-23, health-related claims made up 31 per cent of the UC caseload, while by 2029-30, this share is forecast to increase to 50 per cent.

5.36 We have revised up the medium-term incapacity benefits caseload forecast to align with the findings of the 2024 *Welfare trends report* on incapacity benefits. Having previously assumed that incapacity caseload growth would fall back close to pre-pandemic rates by the forecast horizon, we now assume that roughly half of the post-Covid rise in the growth rate of the incapacity caseload will persist into the medium term, as we expect some of the main drivers of this rise to persist throughout the forecast period.

Locally financed expenditure and public corporations' expenditure

5.37 Locally financed current expenditure is forecast to rise from £65.6 billion in 2024-25 to £81.0 billion in 2029-30, as local sources of income grow steadily by an average of £3.1 billion (4.7 per cent) a year.[9] Compared with the March 2024 forecast, locally financed current expenditure is higher by an average of £1.8 billion a year, largely as a result of:

- Higher forecasts for council tax and business rates, which together raise local authorities' incomes by an average of £1.0 billion a year.

[9] We forecast spending by local authorities by projecting their various sources of income – including grants from central government together with local sources, such as council tax, retained business rates and trading income – and the extent to which they use that income by varying their reserves or borrowing. Our forecast therefore encompasses spending financed by grants, which is mostly in DELs, and locally financed expenditure, which is in AME.

- Reflecting the latest outturn data, net use of current reserves outturn has been revised down by £0.3 billion to £0.9 billion in 2023-24, and by £0.2 billion to £0.5 billion in 2024-25.

5.38 We expect locally financed capital expenditure to fall slightly from £8.6 billion in 2024-25 to £8.5 billion in 2029-30, driven by lower local authority borrowing for capital expenditure, which is forecast to fall from its 2019-20 peak of £12.2 billion to £8.0 billion in 2029-30. Public corporations' capital expenditure is expected to grow very slightly from £12.6 billion in 2024-25 to £13.2 billion in 2029-30. These forecasts are slightly higher than March, reflecting higher outturn that we expect to persist throughout the forecast.

Table 5.12: Locally financed and public corporations' expenditure: changes since March

	£ billion, unless otherwise stated						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Locally financed current expenditure							
March 2024 forecast	62.1	64.1	66.1	69.3	72.2	75.4	
October 2024 forecast	63.5	65.6	68.2	71.1	74.1	77.3	81.0
October 2024 real growth rate (per cent)		0.9	1.6	2.2	2.2	2.4	
Difference	**1.4**	**1.5**	**2.1**	**1.7**	**1.9**	**1.9**	
Underlying forecast	1.4	1.5	2.1	1.7	1.9	1.9	
of which:							
Council tax	0.1	0.6	0.5	0.5	0.5	0.6	
Retained business rates (England)	-0.1	0.5	0.4	0.5	0.5	0.5	
Net use of current reserves	-0.3	-0.2	0.0	0.0	0.0	0.0	
Other	1.7	0.6	0.6	0.8	0.9	0.9	
Direct effect of policy	0.0	0.0	0.5	0.0	0.0	0.0	
Locally financed capital and public corporations' expenditure							
March 2024 forecast	20.0	20.0	19.2	19.8	19.8	19.9	
October 2024 forecast	21.2	21.2	19.9	20.6	20.8	21.0	21.3
October 2024 real growth rate (per cent)		-2.1	-8.6	1.8	-1.4	-0.9	
Difference	**1.2**	**1.2**	**0.7**	**0.9**	**0.9**	**1.0**	
Underlying forecast	1.2	1.2	0.4	0.5	0.7	0.8	
Direct effect of policy	0.0	0.0	0.3	0.3	0.2	0.3	

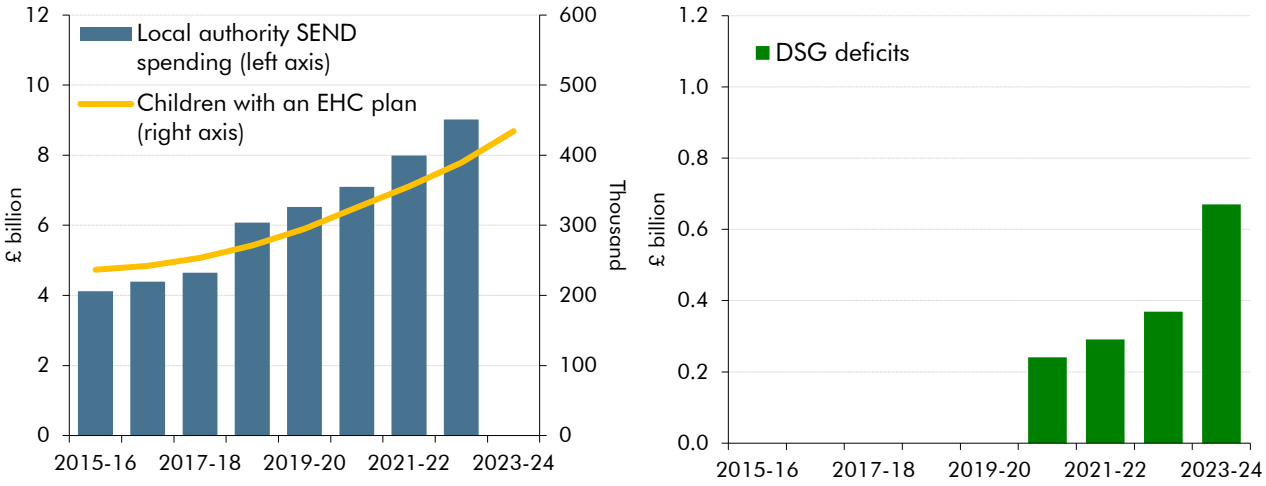
Source: HM Treasury, OBR

5.39 Pressures on local authority finances remain a substantial risk to our forecast. Local authority spending has fallen from 7.4 to 5.0 per cent of GDP between 2010-11 and 2023-24 and is forecast to continue falling to 4.8 per cent of GDP by 2029-30. This is despite local authorities' statutory duties to provide a range of services – such as adult and child social care – where demand is growing.[10] Spending on social care by upper-tier local authorities[11] – which are responsible for over five-sixths of local authority spending in England – has grown from 56.9 per cent of locally controlled spending in 2010-11 to 69.7 per cent in 2023-24.

[10] Institute for Government, *Performance Tracker 2023*, October 2023.
[11] Upper-tier local authorities are responsible for spending on social care.

5.40 One risk has partly crystalised in this forecast relating to spending on education for those with special educational needs and disabilities (SEND). Local authorities fund spending on SEND through the dedicated schools grant (DSG), an RDEL grant from the Department for Education. When this is not enough to cover all special educational needs, local authorities can run a deficit on their DSG. In-year deficits were first recorded in local authority spending statistics in 2020-21 and had grown to £0.7 billion for 2023-24, in step with the continued growth in local authority SEND spending and the number of children with an education, health and care plan that recognises their SEND (Chart 5.10). Total local authority spending on SEND has doubled from £4.6 billion in 2017-18 to £9.0 billion in 2022-23.

Chart 5.10: Special educational needs-related child numbers, spending, and deficits



Note: Data on SEND spending is not available for 2023-24. DSG deficits were not recorded prior to 2020-21.
Source: DfE, OBR

5.41 SEND-related DSG deficits cannot be funded from local authority general funds, unless given Secretary of State approval. Due to a government decision to put a statutory override in place between April 2020 and March 2026, they do not need to be recognised on local authorities' 'balance sheets'. Up until now they had not been recorded in our forecast as the cash outlays were not explicitly recognised in our local authority accounting framework. This was corrected in this pre-measures forecast which recorded local authority spending on SEND of £0.9 billion in 2024-25 and £1.4 billion in 2025-26.[12] However, this spending has mostly been offset by a Budget policy to increase the core schools grant to fund these pressures through higher central government grants.

5.42 Despite this short-term increase of central government funding there are still significant risks in relation to local authority finances and SEND. The current statutory override is due to end after 2025-26. If this happens and SEND spending needs continue to outpace central government grant funding, then some local authorities may be placed in financial distress or be unable to set balanced budgets from 2026-27 onwards. In addition, the cumulative DSG deficits to date would then need to be recognised on local authority balance sheets which would create additional financial pressures – the DfE estimates that a third of local

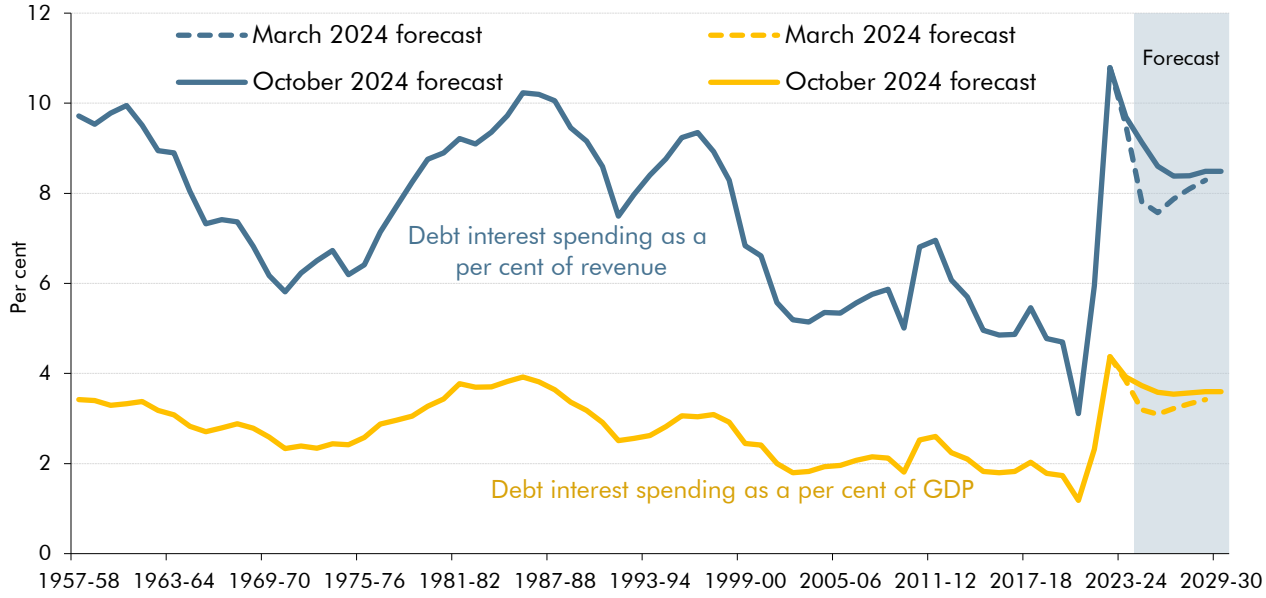
[12] This spending appears in 'Other PSCE in AME', not local authority self-financed expenditure.

authorities will have cumulative deficits exceeding their reserves in March 2026[13] – and may eventually have to be funded by the DfE.

Debt interest spending

5.43 From a post-war high of 4.4 per cent of GDP in 2022-23, debt interest spending is forecast to fall to 3.5 per cent of GDP by 2026-27 before increasing slightly to 3.6 per cent of GDP by 2029-30. Compared to the March forecast, debt interest is an average of 0.4 percentage points higher as a share of GDP and 0.7 percentage points higher as a share of total revenue between 2024-25 and 2028-29. This reflects a higher forecast for RPI inflation in the near term and higher Bank Rate and gilt yields across the forecast period, plus the effects of financing the additional borrowing announced in this Budget.

Chart 5.11: Debt interest spending relative to GDP and revenues



Source: ONS, OBR

5.44 In nominal terms, debt interest spending falls to £104.9 billion this year but then increases year-on-year to £122.2 billion in 2029-30 (Table 5.13). It has been revised up relative to March by an average of £12.6 billion a year. Changes to the pre-measures forecast account for over two-fifths of the cumulative change in debt interest spending:

- The 1.1 percentage point average increase to the pre-measures **RPI inflation** forecast over the next two years drives upward revisions of £10.5 billion and £5.6 billion in 2024-25 and 2025-26. These effects diminish over subsequent years as the level of inflation is assumed to converge towards the March forecast.

- **Higher Bank Rate** increases spending by £4.4 billion in 2024-25, and declining amounts in each subsequent year, falling to £0.8 billion in 2028-29 as revisions to the

[13] National Audit Office, *Support for children and young people with special educational needs*, October 2024.

pre-measures forecast for Bank Rate taper away and the stock of gilts held within the Asset Purchase Facility (APF) falls.

- **Revisions to gilt yields** have little impact on spending in 2024-25, but increase it thereafter by amounts which rise year-on-year to reach £1.2 billion by 2028-29.

- **Financing and other factors** have an uneven impact but reduce debt interest spending by £4.0 billion in 2028-29, largely due to a model correction relating to the redemption of short-dated gilts.

5.45 The policy measures announced at this Budget account for the remaining three-fifths of the overall change in debt interest spending compared to March, increasing it by an average of £7.0 billion per year and by £10.0 billion in 2028-29. This is due to two main factors:

- The increased **borrowing to finance the policy package** results in a higher central government net cash requirement of £22.9 billion a year on average compared to March. This adds increasing amounts to debt interest spending, reaching £4.7 billion in 2028-29.

- The policy package is assumed to increase **Bank Rate and gilt yields** by 0.25 percentage points from 2025-26 onwards, and **RPI inflation** by an average of 0.3 percentage points. These factors increase debt interest spending by £1.2 billion this year and by an average of £5.5 billion thereafter.

Table 5.13: Central government debt interest (net of APF): changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	104.7	89.0	88.9	96.2	103.0	109.6	
October 2024 forecast	106.7	104.9	105.7	108.2	112.9	117.9	122.2
Difference		**15.9**	**16.9**	**12.0**	**9.9**	**8.3**	
of which:							
Pre-measures changes		**14.4**	**9.7**	**4.0**	**1.4**	**-1.7**	
of which:							
RPI inflation		10.5	5.6	1.3	0.5	0.3	
Bank Rate		4.4	2.6	1.9	1.3	0.8	
of which:							
Central government		1.9	1.7	1.2	1.0	0.8	
APF		2.6	0.9	0.6	0.3	0.0	
Gilt rate		0.0	0.5	0.7	1.0	1.2	
Financing and other		-0.5	1.0	0.2	-1.5	-4.0	
Effects of policy		**1.5**	**7.1**	**8.0**	**8.5**	**10.0**	
of which:							
Net financing requirement		0.4	1.4	2.3	3.4	4.7	
Changes in determinants[1]		1.2	5.8	5.6	5.1	5.2	

[1] Includes changes in RPI inflation, Bank Rate, and gilt rate, each of which are higher as a result of policies announced at this Budget.
Source: ONS, OBR

Other annually managed expenditure

5.46 The main changes to other AME spending since our March forecast include:

- The net cost of **unfunded public service pensions** is forecast to fall from £1.7 billion in 2024-25 to £-4.0 billion in 2029-30 as scheme receipts grow more quickly than scheme expenditure on average. This has been revised down by an average of £3.3 billion a year compared to March, primarily reflecting higher scheme receipts due to increased earnings as a result of the 2024-25 public sector pay deals and the uplift to departmental spending over the forecast period. On a pre-measures basis, net spending was forecast to be £2.3 billion on average over the forecast period, but the inclusion of the policy increase to RDEL reduces this to £-1.1 billion. Over the long term, higher pay will lead to increased pension entitlements and subsequently higher pension payments.

- **Scottish Government current expenditure** has increased by an average of £2.7 billion a year over the forecast, due to a higher Scottish block grant and tax receipts.

- **Tax litigation.** We have revised expected costs up by £0.7 billion in 2024-25 to account for repayments following a ruling from the Court of Justice of the European Union (CJEU) on UK taxation of controlled foreign companies.

- **Company tax credits** have been revised up by an average of £0.7 billion each year. This is due to higher-than-anticipated creative tax reliefs outturn, particularly driven by high-end TV relief, and due to a higher forecast of business investment increasing forecast research and development credits.

- The introduction of the **infected blood compensation and Horizon redress schemes** into the forecast (part of other PSGI items in AME), which together are expected to cost an average of £2.5 billion a year over the forecast period. These are discussed in paragraph 3.45 in Chapter 3.

6 Fiscal aggregates

6.1 This chapter details how changes in our pre-measures forecast, and October 2024 Budget policy measures, affect summary measures of the public finances, including:

- **Deficit aggregates** including **public sector net borrowing (PSNB)**, the difference between expenditure and receipts; the **current deficit**, the difference between current (day-to-day) expenditure and receipts; the **primary deficit**, the difference between non-interest expenditure and receipts; and **cyclically adjusted measures** of the deficit which take account of the position of the economy relative to its potential level of output; and

- **Balance sheet aggregates** including **public sector net debt (PSND)**, which includes all debt obligations net of liquid financial assets; **public sector net financial liabilities (PSNFL)** which includes all financial liabilities and financial assets; and **public sector net worth (PSNW)** which includes all financial and non-financial assets and liabilities.

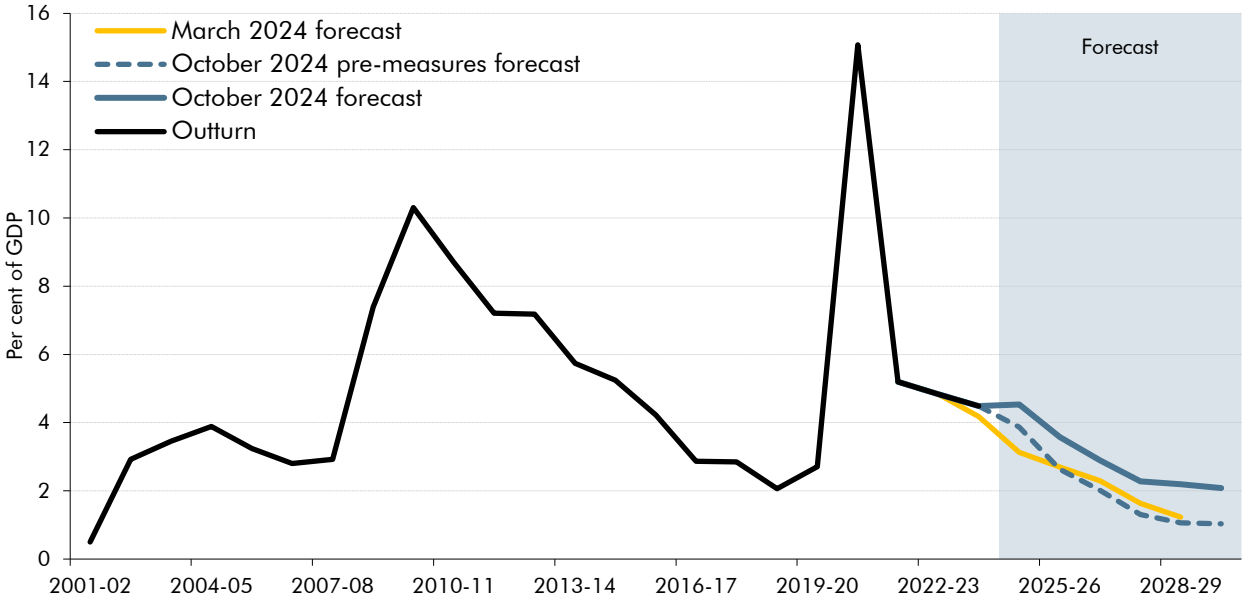
Borrowing

6.2 From a peacetime high of £314.3 billion (15.1 per cent of GDP) reached during the pandemic in 2020-21, public sector net borrowing fell to £121.9 billion (4.5 per cent of GDP) in 2023-24. It is forecast to increase in nominal terms to £127.5 billion (4.5 per cent of GDP) in 2024-25, and then to fall in each year to reach £70.6 billion (2.1 per cent of GDP) in 2029-30 (Chart 6.1). Borrowing is forecast to be an average of £28.4 billion (0.9 per cent of GDP) higher per year than expected in March, due primarily to the effect of policy measures announced in this Budget.

6.3 As shown in Chart 6.2, around two-thirds of the projected 2.5 per cent of GDP fall in borrowing between this year and 2029-30 is due to a rise in receipts across the forecast. In particular, NICs and income tax are forecast to increase by 0.6 per cent and 0.5 per cent as a share of GDP, respectively. The remaining third of the fall in borrowing is due to lower forecast spending as a share of GDP. Debt interest is forecast to fall by 0.1 per cent of GDP, with other annually managed expenditure (AME) falling by 0.7 per cent of GDP by the forecast horizon, driven mainly by unfunded public service pensions and student loans.[1] Despite the large nominal increases in resource departmental expenditure limits (RDEL) announced at this Budget, RDEL is broadly unchanged as a share of GDP by 2029-30 compared to this year. These downward contributions are partly offset by a small rise in capital DEL (CDEL), which increases by 0.1 per cent of GDP over the forecast due to Budget policy decisions.

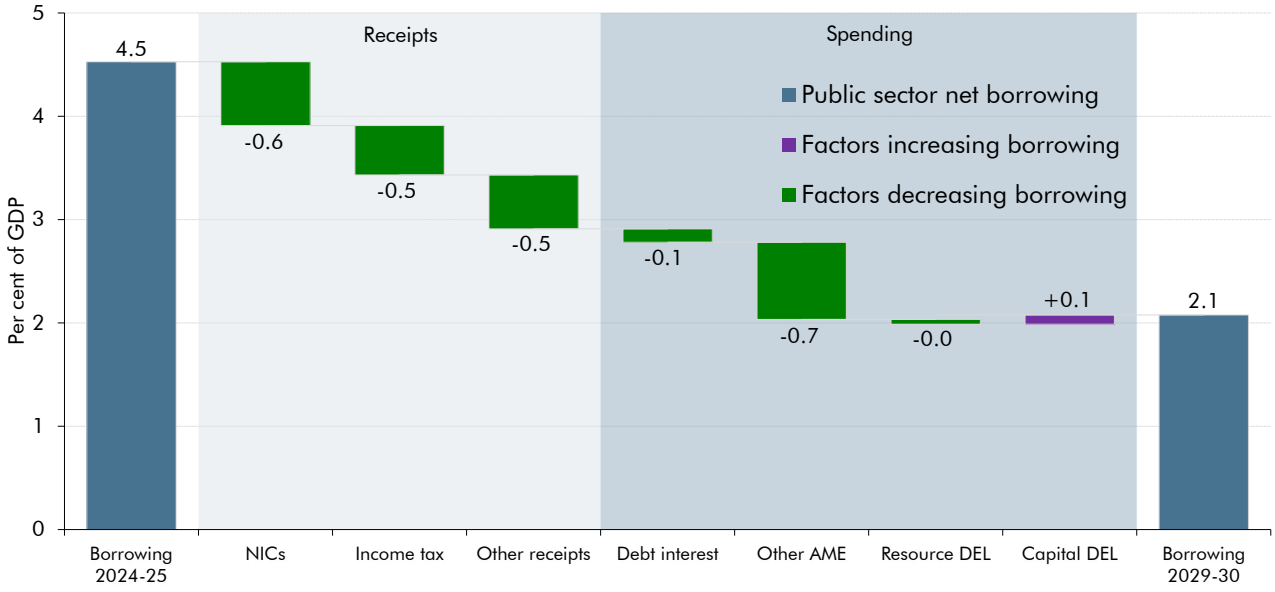
[1] The net cost of unfunded public service pensions is forecast to fall by 0.2 per cent of GDP across the forecast period, as scheme receipts grow more quickly than scheme expenditure reflecting public sector pay deals and the uplift to departmental spending over the forecast period. Spending on student loans falls by 0.1 per cent of GDP across the forecast period as a larger proportion of English students move onto plan 5 loans which reduces the capital transfer cost as a higher proportion of loans are expected to be paid off. This is explained in more detail in Box A.1 of our March 2022 *Economic and fiscal outlook*.

Chart 6.1: Public sector net borrowing



Source: ONS, OBR

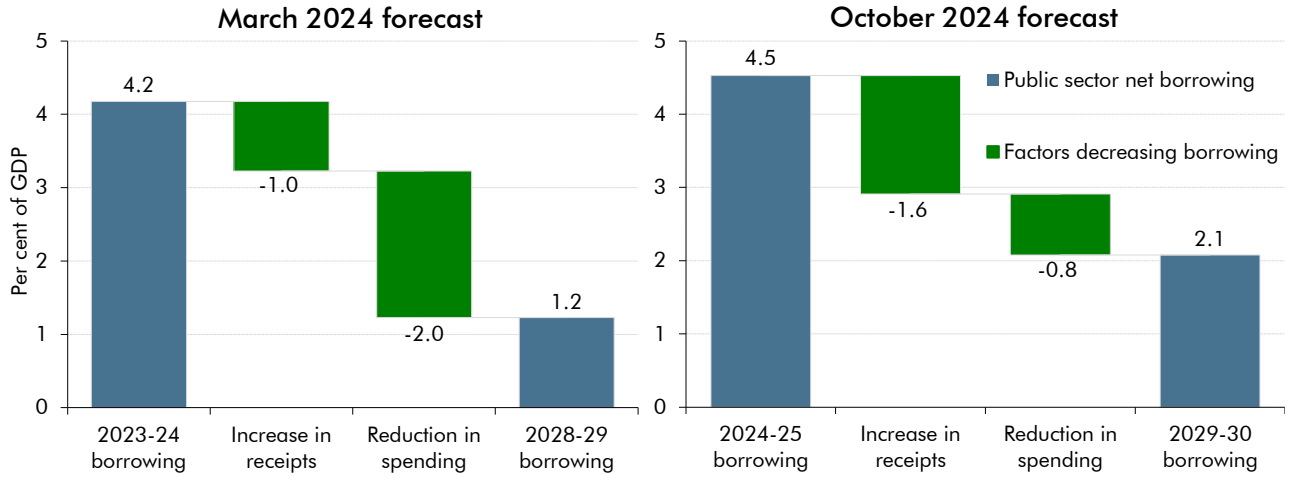
Chart 6.2: The fall in borrowing as a share of GDP from 2024-25 to 2029-30



Note: This chart does not include the effects of changes in our underlying forecasts for most environmental levies, VAT refunds, or depreciation, as each change both receipts and spending by equal amounts and therefore do not change borrowing.
Source: OBR

6.4 The reduction in borrowing of 2.5 per cent of GDP over the forecast period is 0.5 per cent of GDP lower than that assumed over the comparative period in our March 2024 forecast (between 2023-24 and 2028-29). The composition of the deficit reduction has also changed, with a greater contribution from receipts (two-thirds) than spending (one-third). This compares with the previous Government's March 2024 plans where two-thirds of deficit reduction was driven by lower spending and one-third by tax increases, which was projected to deliver a 2.9 per cent of GDP reduction in borrowing.

Chart 6.3: Change in borrowing over forecast periods: March and October



Note: This chart does not include the effects of changes in our underlying forecasts for most environmental levies, VAT refunds, or depreciation, as each change both receipts and spending by equal amounts and therefore do not change borrowing.
Source: OBR

6.5 Overall borrowing between 2024-25 and 2028-29 is higher than the March forecast by £142.2 billion, an average of £28.4 billion a year (Chart 6.4 and Table 6.1). This represents one of the largest fiscal loosenings of any fiscal event in recent decades, and reflects the following changes:

- **Pre-measures spending** is higher by £22.2 billion in 2024-25 and £14.8 billion in 2025-26, largely reflecting higher debt interest spending due to upward revisions to RPI inflation and Bank Rate. Revisions to total pre-measures spending then fall in each year as changes to debt interest spending taper away to leave it little changed by 2028-29. The pre-measures forecast for welfare spending is higher by an average of £0.8 billion, peaking at £2.2 billion in 2028-29.

- **Pre-measures receipts** are higher by £1.5 billion in 2024-25 and by an average of £14.3 billion thereafter. Around four-fifths of this is due to a rise in income tax, driven by higher receipts outturn this year and a stronger forecast for nominal earnings.

- **The direct effect of Budget policy decisions** increases borrowing by an average of £32.0 billion a year between this year and 2028-29. Current and capital government spending has been increased by a total of £25.0 billion this year and a peak of £75.8 billion by 2028-29. Tax increases offset around half of the increase in spending, raising £34.8 billion a year on average between 2025-26 and 2028-29. As shown in Chart 6.4, the current budget is broadly unchanged in the medium term as it is not affected by the increase in capital spending.

- **The indirect effect of policy decisions** is small in net terms and broadly neutral over the forecast, but significant in gross terms. The policy package boosts receipts, largely via higher nominal GDP, with the impact peaking at £14.2 billion in 2026-27 before declining in each year thereafter. By the end of the forecast this is offset by higher debt interest spending, which gradually increases to reach £10.0 billion in 2028-29, due to

elevated Bank Rate, gilt yields and the impact of higher borrowing, and increased spending on welfare due to higher CPI and earnings.

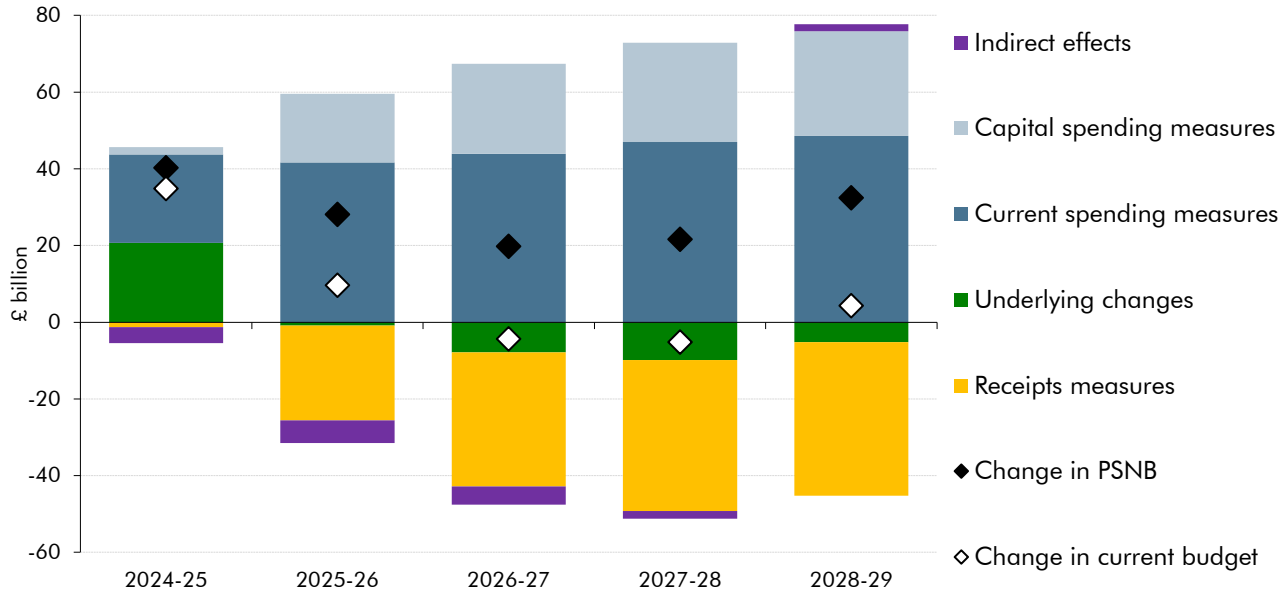
Table 6.1: Public sector net borrowing: changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	114.1	87.2	77.5	68.7	50.6	39.4	
October 2024 forecast	121.9	127.5	105.6	88.5	72.2	71.9	70.6
Difference	**7.8**	**40.3**	**28.1**	**19.8**	**21.6**	**32.5**	
of which:							
Underlying differences		**20.7**	**-0.9**	**-7.8**	**-9.8**	**-5.2**	
of which:							
Spending		22.2	14.8	8.2	5.7	4.8	
of which:							
Debt interest spending		14.4	9.7	4.0	1.4	-1.7	
Other spending		7.8	5.1	4.2	4.3	6.5	
Receipts		-1.5	-15.7	-16.1	-15.5	-9.9	
Direct effect of policy decisions		**23.7**	**34.8**	**32.4**	**33.4**	**35.7**	**30.1**
of which:							
Spending decisions		25.0	59.6	67.4	72.9	75.8	71.6
of which:							
Resource spending		23.1	41.7	43.9	47.0	48.5	47.0
Capital spending		1.9	17.9	23.4	25.9	27.3	24.6
Receipts decisions		-1.3	-24.7	-35.0	-39.4	-40.1	-41.5
of which:							
Employer NICs		0.0	-23.8	-23.7	-24.2	-24.9	-25.7
HMRC anti-avoidance and compliance		-0.3	-1.3	-3.3	-4.1	-4.9	-6.2
Capital tax measures		-0.2	-1.5	-5.7	-8.7	-6.9	-5.2
Other receipts decisions		-0.7	1.9	-2.3	-2.5	-3.3	-4.4
Indirect effect of decisions		**-4.1**	**-5.9**	**-4.8**	**-2.0**	**1.9**	**5.9**
of which:							
Receipts		-4.3	-11.6	-14.2	-13.5	-11.8	-10.1
Debt interest spending		1.5	7.1	8.0	8.5	10.0	11.4
Other spending		-1.3	-1.4	1.4	2.9	3.8	4.6

Note: This table uses the convention that a negative figure means a reduction in PSNB i.e. an increase in receipts or a reduction in spending will have a negative effect on PSNB. It does not include the effects of changes in our underlying forecasts for most environmental levies, VAT refunds, or depreciation, as each change both receipts and spending by equal amounts and therefore do not change borrowing.

Source: OBR

Chart 6.4: Public sector net borrowing relative to March



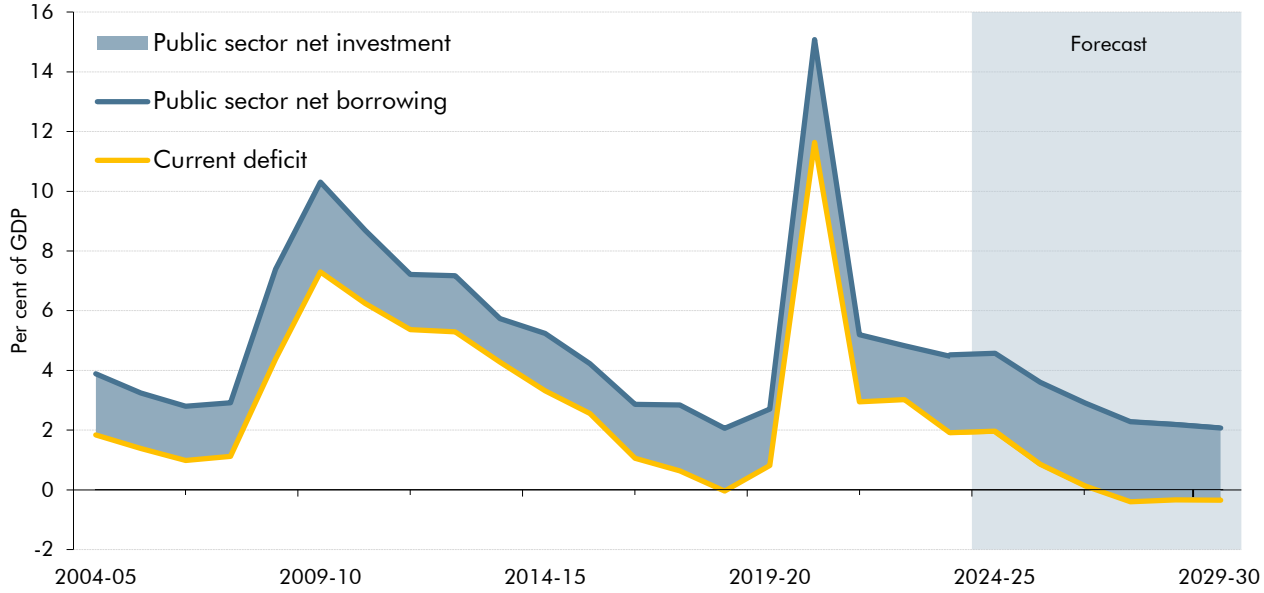
Source: OBR

Current budget and other deficit aggregates

6.6 As set out in Chapter 7, the Government's new fiscal mandate is to have the current budget in surplus. At this event this target applies in 2029-30. The current deficit is the difference between total current spending (i.e. day-to-day spending excluding capital investment) and total current revenue. A version of a current balance rule has formed part of fiscal frameworks in 20 years since 2000, but the current budget has only been in balance or surplus in three years since the start of the century.

6.7 The current deficit is forecast to fall from £55.5 billion (2.0 per cent of GDP) this year to a surplus of £10.9 billion (0.3 per cent of GDP) by 2027-28, before narrowing to a slightly smaller surplus of £9.9 billion (0.3 per cent of GDP) by 2029-30. If achieved, the current surplus in 2027-28 would be the largest since 2001-02. The path of the current deficit largely tracks the changes in PSNB across the forecast as public sector net investment (PSNI) is relatively constant as a share of GDP. Over the forecast period PSNI averages 2.6 per cent of GDP, 0.4 per cent of GDP higher than the average since 2004-05 due to the large rise in capital spending, relative to the previous Government's plans, that has been announced at this Budget.

Chart 6.5: Borrowing, current budget, and net investment



Source: ONS, OBR

6.8 Other deficit measures also provide relevant information on the state of the public finances. The primary deficit, which excludes net interest spending, is a useful proxy of the extent to which discretionary spending is covered by revenues and is sometimes referred to as a measure of 'fiscal effort'. All measures of the deficit can be presented in cyclically adjusted terms, correcting for an estimate of the position in the economic cycle, which provides a rough indication of the underlying or structural deficit:

- The primary deficit moves from 1.6 per cent of GDP this year into balance in 2026-27 and to a surplus of 0.9 per cent of GDP in the final forecast year. If achieved, the primary surplus in 2029-30 would be the largest since 2001-02.

- Cyclically adjusted measures of the deficit are slightly lower than unadjusted metrics this year but higher thereafter, until 2029-30 when they move to equilibrium, as shown in Table A.9 in Annex A. This reflects the negative output gap this year but the positive gap from 2025-26 onwards driven by the easing in monetary policy.

Financial transactions

6.9 To calculate changes in public sector net debt we combine changes in borrowing with changes in financial transactions and valuation effects. Financial transactions capture the effects of public sector net lending, sales or purchases of financial assets, and interventions which affect the Bank of England's balance sheet. They also convert the accrued measures of tax and spending which underpin our forecast for borrowing into the cash flows relevant to debt. Valuation effects capture changes in the value of the assets or liabilities held by the public sector which count toward the measure of net debt.

6.10 Financial transactions and valuation effects increase debt by £8.5 billion in 2024-25 and reduce it by £28.1 billion in 2025-26, before adding to debt in each year thereafter. The top panel of Table 6.2 breaks down the contribution of public sector net borrowing, financial transactions, policy measures and valuation effects to the year-on-year change in PSND. It shows:

- **Public sector net borrowing** increases debt by an average of £89.4 billion a year, as discussed in paragraph 6.2.

- **Student loans** push up on debt by increasing amounts in each year, rising to £11.8 billion in 2029-30 as outlays increase faster than repayments largely due to the revised conditions of 'plan 5' loans under which more outlays are treated as loans and less as capital grants.[2]

- **Repayments of Term Funding Scheme (TFS) loans** reduce debt by large, but uneven, amounts averaging £46.4 billion in the first three years of the forecast. Thereafter the TFS has no impact on PSND, with a small stock of loans still due to be repaid outside of the forecast period.

- **Sales losses on gilts held within the Asset Purchase Facility (APF)** push up on debt by an average of £5.2 billion a year, reflecting gilts being sold at less than their face value.

- **Cash flow timing effects** add £23.1 billion to debt in 2024-25, and an average of £16.9 billion thereafter. This reflects adjustments converting accrued receipts into cash and the removal of modified interest on student loans.

- **Other financial transactions** add uneven amounts to debt. In 2024-25 and 2025-26 the profits from the sale of the Government's remaining holdings of NatWest shares offset much of the planned net lending which drives the additions to debt from 2026-27 onwards.

- **Policy measures** add increasing amounts to debt in each year until 2027-28, **beyond their effects on PSNB**. This reflects the creation of the National Wealth Fund which is capitalised with an additional £5.8 billion to lend and invest.[3] These activities add £0.3 billion to debt in 2025-26, rising to £1.5 billion in 2029-30.[4] This is partly offset by measures aiding additional debt recovery by DWP, which reduce debt by amounts rising to £0.3 billion in 2029-30.

- **Valuation effects** increase debt by £12.8 billion in 2024-25 and an average of £3.4 billion thereafter. This largely reflects the consequences of new gilts being issued at a discount to the face value they are held at in the public finances.

[2] This reduces our forecast for capital spending but increases our forecast for net lending.
[3] The National Wealth Fund includes existing UK Infrastructure Bank funding, plus the additional £5.8 billion announced at this Budget.
[4] The National Wealth Fund also impacts PSNB via its initial set up and ongoing operational costs, the interest it earns on investments and the expected losses on loan write offs. The impact on PSNFL also includes the effects of the revaluation of the assets it acquires.

6.11 Table 6.2 shows that, relative to March, year-on-year growth in debt is higher by an average of £32.2 billion. These upward revisions are driven largely by higher borrowing in each year, reflecting the factors set out in paragraph 6.5, and our expectation that there will be £13.1 billion of additional TFS repayments in 2024-25, but £16.6 billion less repaid in 2025-26, in line with higher-than-forecast early repayments of loans.

Table 6.2: Public sector net debt: changes since March

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Year-on-year change in PSND	**159.2**	**136.0**	**77.4**	**105.1**	**115.3**	**114.5**	**113.0**
of which:							
PSNB		**127.5**	**105.6**	**88.5**	**72.2**	**71.9**	**70.6**
Underlying changes in financial transactions[1]		**-4.5**	**-32.5**	**12.2**	**38.6**	**37.9**	**37.6**
of which:							
Student loans net lending		8.7	10.2	11.1	11.6	11.8	11.8
Term funding scheme repayments		-41.4	-73.3	-24.6	0.0	0.0	0.0
Asset purchase facility sales losses		3.4	3.7	5.8	5.8	6.1	6.6
Cash flow timing effects[2]		23.1	24.4	13.7	16.3	15.3	14.7
Other financial transactions		1.6	2.5	6.2	4.9	4.7	4.6
Effects of policy measures on financial transactions[3]		**0.2**	**0.4**	**1.2**	**1.2**	**1.2**	**1.6**
Valuation effects[2,4]		**12.8**	**3.9**	**3.2**	**3.3**	**3.4**	**3.2**
		Change since March					
Year-on-year change in PSND		**33.7**	**50.3**	**22.4**	**23.1**	**31.3**	
of which:							
PSNB		**40.3**	**28.1**	**19.8**	**21.6**	**32.5**	
Underlying changes in financial transactions[1]		**-14.8**	**20.4**	**0.1**	**-1.1**	**-3.6**	
of which:							
Student loans net lending		-0.6	-0.6	-0.5	-0.7	-1.0	
Term funding scheme repayments		-13.1	16.6	0.0	0.0	0.0	
Asset purchase facility sales losses		-0.2	0.2	0.2	0.1	-0.1	
Cash flow timing effects[2]		0.8	4.3	-0.1	0.0	-1.7	
Other financial transactions		-1.6	-0.2	0.5	-0.5	-0.9	
Effects of policy measures on financial transactions[3]		**0.2**	**0.4**	**1.2**	**1.2**	**1.2**	**1.6**
Valuation effects[2,4]		**8.1**	**1.4**	**1.3**	**1.4**	**1.2**	

[1] This contains the impacts of our pre-measures forecast and indirect effects of policy measures on debt, beyond those already captured within PSNB.

[2] Excludes the uplift on index-linked gilts which nets out between cash flow timing and valuation effects.

[3] This contains the direct effects of policy measures on debt, beyond those already caputured within PSNB.

[4] Effects of the premia on gilts held in the APF are subtracted from this line but included as part of the APF sales losses line.

Source: ONS, OBR

Asset Purchase Facility

6.12 The impact of the Bank of England's APF on fiscal aggregates over the forecast period is dependent on changes in Bank Rate and gilt yields, but also on the assumption made on the pace of unwinding of the gilts held within the APF. Our forecast assumes an annual reduction of £100 billion between October 2024 and September 2025, reflecting the Monetary Policy Committee's (MPC's) stated intention at its September 2024 meeting (Table

6.3).[5] The MPC has not set out a plan beyond this period, therefore, we assume that there will be a constant pace of active sales of £48 billion during each October to September year thereafter,[6] so that the overall pace of APF reduction varies year-to-year in line with the uneven profile for redemptions across the forecast period.[7] This assumption is unchanged from our March forecast where we capped the annual run off between October 2024-September 2025 at £100 billion, comprising of £87.2 billion of redemptions alongside a capped £12.8 billion of active sales, with the same assumption of £48 billion active sales thereafter.

Table 6.3: APF annual runoff assumptions

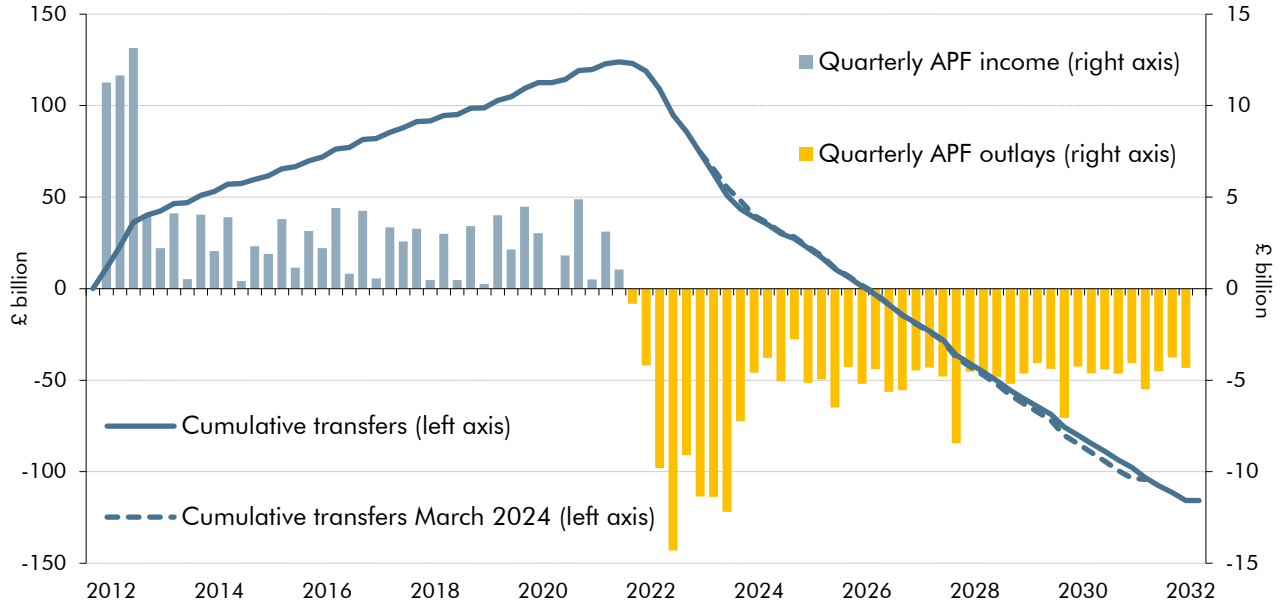
	£ billion					
	Forecast (October-September year basis)					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Total gilts held within the APF (start of year)	**658.0**	**558.0**	**460.9**	**382.4**	**305.3**	**221.7**
Total reduction of gilts held within the APF[1]	**100.0**	**97.1**	**78.5**	**77.1**	**83.5**	**71.9**
of which:						
Active sales	12.8	48.0	48.0	48.0	48.0	48.0
Redemptions	87.2	49.1	30.5	29.1	35.5	23.9

[1] Our assumption of the annual reduction of gilts held in the APF is based on values at initial purchase price.
Source: OBR

6.13 Contributions from the APF to PSND have risen by an average of £1.9 billion a year compared to our March forecast due to a higher forecast for Bank Rate and gilt yields, and now add a cumulative £78.1 billion to PSND across the forecast period. The higher expectations for Bank Rate and gilt yields, combined with the latest runoff path, imply a cumulative net lifetime loss of £115.7 billion, which is £11.5 billion higher than we estimated in our March 2024 *Economic and fiscal outlook*.[8] This is not a comprehensive assessment of the overall fiscal impact of the Quantitative Easing (QE) programme, which supported the economy, asset prices, and financial markets at various points of stress over the past 15 years. These wider economic and fiscal benefits would need to be considered in any comprehensive assessment of the impact of QE.

[5] Bank of England, *September 2024 Monetary Policy Report,* 19 September 2024.
[6] This is based on the average active sales seen in the year to September 2023 and the year to September 2024. Our assumption of a constant pace of active sales follows guidance issued by the MPC in August 2023 that 'sales must be conducted in a relatively gradual and predictable manner over a period of time'. As the MPC statement from September 2024 was consistent with our previous judgement and reaffirmed the principles of the August 2023 statement, we have made no change to our assumption for the APF runoff.
[7] Our assumption of the annual reduction of gilts held in the APF is based on values in initial purchase price terms.
[8] The lifetime cost is realised later than our March forecast due to a change in our modelling of the cash that is held within the APF. Rather than assuming this cash level is maintained until it could cover any remaining losses in full, we now assume that it will decline in proportion to the size of the gilts held within the APF (in initial purchase price terms) and therefore reduces the quarterly indemnifications from HM Treasury to the Bank of England, all other things equal.

Chart 6.6: Forecast of cumulative flows to and from the APF



Source: ONS, OBR

Financing requirement

6.14 The central government net cash requirement (CGNCR) forms the basis of the Debt Management Office's (DMO's) financing remit and so is the primary driver of the net issuance of gilts, the government's principal source of financing. Table 6.4 shows the relationship between the CGNCR and PSNB. First, financial transactions are added to borrowing to get the cash requirement of the whole public sector (PSNCR), with the path explained in more detail in paragraph 6.10 above. Then, the cash requirements for non-central government are removed. Finally, this is adjusted to account for net cash movements within the public sector to get to the CGNCR excluding Network Rail, which is the measure that feeds directly into the Government's gilt issuance plans.

6.15 The CGNCR peaks at £165.1 billion this year largely due to the spike in borrowing, and then reduces as borrowing falls across the forecast to £70.6 billion in 2029-30. The CGNCR is on average £38.4 billion higher than PSNB, largely reflecting sales and redemptions losses on the APF (£17.3 billion on average) and net outlays on student loans (£10.8 billion).

Table 6.4: Reconciliation of PSNCR and CGNCR

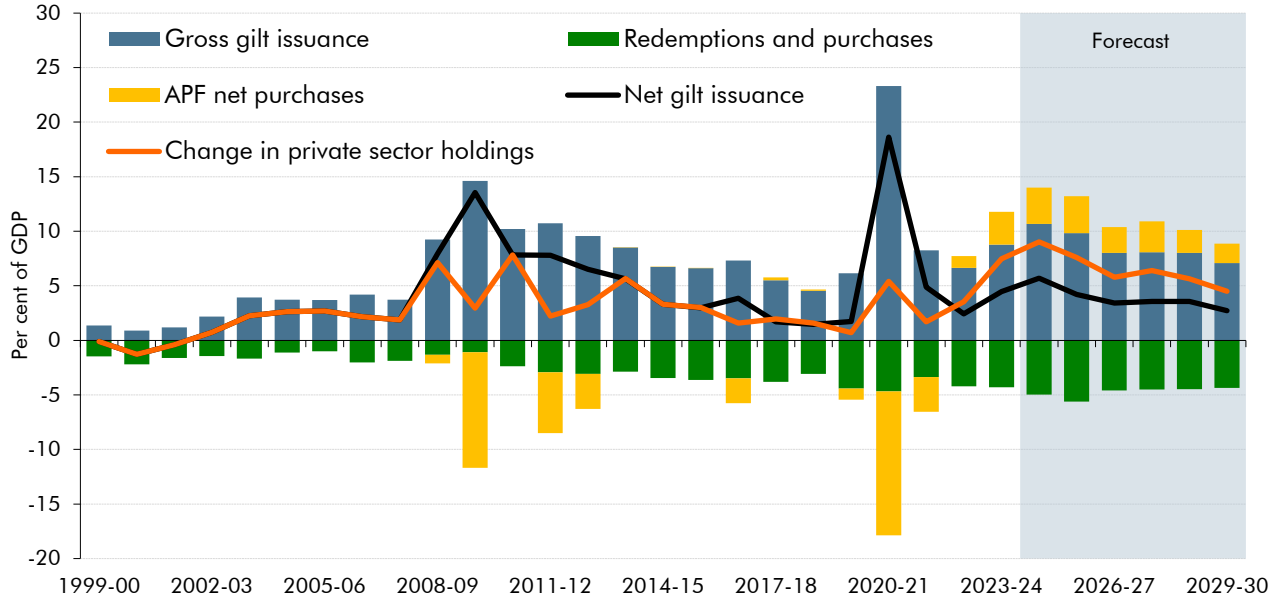
	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Public sector borrowing (a)	**127.5**	**105.6**	**88.5**	**72.2**	**71.9**	**70.6**
Financial transactions (b)	2.3	-38.7	3.1	46.3	55.7	31.9
Public sector net cash requirement (NCR) (a+b)	**129.8**	**66.9**	**91.6**	**118.5**	**127.6**	**102.5**
of which:						
Local authorities and public corporations NCR	-35.3	-68.2	-24.1	0.5	-0.6	-1.7
Network Rail NCR	0.0	0.3	0.7	-5.8	0.9	0.9
CG net cash requirement ex Network Rail	165.1	134.8	115.0	123.8	127.3	103.3

Source: OBR

6.16 Over the five-year forecast period, gross gilt issuance averages 8.6 per cent of GDP and net issuance averages 3.9 per cent of GDP, an average of 0.9 and 0.7 percentage points higher than our March forecast respectively (Chart 6.7). This is largely due to the policy package announced at this Budget which adds 0.9 per cent of GDP to net gilt issuance on average compared to our pre-measures forecast.

6.17 The historically high cash requirement, alongside the unwinding of APF gilt holdings by the Bank of England, means the private sector needs to absorb historically high volumes of debt for a sustained period. The forecast for the change in private sector holdings peaks this year at 9.0 per cent of GDP and averages 6.5 per cent of GDP over the forecast period, compared to 2.7 per cent of GDP between 2000-01 and 2022-23.

Chart 6.7: UK gilt issuance

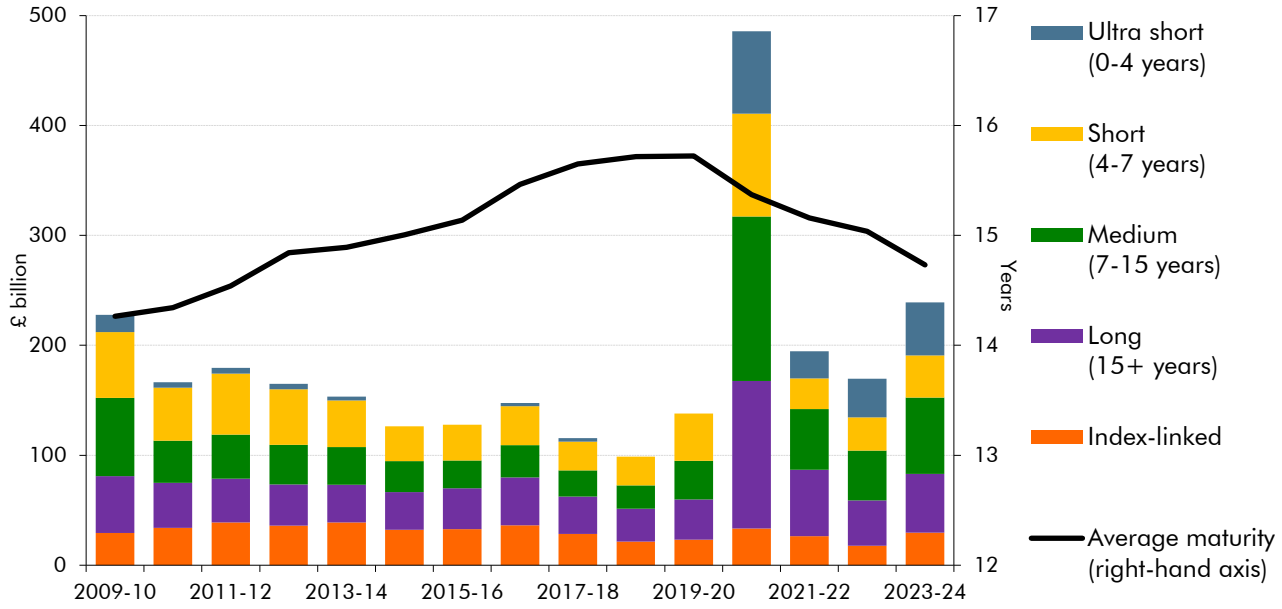


Source: DMO, OBR

6.18 The high level of redemptions in the forecast period are a result of both the elevated level of debt and the historically high proportion of shorter-dated debt issued recently and across the forecast. This has led to a fall in the average maturity of UK gilts (excluding APF

holdings) of around 1 year since 2019-20 to the lowest level since 2011-12 (Chart 6.8). Most of the recent rise in gilt issuance has been met through short (zero to seven years) and medium (seven to 15 years) gilts, which average two-thirds of total issuance since 2020-21. Further, between 2020-21 and 2023-24 almost half of overall short issuance was ultra-short (zero to four years), compared to 8.2 per cent in the 11 years leading up to the pandemic. A rise in the share of short-dated issuance is often associated with periods where there are sharp rises in the overall net financing requirement, such as the financial crisis and the onset of the pandemic. There has also been a move away from issuing larger quantities of typically longer-dated index-linked debt, which accounted for around a quarter of total issuance during the 2010s but has fallen to 9.8 per cent since 2020-21.

Chart 6.8: Gilt issuance by maturity



Source: DMO, OBR

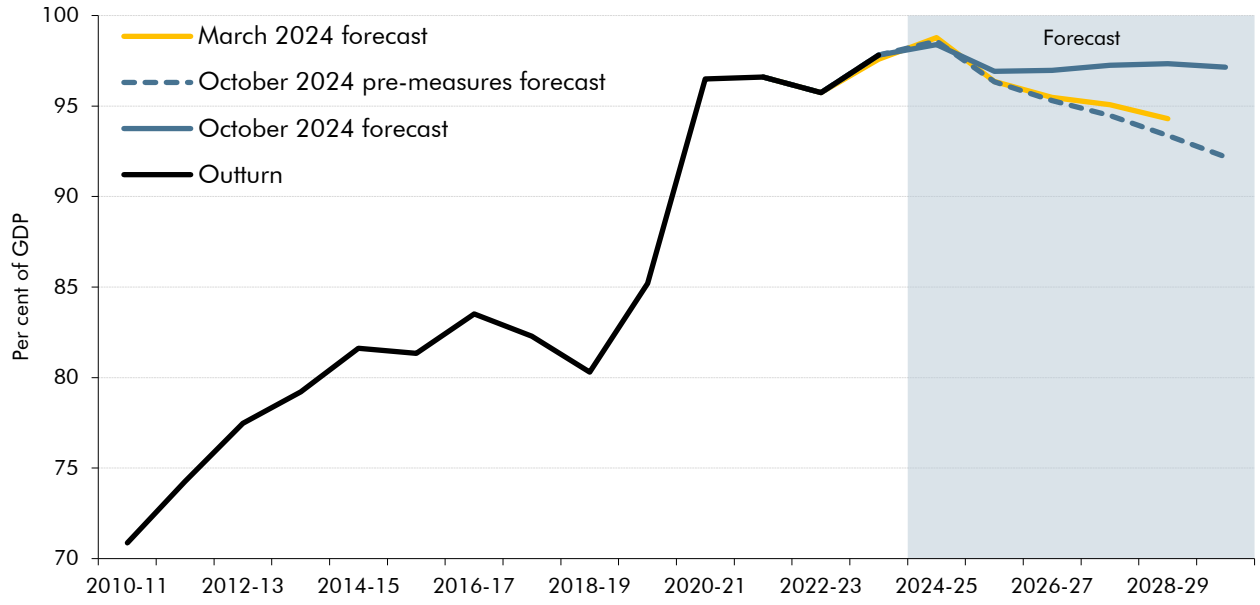
Debt and other balance sheet aggregates

Public sector net debt

6.19 Public sector net debt is forecast to fall from a more-than-sixty-year high of 98.4 per cent to 96.9 per cent next year. It then increases year on year to 97.3 per cent of GDP in 2028-29 before falling to 97.1 per cent of GDP by the forecast horizon.[9] Compared to our March forecast PSND is lower by 0.4 per cent of GDP this year but then higher by increasing amounts rising from 0.6 per cent of GDP next year to 3.0 per cent of GDP by 2028-29. This reflects the impact of the additional borrowing from the policy measures announced at this Budget, with debt lower on a pre-measures basis in every year compared to March, by an average of 0.4 per cent of GDP.

[9] Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts published on 30 September. All else equal, applying the upward revision to 2023-24 nominal GDP of 1.1 per cent to all years of the forecast would reduce PSND as a per cent of GDP by 1.0 per cent of GDP across the forecast.

Chart 6.9: Public sector net debt



Source: ONS, OBR

Public sector net debt (excluding the Bank of England)

6.20 Public sector net debt excluding the Bank of England (PSND ex BoE) is now forecast to rise in every forecast year from 91.8 per cent of GDP this year to 95.8 per cent of GDP by 2029-30 (Chart 6.11). Compared to the March forecast, PSND ex BoE is higher in every year by an average of 1.2 per cent of GDP and by 2.7 per cent of GDP in 2028-29. This is driven by elevated borrowing and by changes to the TFS and APF which have a different impact on PSND ex BoE compared to headline PSND.[10] These differences reduce over the forecast period as large near-term TFS repayments are made and the APF unwinds so that the overall difference between both debt measures narrows to 1.4 percentage points by 2029-30, compared to 6.6 per cent of GDP this year.

Public sector net financial liabilities

6.21 As outlined further in Chapter 7, public sector net financial liabilities will form one of the Government's new fiscal targets. PSNFL is a wider measure of the balance sheet than public sector net debt which includes all financial assets and liabilities recognised in the National Accounts. Sources of differences between the two measures include illiquid financial assets, such as student loans and equity stakes in financial institutions acquired during the financial crisis, which net off against PSNFL but not PSND. Additionally, some liabilities add to PSNFL without affecting PSND, including net pension liabilities for funded pension schemes. Annex B discusses the composition of PSNFL and how we forecast it in more detail.

[10] The large near-term downward contribution to headline debt from the TFS does not impact PSND ex BoE. There is also no offset to PSND ex BoE from 'Asset purchase facility gilt premia' which accounts for the loss on gilts held within the APF that has already been booked in the public finances. Instead the impact on PSND ex BoE, beyond the interest losses recorded in PSNB, relates solely to realised sales and redemption losses.

6.22 In nominal terms, from a stock of £2,285 billion in 2023-24, PSNFL increases by £122.5 billion in 2024-25, and by decreasing amounts in each subsequent year until 2027-28 Table 6.5). Year-on-year changes in PSNFL largely reflect the profile for PSNB outlined in paragraph 6.2. In addition:

- **Valuation changes in funded pension schemes** reduce PSNFL by £23.3 billion in 2024-25, reflecting a sharp increase in equity prices this year, and by £0.9 billion in 2025-26, but increase it thereafter as growth in equity prices slows.

- **Valuation changes relating to the Asset Purchase Facility (APF)** push up net liabilities by £3.4 billion in 2024-25 and by amounts which rise in each year, up to £6.6 billion in 2029-30. This reflects the losses incurred as gilts held within the APF are sold for prices lower than their face value.[11]

- The **premia on central government gilts** increases net liabilities by £8.5 billion in 2024-25, and by smaller amounts thereafter, reflecting expectations of gilt auction prices returning nearer to par.

- The **effects of policy measures** on net financial liabilities, beyond those already included in PSNB, increase net financial liabilities by £1.8 billion in 2024-25. This reflects the additions to funded pension liabilities as a result of the extension of rights to members of the Mineworkers' pension scheme.

Table 6.5: Drivers of changes in public sector net financial liabilities

	£ billion, year-on-year changes						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
October 2024 forecast	**126.7**	**122.5**	**110.8**	**103.3**	**88.2**	**88.7**	**87.4**
of which:							
PSNB		**127.5**	**105.6**	**88.5**	**72.2**	**71.9**	**70.6**
Pre-measures valuation changes		**-6.8**	**5.2**	**14.8**	**16.1**	**16.8**	**16.8**
of which:							
Funded pensions		-23.3	-0.9	3.4	4.5	4.7	4.5
Asset purchase facility[1]		3.4	3.7	5.8	5.8	6.1	6.6
Central Government gilt premia		8.5	3.9	3.2	3.3	3.4	3.1
Other valuation changes		4.6	-1.6	2.5	2.4	2.5	2.7
Effects of policy measures on PSNFL[2]		**1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**

[1] This includes both the losses incurred as gilts held within the APF are sold or redeem and valuation changes as the nominal value of the stock of gilts held within the APF changes relative to the redemption price at which those gilts are recorded in PSND.
[2] This shows the direct effects of measures on PSNFL, beyond those included as part of the PSNB line.
Source: OBR

6.23 Table 6.6 compares our latest forecast to a restated March forecast for PSNFL. This restated forecast correctly captures the effects of APF sales and redemption losses on PSNFL, which were not included within our original March forecast, and raise net financial liabilities by £12.2 billion in 2023-24 and a further £83.2 billion over the remainder of the forecast.

[11] The APF has the same impact on both PSNFL and PSND.

Overall, compared to this restated forecast, PSNFL is now forecast to be higher in each year, by amounts which rise from £15.8 billion in 2024-25 to £133.9 billion by 2028-29.[12] This reflects:

- **Revisions to underlying PSNB,** which add £20.7 billion to PSNFL in 2024-25, but reduce it by a cumulative £3.0 billion by 2028-29.
- **Policy measures** adding £19.6 billion to PSNFL in 2024-25, and a cumulative £181.1 billion of the rest of the forecast, via their effects on PSNB.
- **Underlying valuation changes** reducing PSNFL in each year, but by amounts which fall from £26.2 billion in 2024-25 to £10.1 billion in 2028-29.
- **Policies which affect PSNFL beyond their effects on PSNB,** including the extension of rights to members of the Mineworkers' pension scheme, which raises the level of PSNFL by £1.8 billion in each year.

Table 6.6: Public sector net financial liabilities: changes since March

	Per cent of GDP						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
March 2024 forecast	82.9	83.6	83.2	82.1	80.6	78.7	
March 2024 forecast restated	83.3	84.6	84.6	84.0	83.0	81.6	
October 2024 forecast	82.8	83.5	83.8	84.2	84.1	83.9	83.4
Difference	**-0.5**	**-1.0**	**-0.8**	**0.2**	**1.1**	**2.2**	
of which:							
Difference in nominal GDP[1]		-1.6	-2.2	-2.0	-1.8	-1.8	
Difference in cash level of financial liabilities		0.5	1.4	2.2	3.0	4.0	
	£ billion						
March 2024 forecast	2,285	2,363	2,434	2,497	2,540	2,569	
March 2024 forecast restated	2,297	2,392	2,475	2,554	2,614	2,665	
October 2024 forecast	2,285	2,408	2,518	2,622	2,710	2,799	2,886
Difference	**-11.7**	**15.8**	**43.5**	**68.1**	**95.6**	**133.9**	
of which:							
Underlying PSNB forecast revisions		20.7	19.8	12.0	2.2	-3.0	
Underlying valuation changes		-26.2	-26.6	-21.8	-15.9	-10.1	
Effect of policy measures on PSNB		19.6	48.6	76.2	107.6	145.2	181.1
Effect of policy measures on PSNFL[2]		1.8	1.8	1.8	1.8	1.8	1.7

[1] Non-seasonally-adjusted GDP centred end-March.

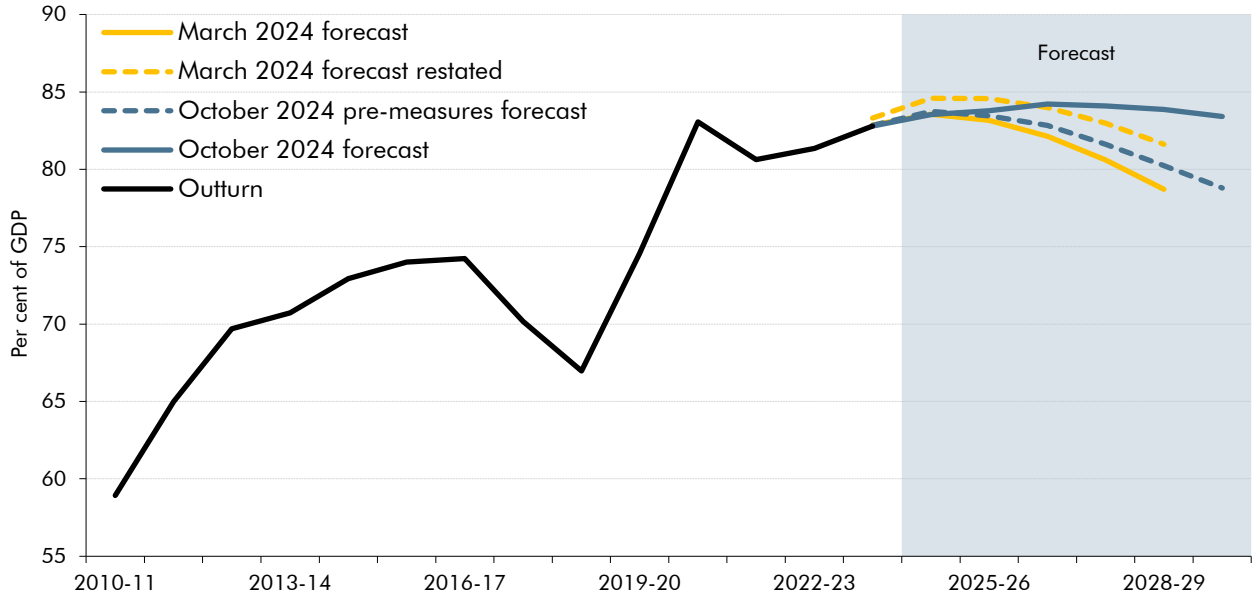
[2] This contains the effects of policy measures on PSNFL beyond their effects on PSNB.

Source: OBR

[12] The ONS revised down outturn for PSNFL since its original estimate for 2023-24, to reflect improved accounting of flows within the public sector. This lowers our starting point for forecasting the future level of PSNFL.

6.24 As a share of the economy, PSNFL rises from 83.5 per cent of GDP in 2024-25 to 84.2 per cent of GDP in 2026-27, before falling to 83.4 per cent of GDP in 2029-30 (Chart 6.10).[13] It is lower than our restated forecast for March by 1.0 percentage points in 2024-25, reflecting lower-than-forecast outturn for 2023-24 and an upward revision to nominal GDP.[12] In 2025-26 it is lower by 0.8 percentage points, but higher, by increasing amounts, in each subsequent year and by 2.2 per cent of GDP in 2028-29. The upward revisions to PSNFL as a share of GDP are the net effect of a higher cash level of net financial liabilities in each year, which more than offset upward revisions to our forecast for nominal GDP relative to March.

Chart 6.10: Public sector net financial liabilities



Source: ONS, OBR

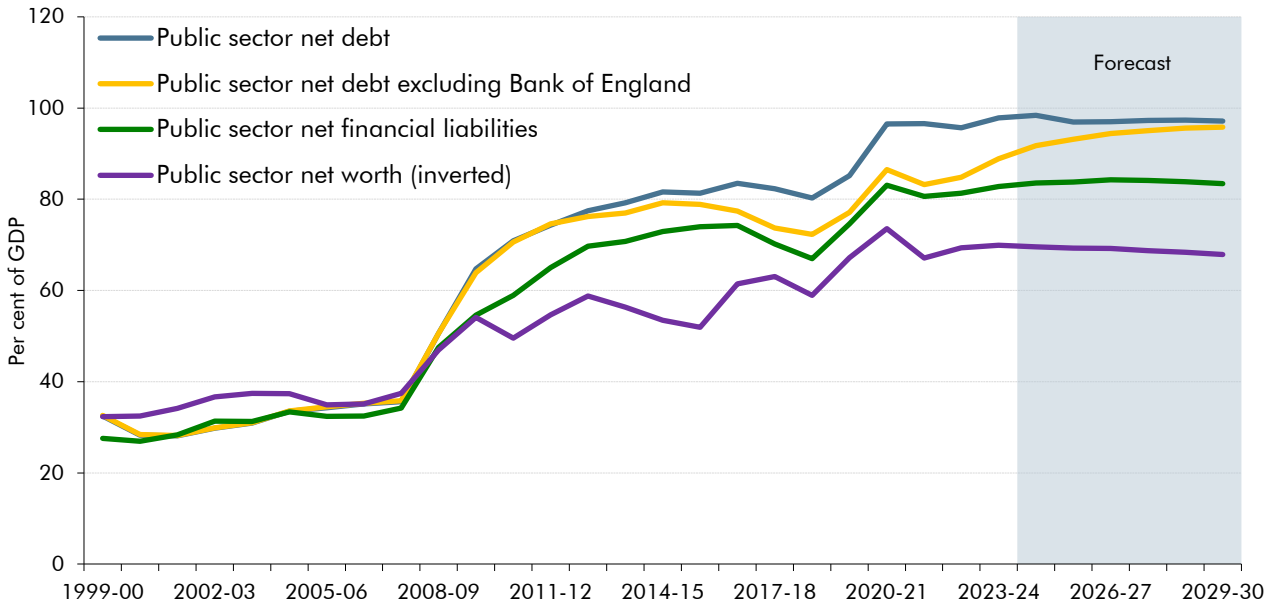
Public sector net worth

6.25 Public sector net worth is the most comprehensive measure of the government balance sheet and, in addition to the financial assets and liabilities captured in PSNFL, also captures changes in the value of non-financial assets and the liabilities associated with unfunded pensions schemes. Having risen to 69.9 per cent of GDP in 2023-24, (inverted) PSNW declines by 2.0 per cent of GDP by the forecast horizon, a third of which is through falling PSNFL with the remaining decline largely explained by a fall in unfunded pension liabilities as a share of national income.

6.26 Overall, all four measures of the balance sheet are currently at historic highs and remain broadly stable across the forecast period (Chart 6.11). By 2029-30 all the measures are forecast to begin to gently decline, except PSND ex BoE which is still rising slightly at that point.

[13] Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts published on 30 September. All else equal, applying the upward revision to 2023-24 nominal GDP of 1.1 per cent to all years of the forecast would reduce PSNFL as a per cent of GDP by 0.9 per cent of GDP across the forecast.

Chart 6.11: Four measures of the public sector balance sheet



Source: ONS, OBR

7 Performance against the Government's fiscal targets

Introduction

7.1 This chapter:

- describes the **new Government's proposed fiscal targets** and assesses their likelihood of being met; and
- considers uncertainty around our fiscal forecast and the **risks to the Government meeting its fiscal targets** based on historical patterns of shocks to and variations in key macroeconomic and fiscal determinants.

Proposed fiscal framework

Proposed fiscal targets

7.2 The Government has published a draft update to the *Charter for Budget Responsibility* alongside this October Budget, containing a new fiscal mandate and supplementary targets. The new fiscal mandate in the draft *Charter* is:

- to have the **current budget in surplus** in 2029-30, until 2029-30 becomes the third year of the forecast period. From that point, the current budget must then remain in balance or in surplus from the third year of the rolling forecast period, where balance is defined as a range: in surplus, or in a deficit of no more than 0.5 per cent of GDP.[1] If the range is used between fiscal events, the current budget must return to surplus from the third year at the following fiscal event.

7.3 There are also two supplementary targets proposed in the draft *Charter*:

- a new target to have debt, defined as **public sector net financial liabilities (PSNFL)**, falling as a share of the economy in 2029-30, until 2029-30 becomes the third year of the forecast period. Debt should then fall from the third year of the rolling forecast period; and
- a continuation of the previous Government's target to ensure that **expenditure on welfare** (excluding the state pension and payments closely linked to the economic cycle) is contained within a predetermined cap and margin in 2029-30.

[1] The Government states in the *Charter* that *"this range will support the government's commitment to a single fiscal event every year by avoiding the need for policy adjustment at forecasts outside of fiscal events"*.

7.4 The *Charter* further states that the Treasury will consider a wide range of indicators in its management of fiscal policy, however it no longer specifies these explicitly.

Performance of the fiscal targets in our central forecast

7.5 In our central forecast, the proposed fiscal mandate and supplementary targets are on course to be met, but by relatively small margins:

- The updated fiscal mandate for the **current budget** to be in surplus is met by a margin of 0.3 per cent of GDP (£9.9 billion) in 2029-30. The probability of the target being met is assessed as 54 per cent.
- The new supplementary target for **public sector net financial liabilities** to be falling as a percentage of GDP is met by a margin of 0.5 per cent of GDP (£15.7 billion) in 2029-30. The probability of the target being met is assessed as 51 per cent based on historic forecast errors detailed in paragraph 7.21.
- The Government has set a margin of 5 per cent (£9.7 billion) against the new **welfare cap** set for 2029-30.

Table 7.1: Performance against the Government's proposed fiscal targets

		Per cent of GDP		£ billion		Per cent
		Forecast	Margin	Forecast	Margin	Probability
Current balance to be in surplus by 2029-30						
October 2024 pre-measures forecast	Met	0.7	0.7	22.7	22.7	
October 2024 forecast	Met	0.3	0.3	9.9	9.9	54
Memo: excluding fuel duty rises	Met	*0.2*	*0.2*	*5.2*	*5.2*	
Change in public sector net financial liabilities in 2029-30						
October 2024 pre-measures forecast	Met	-1.4	1.4		49.1	
October 2024 forecast	Met	-0.5	0.5		15.7	51
Memo: excluding fuel duty rises	Met	*-0.3*	*0.3*		*11.4*	
Welfare cap: specified welfare spending in 2029-30						
October 2024 forecast	Met			194.5	9.7	

Source: OBR

Change in headroom against fiscal targets

Current budget and net liabilities targets

7.6 Before taking account of the policy measures in this Budget, our forecasts for fiscal headroom against the current budget and PSNFL targets would have been higher than our (restated) March 2024 forecast,[2] because of changes to the pre-measures forecast and due to rolling the targets forward from 2028-29 to 2029-30. Policy measures announced in the

[2] An error was identified in the net liabilities calculation used in the March 2024 forecast of PSNFL. The restated March PSNFL forecast and headroom calculation correct this error but otherwise is unchanged.

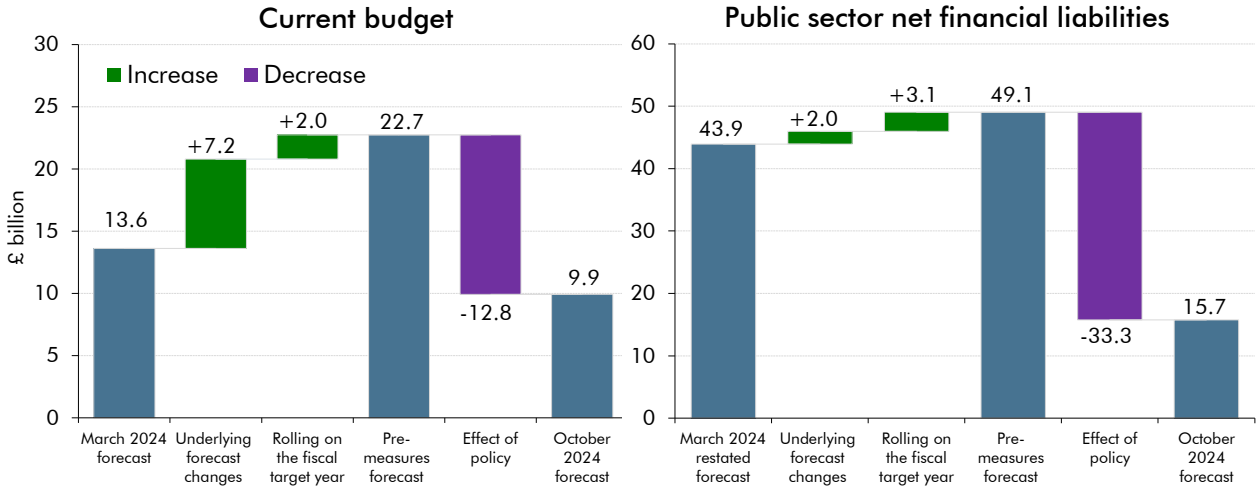
Budget then reduce the headroom modestly for current budget but more significantly for PSNFL. As shown in Chart 7.1:

- Underlying **pre-measures forecast changes** since our (restated) March forecast increase headroom by £7.2 billion for the current budget target and by £2.0 billion for the net liabilities target. Rolling on the fiscal year from 2028-29 to 2029-30 adds a further £2 billion to headroom against the current budget target and £3.1 billion to headroom against the PSNFL target.

- Budget **policy measures** reduce headroom by £12.8 billion for the current budget and by £33.3 billion for the net financial liabilities target. Policy reduces headroom more for net liabilities than for the current budget, as around two-thirds of the policy-driven increase in borrowing in the final year of the forecast is to fund additional capital spending, which increases net liabilities but does not impact the current deficit.

- This leaves **overall headroom** in our central forecast at £9.9 billion (0.3 per cent of GDP) against the current budget target and £15.7 billion (0.5 per cent of GDP) against the supplementary target for public sector net financial liabilities to be falling in 2029-30.

Chart 7.1: Proposed fiscal targets: headroom compared to March

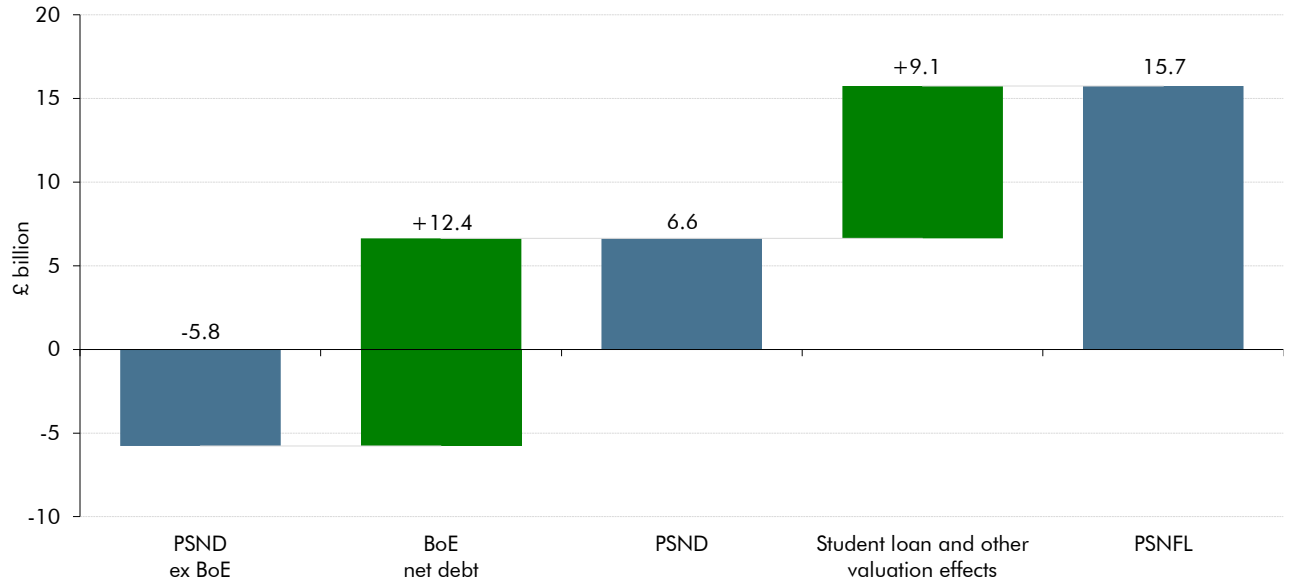


Source: OBR

7.7 The change in the metric used for the debt target in the new *Charter* – from public sector net debt excluding the Bank of England (PSND ex BoE) to PSNFL – has resulted in an increase in headroom of £21.5 billion at this Budget (Chart 7.2). £12.4 billion is due to Bank of England flows, largely accounted for by the different treatment of the losses on the Asset Purchase Facility (APF),[3] which adds £11.8 billion in additional headroom to PSNFL. An additional £9.1 billion of headroom has been created as a result of PSNFL netting off illiquid public sector financial assets, in particular student loans assets.

[3] In PSNFL and PSND any difference between the purchase and redemption price of gilts held by the APF is recorded when the gilts were purchased. By contrast PSND ex BoE solely records sales and redemption losses at the point that the Bank of England calls on its HM Treasury indemnity. This means that in PSNFL and PSND more of these losses have been recorded in the past.

Chart 7.2: PSND ex BoE headroom compared to PSNFL headroom

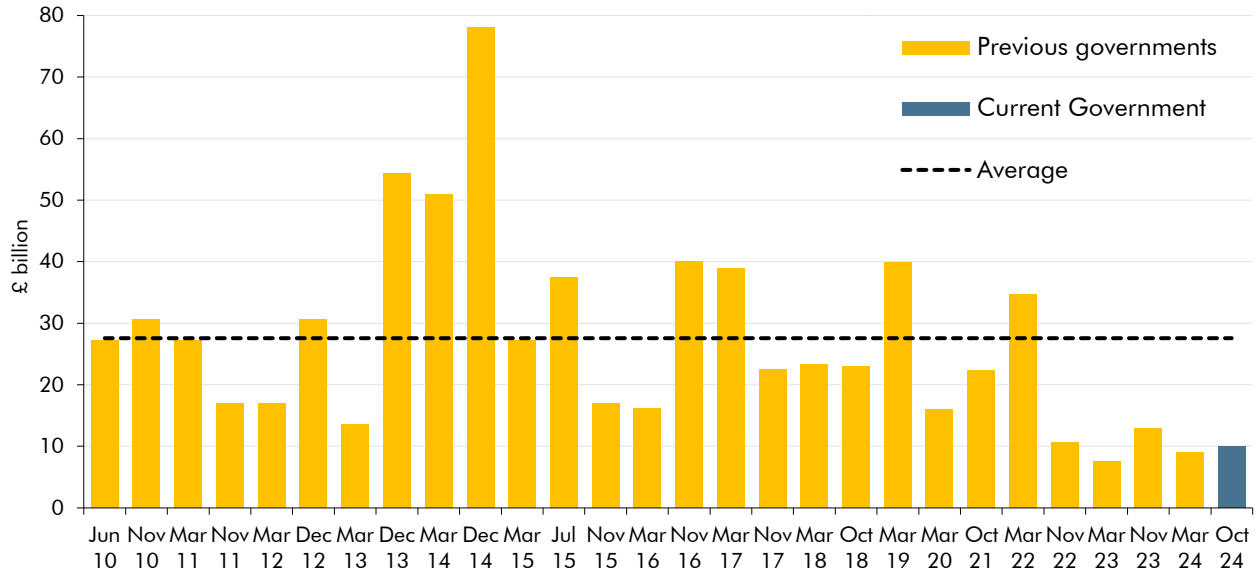


Source: OBR

Headroom against successive fiscal mandates

7.8 Under the new fiscal rules, the £9.9 billion headroom against the current budget fiscal mandate is the third-lowest of 28 forecasts since the OBR was established in 2010 (Chart 7.3). It is around one-third of the average headroom Chancellors have set aside against their fiscal targets over this period. It is also only 11 per cent of the average forecast five-year-ahead error for the current budget, which is around £95 billion.

Chart 7.3: Successive forecasts for headroom against fiscal targets



Note: For comparability with headroom against the current fiscal mandate, past headrooms have been calculated in terms of per cent of GDP, as forecast at the time, and multiplied by our latest forecast for nominal GDP in 2029-30. For November 2016 and March 2020, we have used the Chancellor's headroom against the proposed fiscal rules at the time.
Source: OBR

Welfare cap

7.9 The welfare cap is a limit that the Government aims to spend on certain social security benefits and tax credits in the final year of a given Parliament. Since its introduction in 2014, the welfare cap has been revised upwards frequently to account for inflation and changes in welfare demand, such as in October 2021 following the pandemic.

7.10 As this is the first Budget of a new Parliament, the *Charter* requires the Government to set a new cap. Spending subject to the cap remains unchanged. The proposed update to the welfare cap sees the target year updated to 2029-30, the end of the Parliament, where the cap is set at £194.5 billion, as shown in Table 7.2. The margin for the cap rises by 0.5 percentage points a year in the first two years of the forecast, followed by a further 1 percentage point a year increase thereafter, reaching 5.0 per cent in 2029-30. This will be the largest welfare cap margin since its introduction in 2014. The proposed cap is met at this event as it has been set on the basis of the latest forecast for spending subject to the cap plus this margin.

Table 7.2: The new welfare cap and margin

	£ billion					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Welfare cap						194.5
Pathway	161.7	166.8	172.6	179.0	186.4	
Margin (per cent)	0.5	1.0	2.0	3.0	4.0	5.0
Margin	0.8	1.7	3.5	5.4	7.5	9.7
Welfare cap and pathway plus margin	**162.5**	**168.5**	**176.0**	**184.4**	**193.8**	**204.2**

Source: OBR

Broader fiscal indicators

7.11 Alongside the formal assessment of the proposed fiscal targets, we consider also broader balance sheet and debt affordability metrics as indicators of fiscal sustainability. Table 7.3 presents a dashboard of balance sheet and debt affordability metrics that shows: first, their levels and how these compare with the median from 1967-68 to 2006-07 (the four decades preceding the financial crisis, before debt ratcheted higher as a result of it); and second, whether they are improving or deteriorating in each year of the forecast. It shows that the:

- **Balance sheet (stock) measures** are all currently in a much worse position across the forecast than the pre-2007 median, shown in the sea of red in the top section of the top panel. However, all of them, except PSND excluding Bank of England, are on an improving path by the end of the forecast period as shown by the bottom panel.

- **Cost of debt (flow) measures** show a more mixed position in comparison to the pre-2007 median, indicated by the orange and green cells. Net interest costs as a share of GDP are slightly higher than the pre-2007 median, reaching 3 per cent of GDP in 2028-29, while interest costs as a share of revenue remain below the pre-2007 median across the forecast.

Table 7.3: Dashboard of balance sheet and fiscal affordability indicators

	Pre-2007 median	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	Level (per cent of GDP, unless otherwise stated)						
Balance sheet metrics							
PSND	36.3	98.4	96.9	97.0	97.2	97.3	97.1
PSND ex BoE	36.6	91.8	93.1	94.4	95.1	95.6	95.8
PSNFL	31.6	83.5	83.8	84.2	84.1	83.9	83.4
PSNW (inverted)	-12.5	69.6	69.3	69.2	68.7	68.4	67.9
Cost of debt metrics							
Net interest costs	2.8	2.9	2.9	2.9	2.9	3.0	3.0
Net interest costs (per cent of revenue)	7.9	7.1	7.0	6.9	6.9	7.0	7.0
		Year-on-year change in ratio to GDP					
Balance sheet metrics							
PSND	-1.4	0.6	-1.5	0.0	0.3	0.1	-0.2
PSND ex BoE	-1.4	2.9	1.4	1.2	0.7	0.6	0.2
PSNFL	-0.5	0.7	0.2	0.4	-0.1	-0.2	-0.5
PSNW (inverted)	0.5	-0.3	-0.3	-0.1	-0.5	-0.3	-0.5
Cost of debt metrics							
Net interest costs	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Net interest costs (per cent of revenue)	-0.2	-0.4	-0.1	-0.1	0.0	0.1	0.0

Note: Pre-2007 median is from 1967-68 to 2006-07. For year-on-year changes, medians are from 1968-69. Values are coloured depending on the pre-crisis decile they lie in. PSNW has been inverted to facilitate comparisons with the other three metrics.
Source: OBR

Other changes to the fiscal framework

7.12 In addition to the proposed fiscal targets, the draft *Charter* makes a number of reforms to the fiscal framework with the aim of improving fiscal policy management and enhancing transparency. These include:

- The introduction of the **fiscal lock**: legislated for earlier this year, this codifies the requirement for significant tax and spending changes (those exceeding 1 per cent of GDP in any year in the forecast period) to be scrutinised by the OBR.
- **Improvements to transparency on spending:** this obliges the Treasury to provide the OBR with greater information and assurances on departmental spending pressures and policies and a more comprehensive account of how they are being funded. The Charter also now makes explicit the OBR's ability to make overspend or underspending judgements against the Government's departmental spending plans.
- A **commitment to regular spending reviews:** this requires the Treasury to set detailed departmental spending plans for at least three years of the forecast period every two calendar years.
- A **commitment to a single fiscal event**: this signals an intention to hold only one major fiscal event a year, except in the case of an economic shock.

- A **requirement to report on assets and contingent liabilities**: this obliges the Treasury to annually report on central government's financial assets, contingent liabilities, financial guarantees, insurance contracts, and provisions.

7.13 The commitment on spending reviews in conjunction with the fiscal targets moving to the third year of the forecast (albeit in two years' time) means that the Government will eventually have detailed spending plans for most, if not all, of the years in which the fiscal targets bind. This should reduce the risk around meeting these targets.

7.14 Alongside the fiscal lock, the Government's commitment to a single fiscal event should provide greater policy certainty. This is supported by the range around the current budget target once it applies to the third year of the forecast, which provides fiscal space such that policy does not necessarily need to respond to forecast changes outside of the single fiscal event.

Recognising uncertainty

7.15 The OBR is required to assess whether the Government has a better-than-even chance of meeting its fiscal targets, which we do by producing a median forecast relative to which the outturn is equally likely to be higher or lower than predicted based on current policies. We use several analytical tools to illustrate the risks around our central forecast including:

- **disclosure of specific risks** to our economic and fiscal forecasts, focusing on those which appear most material at the time;
- **fan charts** that reflect the chances of shocks of different sizes (through stochastic simulations and forecast errors drawing on historical experience) to illustrate the uncertainty around our assessment of the probability that the fiscal targets are met;
- **sensitivity analysis** that illustrates the vulnerability of the debt and borrowing targets to changes in key forecast outcomes including inflation, and interest rates; and
- **scenarios** that illustrate the uncertainty of our judgements on public investment to our economy forecast (detailed in Box 3.3), and the vulnerability of the public finances to changes in interest rates.

Specific risks

7.16 Over recent years, large shocks and their aftermath have often resulted in significant revisions to our economic and fiscal forecasts from one fiscal event to the next. We therefore continue to emphasise the uncertainties around our forecast in the light of rapidly changing economic conditions and the possibility that any of our key judgements could prove significantly too optimistic or pessimistic.

7.17 Specific sources of risks to our economy forecast include:

- The prospect of widening conflict in the Middle East poses a significant risk to the path of **energy prices** as well as supply chain resilience. Since closing our forecast, oil prices have been volatile, rising by around 10 per cent on 7 October compared to our market determinant window, before falling back since. Box 2.2 of our March 2024 *Economic and fiscal outlook* (*EFO*) explored the impact of a shock to energy prices, estimating that a spike in inflation of up to 6 percentage points higher than our baseline and a consequential spike in interest rates could lead to an increase in borrowing of £23 billion a year.

- The net impact of the policies announced at this Budget is to reduce **real business investment** in the near term by 1.8 per cent, or a cumulative £25 billion by the forecast horizon. This is uncertain and is dependent on our assumptions around the crowding out of business investment from the fiscal loosening, and its offset from the greater incentive to invest created by more public sector investment. These uncertainties around the impacts of government investment on potential output are explored further in Box 3.3.

- The path for **Bank Rate and gilt yields** is highly uncertain and has fluctuated by large amounts between our recent forecasts, contributing to sizeable revisions in debt interest spending, as outlined in Box 4.3 of our March 2024 *EFO*. Since our March forecast, the 10-year UK gilt yield has fluctuated between 3.7 per cent and 4.3 per cent and Bank Rate expectations have also proved volatile. We estimate that a 1 percentage point increase in both Bank Rate and gilt yields in each forecast year would increase debt interest spending by £16 billion in 2029-30, and lifetime losses on the APF would increase by around £50 billion. We further illustrate the sensitivity of the public finances to a 1.3 percentage point rise in Bank Rate and gilt yields in the scenario explained in paragraph 7.24.

7.18 The large increase to departmental spending in this Budget has crystalised one of the major policy risks we have highlighted in previous *EFO*s, but there remain a number of fiscal and policy-related risks:

- The **tax-to-GDP** ratio is forecast to increase to the highest level on record at 38.3 per cent of GDP in 2027-28. Part of this increase is driven by the policies announced at this Budget. The estimated yield from several of these policies is highly uncertain, as set out in Chapter 3. There are also significant risks around key economic assumptions in the forecast, such as earnings and employment growth, which underpins the increase in personal taxes. If the tax-to-GDP ratio were to remain at its 2024-25 level, tax revenues would be £62.2 billion lower in 2029-30.

- Welfare **spending** on incapacity and disability benefits is forecast to continue rising, from £64.7 billion (2.4 per cent of GDP) in 2023-24 to £100.7 billion (3.0 per cent of GDP) in 2029-30. This is an uncertain judgement as the increase to date has reflected a complex interaction of drivers across health, the economy, and the operation of the benefits system (as our 2024 *Welfare trends report* explored).

- This Budget sees another temporary freeze to the rate of **fuel duty** for the thirteenth successive year. However, the assumption in this forecast is that the 5p cut to the main rates of petrol and diesel will be reversed next year and fuel duty rates will rise in line with inflation. This is a significant risk to the forecast as this assumption is expected to raise £4.8 billion in revenue by the final year of our forecast in 2029-30. We therefore assess the Government's margin against the fiscal mandate assuming fuel duty is not raised in cash terms from its current rate (see Table 7.1). In a similar category of 'temporary' policy measures which have proven more permanent, **business rates relief** for retail, hospitality and leisure properties has again been extended (albeit at a lower rate) for an additional year at a forecast cost of £1.7 billion in 2025-26, and in September 2024 the **Household Support Fund** was again extended up until April 2025. Both these measures were first introduced as temporary support during the pandemic.

- Our March *EFO* highlighted the significant upside risk to **departmental spending**, as at the time allocations were only set for 2024-25. At this event the Government has allocated increased departmental spending for 2025-26 and set a significantly higher spending envelope for the years beyond that, with a further three years to be allocated at next year's Spending Review. With significant funding now also allocated for the infected blood and Post Office compensation schemes, the spending risks highlighted in our previous forecasts have been significantly reduced, though governments have previously topped up the departmental spending envelope further when making final allocations.

- In its manifesto, the Government committed to increasing defence spending to 2.5 per cent of GDP when economic conditions allow. Relative to the current 2.0 per cent NATO commitment, meeting this manifesto commitment would cost an additional £17 billion in 2029-30. The current Government has also stated an intention to return Official Development Assistance (ODA) to 0.7 per cent of gross national income when fiscal circumstances allow. Against the current ODA commitment of 0.5 per cent of gross national income, the additional cost of this rise in ODA spending would be £6.7 billion by 2029-30. These commitments could represent a combined £23.6 billion of upward pressure on a total DEL envelope which is broadly flat as a share of GDP from 2024-25 onwards.

7.19 The move to **public sector net financial liabilities** as a supplementary fiscal target creates additional forecast risks and uncertainties. These stem from the complexities in valuing the additional financial assets and liabilities included in PSNFL, the risk profile of new financial assets created or acquired by the National Wealth Fund and other public bodies as part of their investment activities, and the incentive that the use of PSNFL as a fiscal target creates for the Government to deliver policy through loans and equity injections. These risks and uncertainties, and how they are being managed, are discussed further in Annex B.

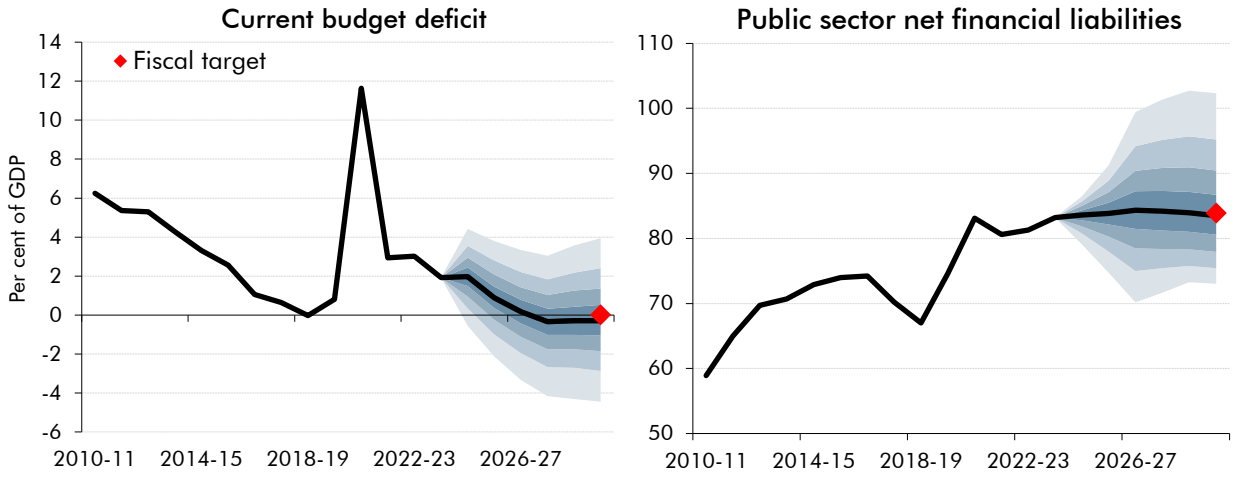
Fan charts

7.20 Fan charts, based on stochastic simulations and historic errors, allow us to assess the probability of the Government meeting its fiscal targets based on previous shocks and forecast errors respectively. Chart 7.4 shows the probability distribution around the forecast for the current budget and PSNFL. It shows that, based on currently stated government policy, there is:

- a 54 per cent chance that the **current budget** is in surplus in the target year of 2029-30; and
- a 51 per cent chance of **public sector net financial liabilities** falling as a share of GDP in the target year 2029-30.

7.21 In this forecast we have adjusted our methodology as a result of the change in the supplementary target to PSNFL. To calculate the probability of hitting this target we use historic forecast errors since the November 2016 *EFO*, the first forecast which included PSNFL. The limited sample means that the distribution is based on a period which has seen greater variation in borrowing and debt as a result of major shocks to the economy, which leads to a wider variation of possible outcomes in our fan charts. For future publications we will explore integrating PSNFL into our stochastic simulations.

Chart 7.4: Fan chart for current budget and PSNFL



Source: ONS, OBR

Sensitivities

7.22 Sensitivity analysis estimates what would need to happen to key forecast parameters and judgements to reduce the headroom against different targets to zero (a 'test to failure' or 'reverse stress test'). We assess the sensitivity of the change in the current budget, the new fiscal mandate measure, to changes in the economy-wide effective tax rate, the effective interest rate on government debt, growth, and inflation.

The current budget deficit

7.23 We use our fiscal ready-reckoners to calibrate several possible adverse surprises relative to our central forecast that would be sufficient to push the current budget into deficit in 2029-30.[4] The current budget surplus in our central forecast could fall to zero if:

- **Nominal GDP growth** was 0.7 percentage points lower in 2029-30, shown by the diamond in the top-left panel in Chart 7.5, assuming this lowered receipts by a corresponding amount. This is broadly similar to the amount by which nominal GDP growth has been revised down in 2023-24 in comparison to our March 2024 forecast.

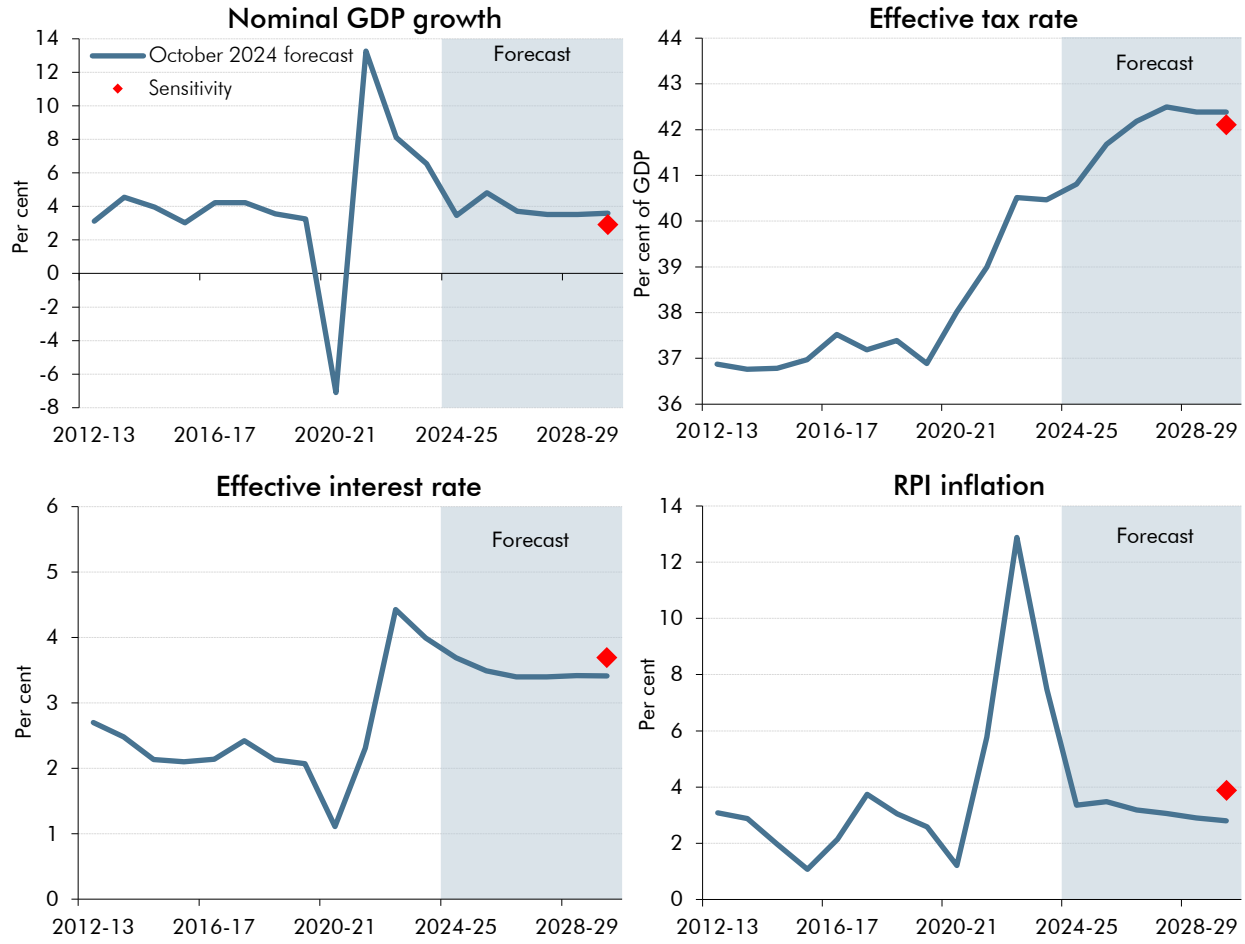
- The **effective tax rate** was 0.3 percentage points lower by our forecast horizon in 2029-30, shown by the red diamond in the top-right panel in Chart 7.5. This is equivalent to the static cost (i.e. pre-behavioural and wider economic effects) of a 2 percentage point cut in main-rate employee national insurance contributions, or a 1.3 percentage point cut in the basic rate of income tax.

- **Effective interest rates** were 0.3 percentage points higher, at 3.7 per cent, by 2029-30, shown by the red diamond in the bottom-left panel in Chart 7.5. This is around half of the change in the 10-year UK gilt yield since our March forecast.

- **RPI inflation** was 1.1 percentage points higher by our forecast horizon in 2029-30, shown by the red diamond in the bottom-right panel in Chart 7.5. This is equivalent to one-twelfth of the rate of RPI inflation in 2022-23.

[4] On our website we publish ready-reckoners that show the typical impact of changes in key economic determinants on spending and receipts as embodied in our forecast models. The actual impact of any of the changes we consider will depend on other factors such as the state of the economy at the time and the reaction of policymakers, notably the Monetary Policy Committee.

Chart 7.5: Sensitivities: changes that would generate a current deficit



Source: ONS, OBR

Interest rate scenario

7.24 In paragraph 7.23 we illustrate the change in the effective interest rate that would be required to eliminate the Government's headroom against its fiscal mandate. Given the recent volatility in short-term interest rates, with market expectations for Bank Rate in the next financial year ranging from 3.2 per cent to 4.6 per cent (0.7 percentage points above and below our baseline), in this section we explore a more extreme interest rate scenario. We assume that Bank Rate and gilt yields are 1.3 percentage points higher than the rates used in our central forecast in every year of our forecast period up to 2029-30 to highlight the sensitivity of the public finances, and both of the Government's new fiscal targets, to movements in interest rates over the forecast horizon.

7.25 We assume that only net debt interest payments change, leaving nominal GDP, primary spending, and primary revenues unchanged relative to our baseline forecast. As a result of higher government spending required to service the cost of debt:

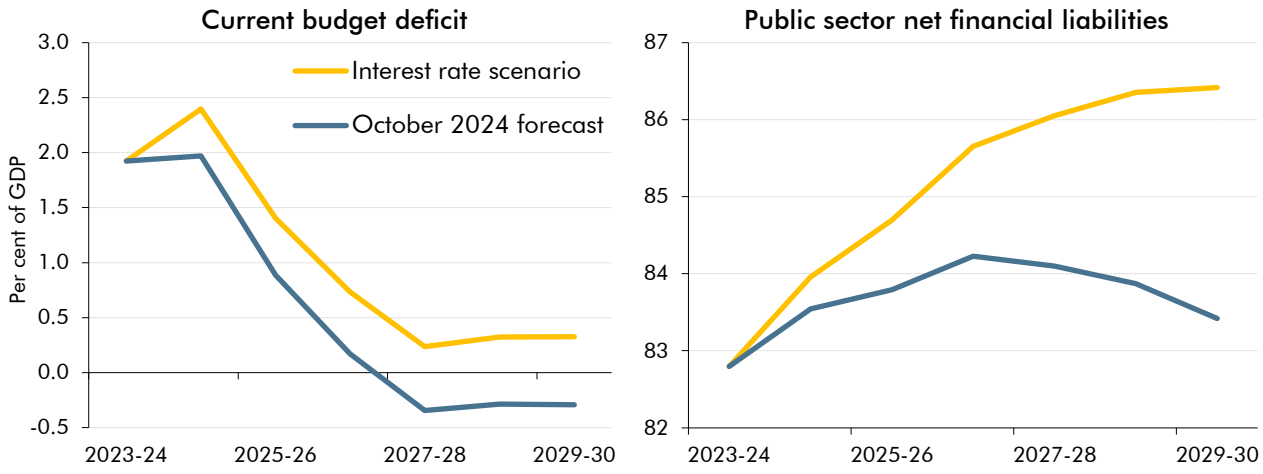
- The Government's fiscal mandate to have the **current budget in surplus in 2029-30** is not met by a margin of £11.1 billion (0.3 per cent of GDP). This is a result of spending

on debt interest payments in the final year of the forecast reaching £143 billion (4.2 per cent of GDP), £21 billion more than our baseline forecast.

- The supplementary target to have **PSNFL falling by 2029-30** is also not met by a margin of £2.3 billion (0.1 per cent of GDP). This is a result of higher debt interest payments increasing liabilities without an offset in assets throughout the forecast period, raising borrowing and the stock of debt. By the forecast horizon PSNFL as a percentage of GDP is 3 percentage points higher than our baseline forecast.

7.26 This shows how a relatively modest shock to the future path of interest rates can alter the trajectory of public debt and weaken the medium-term sustainability of the public finances. It is likely that an actual interest rate shock of this magnitude would be in reaction to an adverse shock to prices, and that if the source of inflation were imported rather than domestic this could further worsen the sustainability of the public finances as we explored in Chapter 5 of our November 2023 *EFO*. For example, interest rates rose from historic lows of 0.1 per cent in 2020 to 5.25 per cent in 2023 in response to inflation peaking at around 11 per cent.

Chart 7.6: Current budget deficit and PSNFL in the interest rate scenario



Source: ONS, OBR

The legislated fiscal targets

7.27 The Government has proposed an updated *Charter for Budget Responsibility* alongside this Budget. However, the current *Charter* is legally in force until Parliament approves the revised draft. This means that the OBR is still legally required to judge whether the Government has a greater than 50 per cent chance of meeting the three legislated fiscal targets:

- A 'fiscal mandate' that requires **public sector net debt excluding the Bank of England** as a percentage of GDP to be falling by the fifth year of the rolling forecast period, which is currently 2029-30.

- A supplementary target that requires public sector net **borrowing not to exceed 3 per cent of GDP**, also by the fifth year of the rolling forecast period in 2029-30.

- An expenditure cap set by the Treasury that requires **welfare spending** (excluding the state pension and payments most closely linked to the economic cycle) to be contained within a predetermined cap and margin in 2024-25.

The implications of our central forecast

7.28 Table 7.4 summarises performance against the legislated fiscal targets:

- The fiscal mandate is not met by a small margin of 0.2 per cent of GDP (£5.8 billion) in 2029-30. The probability of the target being met is assessed as 49.7 per cent. The reduction in headroom relative to March is largely the result of the increase in borrowing at this Budget due to the Government's policy decisions.

- The supplementary target is met by a margin of 0.9 per cent (£31 billion) in 2029-30. The probability of the target being met is assessed as 62 per cent.

Table 7.4: Performance against the legislated fiscal targets

		Per cent of GDP		£ billion		Per cent
		Forecast	Margin	Forecast	Margin	Probability
Change in public sector net debt (excluding the Bank of England) in fifth year						
March 2024 forecast	Met	-0.3	0.3		8.9	54
October 2024 pre-measures forecast	Met	-0.8	0.8		28.1	
October 2024 forecast	Not Met	0.2	-0.2		-5.8	49.7
Memo: excluding fuel duty rises	*Not Met*	*0.3*	*-0.3*		*-10.1*	
Public sector net borrowing less than 3 per cent of GDP in fifth year						
March 2024 forecast	Met	1.2	1.8	39.4	56.8	72
October 2024 pre-measures forecast	Met	1.0	2.0	34.7	66.1	
October 2024 forecast	Met	2.1	0.9	70.6	31.3	62
Memo: excluding fuel duty rises	*Met*	*2.2*	*0.8*	*75.3*	*26.6*	
Welfare cap: specified welfare spending in 2024-25						
March 2024 forecast	Not Met			155.4	-7.4	
October 2024 forecast	Not Met			156.6	-8.6	

Source: OBR

7.29 The current *Charter* also stipulates that the OBR must make a "formal assessment" in the first Budget of a Parliament of performance against the welfare cap which was set previously for 2024-25. The currently legislated target for the **welfare cap and margin** in 2024-25 is on course to be exceeded by £8.6 billion, and is therefore not met. Relative to our March forecast, spending subject to the welfare cap has been revised up by £1.2 billion.

Table 7.5: The legislated welfare cap for 2024-25 and margin

	£ billion	
	Outturn	Forecast
	2023-24	2024-25
Welfare cap		**134.7**
Pathway	131.5	
Margin (per cent)	1.5	2.0
Margin	2.0	2.7
Welfare cap and pathway plus margin	**133.5**	**137.4**
Latest forecast and update on performance against cap and pathway		
October 2024 forecast	146.2	156.6
Inflation adjustment	-8.6	-15.7
Scottish welfare block grant adjustment	4.4	5.1
October 2024 forecast after adjustments	**142.0**	**146.0**
Difference from:		
Cap and pathway	10.5	11.3
Cap and pathway plus margin	**8.5**	**8.6**
Memo: cumulative percentage point change in preceding September (Q3) rates of inflation since our October 2021 forecast	*4.6*	*12.1*

Note: The inflation adjustment is negative in 2023-24 and 2024-25 as inflation is higher than forecast in our October 2021 *EFO,* the last time the cap was reset. This takes the effect of the change in inflation out of the spending forecast.
Source: ONS, OBR

A Detailed tables

A.1 This annex contains summary tables providing a detailed breakdown of the economy and fiscal forecasts described in this *Economic and fiscal outlook*. We also include changes since our March 2024 *Economic and fiscal outlook*. These tables include:

- a detailed summary of our **economy forecast** and **key determinants of the fiscal forecast**;
- **public sector current receipts** and individual taxes;
- contributions to **total managed expenditure**;
- the main **fiscal aggregates**; and
- sources of year-on-year changes in **balance sheet aggregates**.

Table A.1: Economy forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2023	2024	2025	2026	2027	2028	2029
UK economy							
Gross domestic product (GDP)	0.1	1.1	2.0	1.8	1.5	1.5	1.6
GDP per capita	-0.8	0.2	1.4	1.3	1.0	1.0	1.1
GDP level (2019=100)	101.8	102.9	104.9	106.9	108.5	110.2	111.9
Nominal GDP	7.2	4.0	4.6	3.9	3.5	3.5	3.6
Output gap (per cent of potential output)	0.2	-0.2	0.1	0.4	0.3	0.1	0.0
Expenditure components of GDP							
Domestic demand	0.0	1.3	1.5	1.9	1.8	1.7	1.7
Household consumption[1]	0.3	0.4	1.7	1.9	1.7	1.7	1.7
General government consumption	0.5	3.0	4.0	1.6	1.6	1.8	1.8
Fixed investment *of which:*	2.2	-0.3	-1.7	2.6	2.3	1.5	1.8
Business	5.5	-0.4	-1.2	0.5	1.2	1.4	1.9
General government	7.7	2.0	-0.7	6.1	1.1	-1.3	-1.4
Private dwellings[2]	-7.6	-1.6	-3.3	4.8	5.5	3.8	3.7
Change in inventories[3]	-0.9	-0.1	0.2	0.0	0.0	0.0	0.0
Exports of goods and services	-0.5	-1.1	0.6	0.5	0.4	0.5	0.7
Imports of goods and services	-1.5	-0.6	-0.8	0.7	1.1	1.0	1.1
Balance of payments current account							
Per cent of GDP	-3.3	-3.4	-3.0	-3.2	-3.3	-3.3	-3.4
Inflation							
CPI	7.3	2.5	2.6	2.3	2.1	2.1	2.0
RPI	9.7	3.6	3.5	3.3	3.1	2.9	2.9
GDP deflator at market prices	7.1	2.8	2.5	2.0	2.0	2.0	2.0
Labour market							
Employment (million)	33.2	33.1	33.4	33.7	33.9	34.1	34.3
Productivity per hour	0.0	0.0	1.0	1.2	1.1	1.1	1.1
Wages and salaries	8.1	4.7	4.5	2.6	2.5	2.7	3.0
Average earnings[4]	7.6	4.7	3.6	2.1	2.0	2.3	2.5
LFS unemployment rate (per cent)	4.0	4.3	4.1	4.0	4.1	4.1	4.1
Unemployment (million)	1.4	1.5	1.4	1.4	1.4	1.5	1.5
Household sector							
Real household disposable income[1]	2.2	2.4	2.1	0.6	0.2	1.0	1.2
Saving ratio (per cent)[1]	9.7	11.5	11.8	10.6	9.3	8.6	8.1
House prices	0.3	1.7	1.1	1.8	2.7	2.9	3.0
World economy							
World GDP at purchasing power parity	3.3	3.2	3.3	3.2	3.1	3.1	3.1

[1] Includes households and non-profit institutions serving households.

[2] Includes transfer costs of non-produced assets.

[3] Contribution to GDP growth, percentage points.

[4] Wages and salaries divided by employees.

Table A.2: Economy forecast: changes since March

	Percentage point difference, unless otherwise stated					
	Outturn	Forecast				
	2023	2024	2025	2026	2027	2028
UK economy						
Gross domestic product (GDP)	-0.2	0.4	0.1	-0.2	-0.3	-0.2
GDP per capita	-0.2	0.3	0.1	-0.2	-0.3	-0.2
GDP level[1]	-0.2	0.2	0.3	0.1	-0.1	-0.3
Nominal GDP	-0.7	1.7	1.5	0.1	-0.2	-0.1
Output gap (per cent of potential output)	0.1	0.5	0.7	0.6	0.3	0.1
Expenditure components of GDP						
Domestic demand	-0.3	0.5	-0.1	0.0	0.0	-0.1
Household consumption[2]	-0.2	-0.3	-0.3	-0.2	-0.3	-0.2
General government consumption	-0.2	-1.2	2.2	0.1	0.0	0.1
Fixed investment, *of which:*	0.4	4.2	-2.1	0.6	0.5	0.4
Business	0.7	4.6	-2.6	-2.0	-0.8	0.1
General government	1.8	3.5	1.7	8.1	3.1	1.7
Private dwellings[3]	-1.1	3.7	-3.6	1.2	1.8	0.3
Change in inventories[4]	0.0	-0.3	0.3	0.0	0.0	0.0
Exports of goods and services	0.0	-0.1	0.1	-0.1	-0.2	-0.2
Imports of goods and services	0.0	0.1	-0.6	0.5	0.5	0.2
Balance of payments current account						
Per cent of GDP	-0.7	-0.7	-0.1	-0.4	-0.7	-0.8
Inflation						
CPI	0.0	0.3	1.1	0.6	0.2	0.1
RPI	0.0	0.5	1.4	0.8	0.1	0.0
GDP deflator at market prices	-0.5	1.3	1.3	0.3	0.1	0.0
Labour market						
Employment (million)	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
Productivity per hour	-0.2	-0.3	0.2	0.1	-0.1	-0.1
Wages and salaries	0.8	0.8	1.7	-0.1	-0.4	-0.4
Average earnings[5]	0.8	1.1	1.6	0.0	-0.3	-0.3
LFS unemployment rate	-0.1	-0.2	-0.3	-0.2	-0.1	0.0
Unemployment (million)	0.0	-0.1	-0.1	-0.1	0.0	0.0
Household sector						
Real household disposable income[2]	0.8	1.4	-0.3	-0.7	-1.1	-0.9
Saving ratio[2]	0.6	2.4	2.4	1.9	1.2	0.6
House prices	-0.3	4.0	1.4	-0.4	-0.7	-0.7
World economy						
World GDP at purchasing power parity	0.3	0.1	0.1	0.0	0.0	0.0

[1] Per cent difference since March 2024.

[2] Includes households and non-profit institutions serving households.

[3] Includes transfer costs of non-produced assets.

[4] Contribution to GDP growth, percentage points.

[5] Wages and salaries divided by employees.

Table A.3: Determinants of the fiscal forecast

	Percentage change on previous year, unless otherwise stated							*Growth over forecast*
	Outturn	Forecast						
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	
GDP and its components								
Real GDP	0.1	1.5	2.0	1.7	1.5	1.5	1.6	10.3
Nominal GDP[1]	6.5	3.5	4.8	3.7	3.5	3.5	3.6	24.9
Nominal GDP (£ billion)[1,2]	2,720	2,815	2,950	3,059	3,167	3,279	3,397	677
Nominal GDP (centred end-March £bn)[1,3]	2,760	2,882	3,006	3,113	3,222	3,337	3,460	700
Wages and salaries	7.4	4.9	3.8	2.5	2.5	2.8	3.0	21.1
Non-oil PNFC profits[4]	1.5	-1.1	3.0	5.0	5.2	4.9	4.7	23.7
Consumer spending[4]	7.2	2.6	4.1	4.2	3.8	3.8	3.7	24.4
Prices and earnings								
GDP deflator	6.2	2.4	2.4	2.0	2.0	2.0	2.0	13.3
RPI	7.5	3.4	3.5	3.2	3.1	2.9	2.8	20.3
CPI	5.7	2.3	2.6	2.2	2.1	2.1	2.0	14.0
Average earnings[5]	7.2	4.5	3.0	2.1	2.0	2.3	2.6	17.7
'Triple-lock' guarantee (September)	8.5	4.0	4.3	2.5	2.5	2.5	2.5	19.7
Key fiscal determinants								
Employment (million)	33.1	33.2	33.5	33.7	34.0	34.2	34.4	1.3
Output gap (per cent of potential output)	0.0	-0.2	0.2	0.4	0.2	0.1	0.0	0.0
Financial and property sectors								
Equity prices (FTSE All-Share index)	4,139	4,537	4,742	4,918	5,092	5,271	5,461	1,323
HMRC financial sector profits[1,6]	11.7	-0.4	1.3	0.0	2.4	1.8	1.8	6.9
Residential property prices[7]	-0.8	2.5	0.9	2.1	2.8	3.0	3.0	15.0
Residential property transactions (000s)[8]	1,002	1,164	1,126	1,241	1,320	1,375	1,412	410
Commercial property prices[8]	-9.2	-0.5	3.3	1.8	1.8	1.9	2.0	10.7
Commercial property transactions[8]	-3.2	1.3	1.5	1.9	1.8	1.7	1.7	10.3
Oil and gas								
Oil prices ($ a barrel)[4]	82.29	79.48	71.12	69.99	69.46	70.15	71.53	-10.76
Oil prices (£ a barrel)[4]	66.17	61.89	54.23	53.37	52.96	53.49	54.54	-11.63
Gas prices (£ a therm)[4]	0.99	0.83	0.97	0.86	0.74	0.75	0.77	-0.22
Oil production (million tonnes)[4]	33.4	30.3	27.9	25.8	23.8	22.3	20.5	-12.9
Gas production (billion therms)[4]	11.6	10.1	9.0	7.7	6.7	6.0	5.2	-6.4
Interest rates and exchange rates								
Bank Rate (per cent)	5.0	4.9	3.9	3.7	3.6	3.5	3.5	-1.5
Market gilt rates (per cent)[9]	4.3	4.1	4.1	4.2	4.3	4.5	4.6	0.3
Euro/sterling exchange rate (€/£)	1.16	1.18	1.18	1.18	1.18	1.18	1.18	0.02

[1] Non-seasonally adjusted.
[2] Denominator for receipts, spending and deficit forecasts as a share of GDP.
[3] Denominator for PSND and PSNFL as a share of GDP.
[4] Calendar year.
[5] Wages and salaries divided by employees.
[6] HMRC Gross Case 1 trading profits.
[7] Outturn data from ONS House Price Index.
[8] Outturn data from HMRC information on stamp duty land tax.
[9] Weighted average interest rate on conventional gilts.

Table A.4: Determinants of the fiscal forecast: changes since March

	Percentage point difference, unless otherwise stated					
	Outturn	Forecast				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
GDP and its components						
Real GDP	-0.1	0.4	0.1	-0.3	-0.2	-0.2
Nominal GDP[1]	-0.5	1.5	1.6	-0.1	-0.1	-0.1
Nominal GDP (£ billion)[1,2]	-11.2	29.1	75.0	74.6	72.8	71.6
Nominal GDP (centred end-March £bn)[1,3]	2.9	54.3	78.9	72.4	71.6	72.4
Wages and salaries	0.7	1.3	1.1	-0.2	-0.4	-0.3
Non-oil PNFC profits[4]	-3.4	0.8	-0.1	0.8	0.4	0.1
Consumer spending[4]	-0.4	-0.3	0.6	0.3	-0.1	-0.2
Prices and earnings						
GDP deflator	-0.3	1.6	1.0	0.2	0.1	0.0
RPI	-0.1	1.0	1.3	0.6	0.1	0.0
CPI	0.0	0.7	1.0	0.5	0.1	0.1
Average earnings[5]	0.8	1.5	1.1	0.0	-0.3	-0.2
'Triple-lock' guarantee (September)	0.0	0.3	1.8	0.0	0.0	-0.1
Key fiscal determinants						
Employment (million)	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
Output gap (per cent of potential output)	0.2	0.5	0.8	0.5	0.3	0.1
Financial and property sectors						
Equity prices (FTSE All-Share index)	15.6	345.9	413.2	426.1	433.9	443.4
HMRC financial sector profits[1,6]	0.2	0.2	0.2	0.0	-0.1	-0.1
Residential property prices[7]	-0.1	4.9	0.4	-0.5	-0.7	-0.7
Residential property transactions (000s)[8]	8.2	83.8	91.4	67.4	22.0	-31.8
Commercial property prices[8]	-3.0	-2.5	2.3	0.2	0.0	0.0
Commercial property transactions[8]	1.3	0.2	0.2	0.2	-0.1	-0.3
Oil and gas						
Oil prices ($ a barrel)[4]	0.00	2.46	-2.57	-1.38	-2.08	-2.82
Oil prices (£ a barrel)[4]	0.00	1.20	-3.80	-2.84	-3.38	-3.98
Gas prices (£ a therm)[4]	0.00	0.07	0.13	0.07	-0.02	-0.02
Oil production (million tonnes)[4]	0.0	-1.0	-1.4	-1.8	-2.1	-2.2
Gas production (billion therms)[4]	0.1	-0.5	-0.6	-0.9	-1.0	-0.8
Interest rates and exchange rates						
Bank Rate (per cent)	0.0	0.5	0.4	0.4	0.4	0.3
Market gilt rates (per cent)[9]	0.1	0.2	0.2	0.2	0.1	0.1
Euro/sterling exchange rate (€/£)	0.00	0.02	0.02	0.02	0.02	0.02

[1] Non-seasonally adjusted.
[2] Denominator for receipts, spending and deficit forecasts as a share of GDP.
[3] Denominator for PSND and PSNFL as a share of GDP.
[4] Calendar year.
[5] Wages and salaries divided by employees.
[6] HMRC Gross Case 1 trading profits.
[7] Outturn data from ONS House Price Index.
[8] Outturn data from HMRC information on stamp duty land tax.
[9] Weighted average interest rate on conventional gilts.

Table A.5: Current receipts

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax[1]	277.4	311.4	328.7	353.3	372.6	379.6	392.1
of which: Pay as you earn	239.0	265.0	279.2	290.5	301.1	310.5	321.6
Self assessment	42.7	53.2	56.5	65.5	69.7	74.1	78.3
Other income tax	-4.2	-6.8	-7.0	-2.7	1.8	-5.0	-7.8
National insurance contributions	179.1	167.5	198.8	204.7	210.5	216.8	223.1
Value added tax	168.9	171.2	181.2	189.2	198.2	205.3	213.7
Corporation tax[2]	94.1	101.1	104.8	108.4	112.2	117.0	121.8
of which: Onshore	91.4	99.2	102.9	107.0	111.3	116.1	121.1
Offshore	2.7	2.0	1.8	1.4	0.9	0.8	0.7
Petroleum revenue tax	-0.4	-0.3	-0.3	-0.2	-0.1	-0.1	-0.1
Fuel duties	24.8	24.3	24.3	27.0	27.4	27.6	27.4
Business rates	29.3	32.1	34.4	37.4	37.9	38.7	39.8
Council tax	44.5	47.6	50.0	52.5	55.3	58.1	61.1
VAT refunds	28.1	30.4	32.5	33.2	34.3	35.2	36.5
Capital gains tax	14.5	15.7	22.6	22.0	24.8	28.1	31.0
Inheritance tax	7.5	8.3	8.7	9.5	11.2	12.8	13.9
Property transaction taxes[3]	12.8	14.1	16.1	18.5	21.0	23.3	25.4
Stamp taxes on shares	3.2	4.2	4.3	4.5	4.7	4.8	5.0
Tobacco duties	9.0	8.7	8.7	8.6	8.6	8.6	8.5
Alcohol duties	12.5	12.4	13.1	13.8	14.5	15.2	15.9
Air passenger duty	3.9	4.2	4.7	5.5	5.8	6.1	6.5
Insurance premium tax	8.4	8.8	9.0	9.2	9.4	9.6	9.7
Climate change levy	1.9	1.9	1.9	1.8	1.8	1.7	1.8
Bank levy	1.5	1.3	1.3	1.3	1.2	1.2	1.2
Bank surcharge	1.5	1.0	0.9	0.9	0.9	1.0	1.0
Apprenticeship levy	3.8	4.0	4.2	4.3	4.4	4.5	4.7
Digital services tax	0.7	0.8	0.8	0.9	1.0	1.0	1.1
Other HMRC taxes[4]	9.9	10.0	9.9	10.4	11.1	11.6	12.0
Vehicle excise duties	7.7	8.2	9.2	9.6	10.1	10.6	11.2
Licence fee receipts	3.7	3.9	4.0	4.1	4.1	4.2	4.3
Environmental levies	9.9	12.0	12.9	15.2	14.3	14.4	14.8
Emissions Trading Scheme	6.0	3.5	2.7	2.4	2.3	1.9	1.6
Energy profits levy	2.8	2.9	2.6	2.2	1.8	1.8	1.3
Electricity generator levy	1.2	1.0	0.3	0.0	0.0	0.0	0.0
Other taxes	11.1	12.7	12.3	12.3	12.3	12.5	12.6
National Accounts taxes	**979.2**	**1,025**	**1,105**	**1,162**	**1,214**	**1,253**	**1,299**
Interest and dividends	44.4	43.1	40.8	41.2	42.4	43.7	45.4
Gross operating surplus	74.7	78.2	81.2	83.9	86.8	89.6	92.1
Other receipts	2.6	2.6	2.9	3.0	3.1	3.2	3.2
Current receipts	**1,101**	**1,149**	**1,229**	**1,291**	**1,346**	**1,390**	**1,440**
Memo: UK oil and gas revenues [5]	*5.0*	*4.5*	*4.2*	*3.4*	*2.6*	*2.6*	*2.0*

[1] Includes PAYE, self assessment, tax on savings income and other minor components, such as income tax repayments.

[2] National Accounts measure, includes Pillar 2 taxes.

[3] Includes stamp duty land tax, devolved property transaction taxes and the annual tax on enveloped dwellings.

[4] Consists of landfill tax (ex devolved), aggregates levy, betting and gaming duties, customs duties, diverted profits tax, soft drinks industry levy, residential property developer tax, the carbon border adjustment mechanism, vaping tax, and plastic packaging tax.

[5] Consists of offshore corporation tax, petroleum revenue tax and energy profits levy.

Table A.6: Current receipts: changes since March

	£ billion					
	Outturn	Forecast				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax[1]	-1.8	8.7	12.9	21.9	24.0	16.3
of which:						
Pay as you earn	-2.8	10.7	14.8	15.0	13.5	11.9
Self assessment	0.2	-2.2	-2.1	2.2	1.0	1.4
Other income tax	0.9	0.2	0.1	4.7	9.5	3.0
National insurance contributions	-0.1	-0.7	25.2	25.0	24.3	24.7
Value added tax	-1.9	-4.4	-0.9	-0.4	0.5	-0.7
Corporation tax[2]	-0.8	-0.2	2.1	2.1	2.1	2.0
of which:						
Onshore	-1.0	-0.3	1.9	2.0	2.4	2.0
Offshore	0.1	0.1	0.2	0.1	-0.3	0.0
Petroleum revenue tax	0.0	-0.1	-0.1	0.0	0.0	0.0
Fuel duties	0.2	-0.4	-3.0	-0.6	-0.6	-0.6
Business rates	-0.2	-0.1	-1.0	1.0	1.3	1.4
Council tax	-0.1	0.7	0.7	0.7	0.6	0.6
VAT refunds	0.5	2.6	3.8	3.8	4.2	4.3
Capital gains tax	-0.4	0.4	6.3	3.1	3.5	4.6
Inheritance tax	-0.1	0.8	1.0	1.3	2.3	3.1
Property transaction taxes[3]	0.1	0.2	1.1	1.3	1.3	1.2
Stamp taxes on shares	0.0	0.4	0.4	0.4	0.4	0.4
Tobacco duties	0.2	0.0	0.1	0.2	0.3	0.4
Alcohol duties	-0.1	-0.2	-0.4	-0.5	-0.7	-0.8
Air passenger duty	0.1	-0.2	-0.2	0.3	0.3	0.3
Insurance premium tax	0.2	0.6	0.7	0.7	0.7	0.7
Climate change levy	0.0	-0.1	0.0	-0.1	-0.1	-0.1
Bank levy	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Bank surcharge	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Apprenticeship levy	0.0	0.0	0.0	0.0	0.0	0.0
Digital services tax	0.0	0.0	0.0	0.0	0.0	0.0
Other HMRC taxes[4]	-0.3	-0.1	-0.5	-0.3	-0.3	-0.3
Vehicle excise duties	-0.3	-0.1	0.3	0.3	0.3	0.2
Licence fee receipts	0.0	0.0	0.0	0.0	0.1	0.1
Environmental levies	0.0	0.5	0.8	1.4	2.7	3.4
Emissions trading scheme	-0.1	-0.1	0.3	0.4	0.4	0.3
Energy profits levy	-0.3	0.7	0.6	0.3	0.0	0.4
Electricity generator levy	-0.1	-0.6	-0.5	-0.3	0.0	0.0
Other taxes	-0.6	0.8	0.6	0.7	0.7	0.7
National Accounts taxes	**-6.1**	**8.7**	**50.0**	**62.2**	**67.8**	**62.1**
Interest and dividends	3.3	-0.6	2.4	3.4	2.0	1.4
Gross operating surplus	1.2	1.5	2.7	3.1	3.4	3.7
Other receipts	0.3	0.0	0.2	0.2	0.2	0.4
Current receipts	**-1.4**	**9.6**	**55.3**	**68.9**	**73.5**	**67.5**
Memo: UK oil and gas revenues [5]	*-0.2*	*0.7*	*0.7*	*0.3*	*-0.3*	*0.3*

[1] Includes PAYE, self assessment, tax on savings income and other minor components, such as income tax repayments.

[2] National Accounts measure, includes Pillar 2 taxes.

[3] Includes stamp duty land tax, devolved property transaction taxes and the annual tax on enveloped dwellings.

[4] Consists of landfill tax (ex devolved), aggregates levy, betting and gaming duties, customs duties, diverted profits tax, soft drinks industry levy, residential property developer tax, carbon border adjustment mechanism, vaping tax and plastic packaging tax.

[5] Consists of offshore corporation tax, petroleum revenue tax and energy profits levy.

Table A.7: Total managed expenditure

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Public sector current expenditure (PSCE)							
PSCE in RDEL	422.7	453.4	478.6	494.7	511.0	527.8	545.6
PSCE in AME	665.1	681.1	704.3	725.8	746.1	772.3	801.9
of which:							
Welfare spending	296.3	313.6	327.5	340.5	349.5	361.4	377.7
Locally financed current expenditure	63.5	65.6	68.2	71.1	74.1	77.3	81.0
Central government debt interest, net of APF[1]	106.7	104.9	105.7	108.2	112.9	117.9	122.2
Scottish Government's current spending	42.9	46.6	48.0	49.1	49.8	52.4	54.2
EU financial settlement	7.7	0.9	1.5	1.0	0.3	0.5	0.1
Unfunded public service pensions	5.1	1.6	0.5	-0.8	-1.2	-2.7	-3.9
Company and other tax credits	9.7	10.6	11.1	11.3	11.6	11.9	12.2
BBC current expenditure	4.1	4.4	4.1	4.2	4.3	4.3	4.3
National Lottery current grants	1.2	1.4	1.4	1.3	1.2	1.2	1.2
General government imputed pensions	1.7	1.8	1.9	1.9	2.0	2.0	2.1
Public corporations' debt interest	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Non-domestic energy support	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic energy support	3.8	0.0	0.0	0.0	0.0	0.0	0.0
Funded public sector pension schemes	17.6	18.3	19.2	20.1	21.0	22.0	23.0
General government depreciation	58.3	62.5	65.5	67.9	70.5	73.0	75.3
Current VAT refunds	24.0	26.4	28.5	28.9	29.9	30.8	32.0
Environmental levies	11.1	13.2	14.1	16.4	15.5	15.6	16.1
Other PSCE items in AME	12.0	9.9	8.5	6.5	6.6	6.7	6.9
Other National Accounts adjustments	-1.8	-1.2	-1.9	-2.2	-2.4	-2.7	-3.0
Total public sector current expenditure	**1,088**	**1,134**	**1,183**	**1,220**	**1,257**	**1,300**	**1,347**
Public sector gross investment (PSGI)							
PSGI in CDEL	96.6	99.0	111.3	117.2	120.7	121.4	122.6
PSGI in AME	38.3	42.7	40.9	41.3	40.3	40.1	40.5
of which:							
Locally financed capital expenditure	8.6	8.6	7.3	8.0	8.0	8.2	8.5
Public corporations' capital expenditure	12.6	12.6	12.6	12.6	12.7	12.8	12.9
Student loans	10.0	9.1	8.3	7.9	7.8	7.8	7.8
Funded public sector pension schemes	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Scottish Government's capital spending	5.6	5.9	6.2	6.6	6.7	6.8	6.8
Tax litigation	0.8	1.9	0.5	0.5	0.5	0.5	0.5
Other PSGI items in AME	1.2	2.7	4.2	3.7	2.5	1.9	1.7
Other National Accounts adjustments	-1.0	1.1	1.1	1.3	1.4	1.4	1.5
Total public sector gross investment	**134.9**	**141.7**	**152.2**	**158.5**	**161.0**	**161.5**	**163.0**
Less public sector depreciation	-65.3	-69.7	-72.8	-75.3	-77.9	-80.3	-82.5
Public sector net investment	69.6	72.0	79.4	83.2	83.1	81.2	80.5
Total managed expenditure	**1,223**	**1,276**	**1,335**	**1,379**	**1,418**	**1,462**	**1,510**

[1] Includes increases in debt interest payments due to the APF.

Note: We were also notified of a late change to DEL allocations which has led to a very slight discrepancy in our Scottish AME forecast.

Table A.8: Total managed expenditure: changes since March

	£ billion					
	Outturn	Forecast				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Public sector current expenditure (PSCE)						
PSCE in RDEL	-0.2	23.2	38.5	42.4	45.5	48.6
PSCE in AME	5.1	20.9	24.7	20.0	20.4	20.4
of which:						
Welfare spending	0.5	-1.6	-1.5	0.8	1.3	1.3
Locally financed current expenditure	1.4	1.5	2.1	1.7	1.9	1.9
Central government debt interest, net of APF[1]	2.0	15.9	16.9	12.0	9.9	8.3
Scottish Government's current spending	0.3	2.2	2.8	2.8	2.7	3.2
EU financial settlement	-0.1	-0.2	0.4	0.5	0.1	0.0
Unfunded public service pensions	0.5	-1.8	-3.6	-3.9	-3.4	-3.3
Company and other tax credits	0.3	0.9	1.0	0.7	0.6	0.5
BBC current expenditure	-0.1	0.1	0.0	-0.1	-0.1	-0.1
National Lottery current grants	0.0	0.0	0.0	0.0	0.0	0.0
General government imputed pensions	0.0	0.0	0.1	0.1	0.0	0.0
Public corporations' debt interest	0.0	0.0	0.0	0.0	0.0	0.0
Non-domestic energy support	0.0	0.0	0.0	0.0	0.0	0.0
Domestic energy support	0.0	0.0	0.0	0.0	0.0	0.0
Funded public sector pension schemes	0.1	0.0	0.0	0.0	0.0	0.0
General government depreciation	-0.9	0.4	1.6	2.0	2.3	2.6
Current VAT refunds	0.2	2.2	3.2	3.0	3.3	3.3
Environmental levies	0.0	0.5	0.8	1.4	2.7	3.4
Other PSCE items in AME	3.6	2.1	2.9	1.0	1.0	1.1
Other National Accounts adjustments	-2.7	-1.3	-1.7	-1.9	-1.9	-1.9
Total public sector current expenditure	**4.9**	**44.0**	**63.2**	**62.5**	**65.8**	**69.0**
Public sector gross investment (PSGI)						
PSGI in CDEL	1.0	-0.2	13.2	18.9	22.3	24.1
PSGI in AME	0.5	6.0	7.0	7.4	6.9	6.9
of which:						
Locally financed capital expenditure	-0.2	0.3	-0.3	-0.1	-0.1	0.0
Public corporations' capital spending	1.4	0.9	1.0	1.0	1.0	1.1
Student loans	0.1	0.2	0.2	0.4	0.5	0.7
Funded public sector pension schemes	-0.1	0.0	0.0	0.0	0.0	0.0
Scottish Government's capital spending	-0.1	0.4	1.0	1.3	1.5	1.6
Tax litigation	0.0	0.7	-0.1	-0.1	-0.1	-0.1
Other PSGI items in AME	0.0	1.8	3.4	2.9	1.9	1.4
Other National Accounts adjustments	-0.5	1.6	1.8	2.0	2.2	2.3
Total public sector gross investment	**1.5**	**5.8**	**20.2**	**26.3**	**29.2**	**31.0**
Less public sector depreciation	-1.0	0.3	1.7	2.1	2.5	2.8
Public sector net investment	2.5	5.4	18.5	24.1	26.8	28.2
Total managed expenditure	**6.4**	**49.8**	**83.4**	**88.7**	**95.1**	**100.0**

[1] Includes increases in debt interest payments due to the APF.

Note: We were also notified of a late change to DEL allocations which has led to a very slight discrepancy in our Scottish AME forecast.

Table A.9: Fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Receipts and expenditure							
Public sector current receipts (a)	40.5	40.8	41.7	42.2	42.5	42.4	42.4
National Accounts taxes	36.0	36.4	37.4	38.0	38.3	38.2	38.2
Total managed expenditure (b)	44.9	45.3	45.3	45.1	44.8	44.6	44.5
Public sector current expenditure (c)	40.0	40.3	40.1	39.9	39.7	39.6	39.7
Public sector net investment (d)	2.6	2.6	2.7	2.7	2.6	2.5	2.4
Depreciation (e)	2.4	2.5	2.5	2.5	2.5	2.4	2.4
Fiscal mandate and supplementary target							
Current budget deficit (c+e-a)	1.9	2.0	0.9	0.2	-0.3	-0.3	-0.3
Public sector net financial liabilities[1]	82.8	83.5	83.8	84.2	84.1	83.9	83.4
Other deficit measures							
Public sector net borrowing (b-a)	4.5	4.5	3.6	2.9	2.3	2.2	2.1
Cyclically adjusted net borrowing	4.7	4.4	3.7	3.1	2.5	2.3	2.1
Cyclically adjusted current budget deficit	2.1	1.9	1.0	0.4	-0.2	-0.2	-0.3
Primary deficit	1.5	1.6	0.7	0.0	-0.7	-0.8	-0.9
Cyclically adjusted primary deficit	1.7	1.5	0.8	0.2	-0.5	-0.7	-0.9
Financing							
Central government net cash requirement	5.8	5.9	4.6	3.8	3.7	3.9	3.1
Public sector net cash requirement	1.1	4.6	2.3	3.0	3.7	3.9	3.0
Alternative balance sheet metrics							
Public sector net debt[1]	97.8	98.4	96.9	97.0	97.2	97.3	97.1
Public sector net debt ex Bank of England[1]	88.9	91.8	93.1	94.4	95.1	95.6	95.8
Public sector net worth (inverted)[1]	69.9	69.6	69.3	69.2	68.7	68.4	67.9
International comparisons[2]							
General government net borrowing (GGNB)	5.4	5.3	4.2	3.6	3.0	2.9	2.7
Cyclically adjusted GGNB	5.8	5.2	4.2	3.8	3.2	3.0	2.8
General government gross debt	100.0	103.0	104.1	105.0	105.6	106.0	106.1
	£ billion						
Current budget deficit	52.3	55.5	26.2	5.2	-10.9	-9.3	-9.9
Public sector net investment	69.6	72.0	79.4	83.2	83.1	81.2	80.5
Public sector net borrowing	121.9	127.5	105.6	88.5	72.2	71.9	70.6
Cyclically adjusted net borrowing	127.7	124.2	107.8	95.5	78.0	75.1	71.4
Cyclically adjusted current budget deficit	58.1	52.2	28.4	12.2	-5.1	-6.2	-9.1
Public sector net financial liabilities	2,285	2,408	2,518	2,622	2,710	2,799	2,886
Public sector net debt	2,700	2,836	2,913	3,018	3,133	3,248	3,361
Public sector net debt ex Bank of England	2,452	2,644	2,799	2,938	3,063	3,190	3,313
Net debt interest	81.3	81.5	85.5	88.6	93.0	97.5	101.0
Non-interest receipts	1,056	1,105	1,189	1,249	1,304	1,346	1,394
Memo: output gap (per cent of GDP)	*0.0*	*-0.2*	*0.2*	*0.4*	*0.2*	*0.1*	*0.0*

[1] Position at end-March; GDP centred on end-March.

[2] Calendar year basis.

Table A.10: Fiscal aggregates: changes since March

	Per cent of GDP					
	Outturn	Forecast				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Receipts and expenditure						
Public sector current receipts (a)	0.1	-0.1	0.8	1.3	1.4	1.2
National Accounts taxes	-0.1	-0.1	0.8	1.1	1.3	1.1
Total managed expenditure (b)	0.4	1.3	1.7	1.8	2.0	2.1
Public sector current expenditure (c)	0.3	1.2	1.2	1.1	1.2	1.3
Public sector net investment (d)	0.1	0.2	0.6	0.7	0.8	0.8
Depreciation (e)	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal mandate and supplementary target						
Current budget deficit (c+e-a)	0.2	1.2	0.3	-0.1	-0.2	0.1
Public sector net financial liabilities[1,3]	-0.5	-1.0	-0.8	0.2	1.1	2.2
Other deficit measures						
Public sector net borrowing (b-a)	0.3	1.4	0.9	0.6	0.6	1.0
Cyclically adjusted net borrowing	0.4	1.7	1.4	1.0	0.9	1.1
Cyclically adjusted current budget deficit	0.3	1.5	0.8	0.3	0.1	0.2
Primary deficit	0.3	0.8	0.5	0.4	0.5	0.8
Cyclically adjusted primary deficit	0.4	1.1	0.9	0.8	0.7	0.9
Financing						
Central government net cash requirement	0.3	0.7	0.7	0.5	0.6	0.9
Public sector net cash requirement	-3.0	0.5	1.4	0.5	0.6	0.9
Alternative balance sheet metrics						
Public sector net debt[1]	0.2	-0.4	0.6	1.5	2.2	3.0
Public sector net debt ex Bank of England[1]	0.1	0.1	0.4	1.2	1.9	2.7
Public sector net worth (inverted)[1]	0.4	-0.7	-0.2	1.3	2.7	4.5
International comparisons[2]						
General government net borrowing (GGNB)	0.2	1.0	0.9	0.6	0.6	0.8
Cyclically adjusted GGNB	0.3	1.3	1.4	1.1	0.9	1.0
General government gross debt	1.4	1.1	0.7	1.2	2.0	2.8
	£ billion					
Current budget deficit	5.4	34.8	9.6	-4.3	-5.2	4.3
Public sector net investment	2.5	5.4	18.5	24.1	26.8	28.2
Public sector net borrowing	7.8	40.3	28.1	19.8	21.6	32.5
Cyclically adjusted net borrowing	10.9	48.8	42.3	32.7	29.3	36.0
Cyclically adjusted current budget deficit	8.5	43.3	23.9	8.5	2.5	7.8
Public sector net financial liabilities[1,3]	-11.7	15.8	43.5	68.1	95.6	133.9
Public sector net debt	8.9	42.7	93.0	115.4	138.5	169.8
Public sector net debt ex Bank of England	5.4	51.6	84.5	105.5	126.7	157.0
Net debt interest	-1.0	16.6	14.5	8.7	7.9	6.9
Non-interest receipts	-4.6	9.7	52.8	65.5	71.4	66.0
Memo: output gap (per cent of GDP)	*0.2*	*0.5*	*0.8*	*0.5*	*0.3*	*0.1*

[1] Position at end-March; GDP centred on end-March.

[2] Calendar year basis.

[3] Difference compared to the March restated measure of public sector net financial liabilities.

Table A.11: Sources of year-on-year changes in balance sheet aggregates

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Public sector net borrowing (a)	**127.5**	**105.6**	**88.5**	**72.2**	**71.9**	**70.6**
PSNFL valuation changes (b)	**-5.0**	**5.2**	**14.8**	**16.1**	**16.8**	**16.8**
Asset purchase facility	3.4	3.7	5.8	5.8	6.1	6.6
DMO gilt premia	8.5	3.9	3.2	3.3	3.4	3.1
Reserve assets	4.3	0.0	0.0	0.1	0.1	0.1
Funded pensions	-21.5	-0.9	3.4	4.5	4.7	4.5
Other	0.3	-1.6	2.4	2.4	2.5	2.6
Public sector net financial liabilities (a+b)	**122.5**	**110.8**	**103.3**	**88.2**	**88.7**	**87.4**
Remove valuation of assets not in PSND (c)	**21.3**	**2.5**	**-5.8**	**-6.9**	**-7.2**	**-7.1**
Funded pensions	21.5	0.9	-3.4	-4.5	-4.7	-4.5
Other	-0.3	1.6	-2.4	-2.4	-2.5	-2.6
Net acquisition of financial assets (d)	**-30.8**	**-60.2**	**-6.0**	**17.7**	**17.7**	**18.0**
DEL net lending	2.7	2.0	2.0	2.0	2.0	2.1
Student loan outlays	14.3	16.1	17.5	18.5	19.4	20.2
Student loan repayments	-5.6	-5.9	-6.4	-7.0	-7.7	-8.5
National Wealth Fund	1.6	2.4	2.5	1.9	1.3	1.4
UK Export Finance	0.7	0.8	0.6	0.3	0.3	0.3
NWG shares	-4.4	-4.4	0.0	0.0	0.0	0.0
Term funding scheme	-41.4	-73.3	-24.6	0.0	0.0	0.0
Other	1.3	2.2	2.3	1.9	2.2	2.4
Cash flow timing effects (e)	**23.1**	**24.4**	**13.7**	**16.3**	**15.3**	**14.7**
Student loan interest	8.8	7.5	7.4	7.8	8.1	8.6
Other receipts	9.3	13.9	6.6	9.5	8.9	9.0
Funded public pension schemes	-0.5	0.4	0.5	0.5	0.3	0.2
Gilt accruals	2.9	1.4	1.4	1.5	1.2	0.2
Guarantee schemes write offs	2.8	1.9	1.0	0.4	0.1	0.1
Other expenditure	-0.2	-0.7	-3.3	-3.3	-3.3	-3.4
Public sector net debt (a+b+c+d+e)	**136.0**	**77.4**	**105.1**	**115.3**	**114.5**	**113.0**

Table A.12: Sources of year-on-year changes in balance sheet aggregates: changes since March

	£ billion				
	Forecast				
	2024-25	2025-26	2026-27	2027-28	2028-29
Public sector net borrowing (a)	**40.3**	**28.1**	**19.8**	**21.6**	**32.5**
PSNFL valuation changes (b)	**-12.7**	**-0.4**	**4.8**	**5.9**	**5.8**
Asset purchase facility	-0.2	0.2	0.2	0.1	-0.1
DMO gilt premia	3.8	1.4	1.2	1.4	1.2
Reserve assets	4.3	0.0	0.0	0.0	0.0
Funded pensions	-23.2	-2.2	2.2	3.4	3.7
Other	2.6	0.1	1.1	1.0	1.0
Public sector net financial liabilities (a+b)[1]	**27.5**	**27.7**	**24.6**	**27.5**	**38.3**
Remove valuation of assets not in PSND (c)	**20.6**	**2.1**	**-3.3**	**-4.4**	**-4.7**
Funded pensions	23.2	2.2	-2.2	-3.4	-3.7
Other	-2.6	-0.1	-1.1	-1.0	-1.0
Net acquisition of financial assets (d)	**-15.2**	**16.2**	**1.2**	**-0.1**	**-0.6**
DEL net lending	0.1	-0.5	-0.5	-0.5	-0.5
Student loan outlays	-0.2	-0.3	-0.5	-0.8	-1.2
Student loan repayments	-0.4	-0.3	0.0	0.1	0.2
National Wealth Fund	0.9	1.1	1.1	0.7	0.5
UK Export Finance	-0.1	0.0	-0.1	-0.4	-0.4
NWG shares	-1.6	-1.6	0.0	0.0	0.0
Term funding scheme	-13.1	16.6	0.0	0.0	0.0
Other	-0.8	1.2	1.3	0.9	0.8
Cash flow timing effects (e)	**0.8**	**4.3**	**-0.1**	**0.0**	**-1.7**
Student loan interest	0.3	2.4	2.9	1.4	0.8
Other receipts	0.9	4.7	-1.8	0.3	-0.3
Funded public pension schemes	-1.7	-0.4	-0.1	-0.1	-0.2
Gilt accruals	-0.1	-1.8	-0.8	-1.2	-0.6
Guarantee schemes write offs	-1.1	-0.1	0.3	0.2	0.1
Other expenditure	2.6	-0.6	-0.6	-0.6	-1.5
Public sector net debt (a+b+c+d+e)	**33.7**	**50.3**	**22.4**	**23.1**	**31.3**

[1] Difference compared to the March restated measure of public sector net financial liabilities.

B Public sector net financial liabilities

Introduction

B.1 The Government has announced its intention to target public sector net financial liabilities (PSNFL) as the main balance sheet aggregate in its fiscal rules. This replaces public sector net debt (PSND) which had, in a variety of forms, been used by previous governments. PSNFL was introduced into the ONS public sector finances statistical release and the OBR's forecasts in 2016, and is part of the spectrum of balance sheet aggregates which includes:

- **General government gross debt (GGGD)** only covers the debt liabilties of central and local government (it excludes public corporations). These 'debt liabilities' are in the form of currency and deposits, debt securities (mostly gilts) and loans, representing the government's main contractual liabilites to financial markets. GGGD data is available for many countries and so this measure is most commonly used for international comparisons.

- **Public sector net debt (PSND)** has a wider coverage as it incoporates the same liabilities as GGGD but for all the public sector including all government-controlled corporations and financial institutions (most notably the Bank of England).[1] It also recognises some 'liquid' financial assets. Liquid assets are mainly cash or the assets of cash management vehicles held by the Debt Management Office and in the foreign exchange reserves. A version of PSND (initially including and later excluding the Bank of England) has been the balance sheet aggregate targeted by previous governments since the formal introduction of fiscal rules in 1997.

- **Public sector net financial liabilities (PSNFL)** includes all financial assets and liabilities recognised in the National Accounts.[2] In addition to those in PSND the largest extra liability included is that of funded pension schemes, while assets expand to include the assets of those pension schemes (mainly equity), other public equity holdings (such as NatWest Bank), and other illiquid financial assets such as student loans and the loan assets of the Term Funding Scheme.

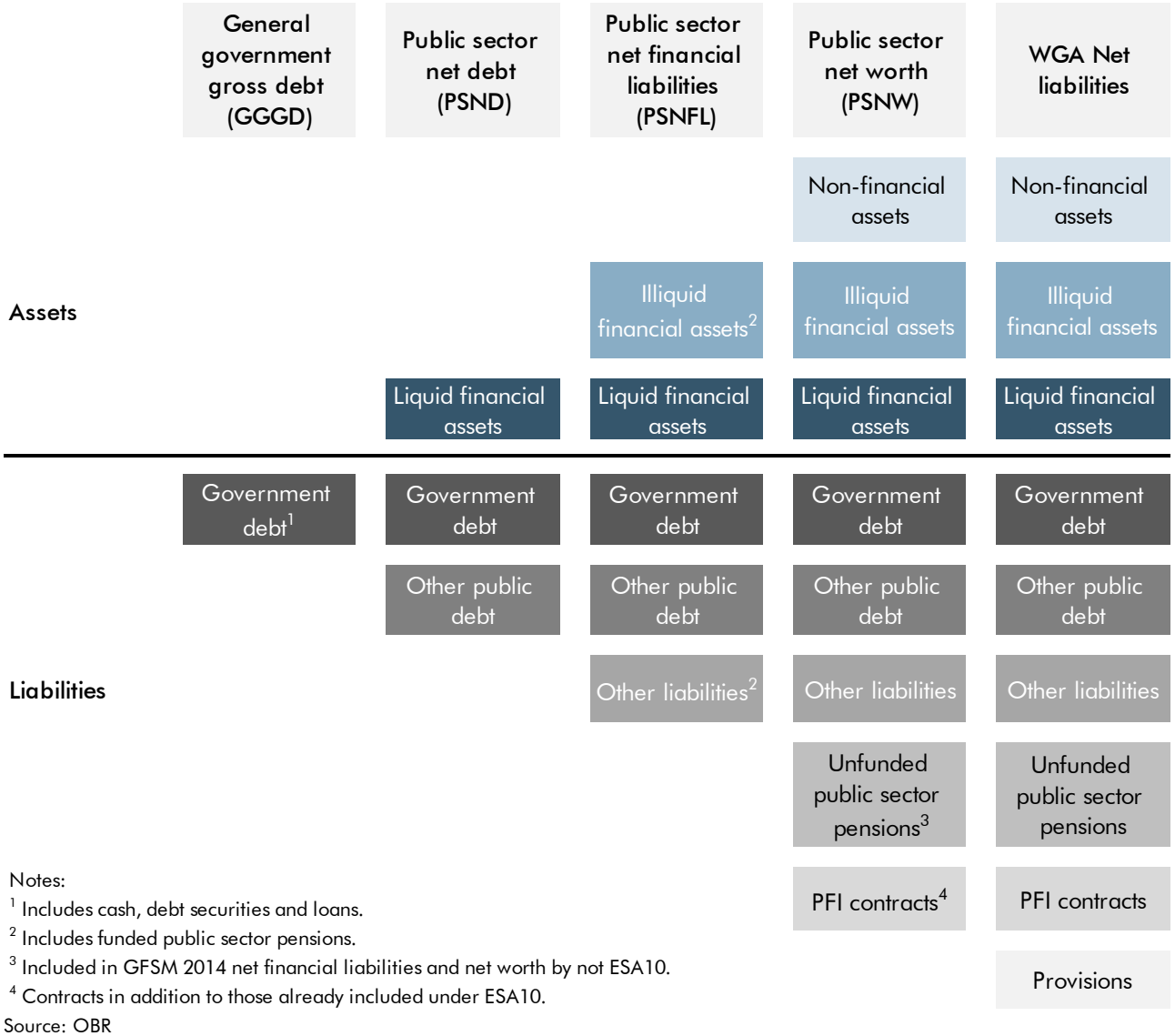
- **Public sector net worth (PSNW)** has an even wider coverage than PSNFL and includes all financial and non-financial assets and liabilities. In the version that we forecast,[3] this additionally includes the liabilities of unfunded public pension schemes, all PFI

[1] There are three main varieties of PSND in use: for the whole public sector; excluding public sector banking groups; and additionally excluding the Bank of England.
[2] Specifically in the *European system of accounts 2010* used by the ONS.
[3] Consistent with the coverage in IMF, *Government finance statistics manual,* 2014.

liabilities, and non-financial assets (such as land, buildings, military equipment, infrastructure, and other capital assets).

- **Whole of government accounts net liabilities,** unlike the other balance sheet metrics, is not compiled by the ONS but instead is compiled by HM Treasury through an aggregation of public body resource accounts. This can have very different valuation assumptions than the statistical aggregates and is also wider in coverage in particular from including provisions.

Figure B.1: Comparison of public sector balance sheet aggregates



Notes:
[1] Includes cash, debt securities and loans.
[2] Includes funded public sector pensions.
[3] Included in GFSM 2014 net financial liabilities and net worth by not ESA10.
[4] Contracts in addition to those already included under ESA10.
Source: OBR

Composition and valuation

Composition

B.2 Table B.1 shows the composition of assets and liabilities within PSNFL. Liabilities are above 130 per cent of GDP in all years of the forecast and consist largely of:[4]

- **Debt securities**, at 63.4 per cent of GDP, is the largest component which largely includes gilt and T-bill liabilities but also bonds from other areas such as Network Rail.
- **Currency and deposits**, at 43.2 per cent of GDP, which predominantly includes the reserve liabilities of the Bank of England and also deposits with NS&I.
- **Pension entitlements** of funded public pensions schemes are 18.4 per cent of GDP, with the majority originating from the Local Government Pension Scheme.
- **Other accounts payable**, representing monies owed by the public sector but not yet settled such as bills being paid in arrears.

B.3 Assets are much smaller, at less than 50 per cent of GDP in most years, mostly consisting of:

- **Equity assets** of 19.9 per cent of GDP, in particular those of the pension schemes.
- **Loans**, at 12.6 per cent of GDP, in particular those of the Bank of England's Term Funding Scheme and student loans.
- **Currency and deposits** of 5.2 per cent of GDP, which are held by all areas of the public sector.
- **Debt securities** of 4.6 per cent of GDP, of which the largest component will be the holdings of foreign government debt instruments in the official reserves.
- **Other accounts receivable**, representing monies owed to the public sector but not yet settled such as the payment of taxes in arrears.

[4] The figures included are for 2023-24.

Table B.1: Assets and liabilities within PSNFL

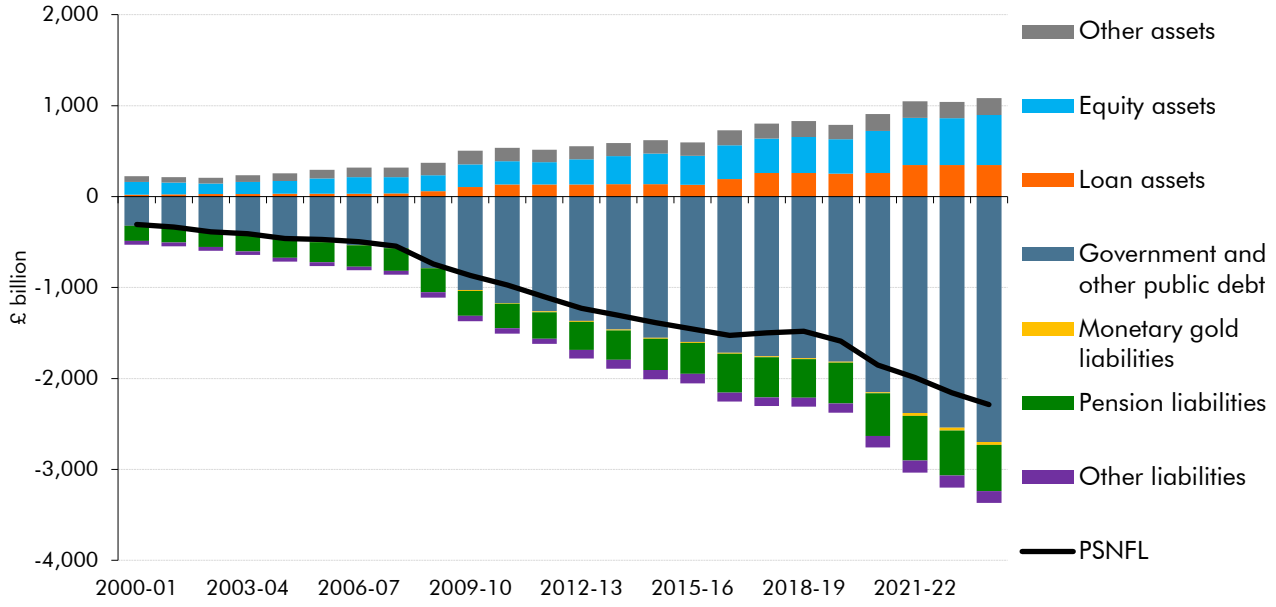
	Per cent of GDP						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Total liabilities	**132.9**	**132.6**	**130.4**	**130.3**	**130.4**	**130.4**	**130.1**
of which:							
Monetary gold and SDRs[1]	1.1	1.0	1.0	1.0	0.9	0.9	0.9
Currency and deposits	43.2	40.2	36.5	34.8	33.8	33.0	32.1
Debt securities	63.4	66.3	67.9	69.3	70.3	70.9	71.3
Loans	2.1	2.0	1.9	1.9	1.8	1.8	1.7
Pension entitlements	18.4	18.6	18.8	19.1	19.4	19.7	20.0
Other[2]	4.8	4.5	4.2	4.2	4.1	4.1	4.0
Total financial assets	**50.1**	**49.1**	**46.6**	**46.0**	**46.3**	**46.5**	**46.7**
of which:							
Monetary gold and SDRs[1]	1.8	1.6	1.5	1.5	1.4	1.4	1.3
Currency and deposits	5.2	5.0	4.6	4.4	4.2	4.1	4.0
Debt securities	4.6	4.5	4.3	4.2	4.1	4.0	3.9
Loans	12.6	11.5	9.5	9.2	9.7	10.2	10.6
Equity	19.9	20.5	20.5	20.5	20.5	20.4	20.4
Other[2]	5.9	6.0	6.2	6.2	6.3	6.4	6.4
Public sector net financial liabilities	**82.8**	**83.5**	**83.8**	**84.2**	**84.1**	**83.9**	**83.4**

[1] Special drawing rights (SDRs) are foreign-exchange reserve assets created by the IMF and allocated to its members.

[2] 'Other' mainly compromises accounts payable (or receivable). It also includes non-life technical reserves, financial derivatives, and employee stock options, and provisions for call under standardised guarantees. For liabilities, it also includes pension entitlements, and for assets, it also includes equity.

Source: OBR

Chart B.1: Assets and liabilities within PSNFL

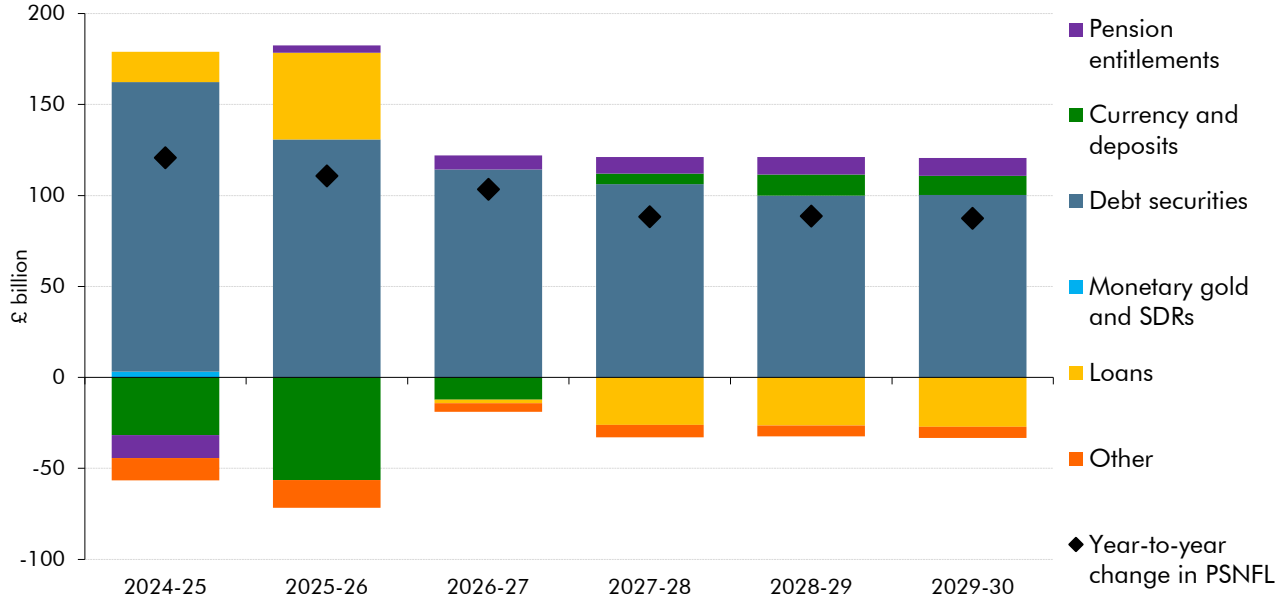


Source: ONS

B.4 The level of PSNFL as a share of GDP is forecast to increase by 1.4 per cent of GDP from 2023-24 to 2026-27 before falling by 0.8 per cent of GDP by 2029-30 (shown in Table B.1). This overall change in the level of PSNFL is driven largely by accumulated borrowing which is mostly financed by issuing more debt securities (gilts). Beneath this headline level, the composition of the assets and liabilities within PSNFL changes over the forecast. The balance sheet of the Bank of England shrinks dramatically over the forecast with the redemption of Term Funding Scheme loans and Asset Purchase Facility (APF) gilts broadly offset by a reduction in Reserves. This is shown in Chart B.2 for 2024-25 and 2025-26, when loans and debt securities pushing up PSNFL are broadly offset by currency and deposits, which reduce it.[5]

B.5 After 2026-27, apart from the continued build-up of debt securities to finance borrowing, the largest other driver of change is due to loans. This is largely from the accumulation of student loan assets. These increase by £111 billion across the forecast as the amount lent continues to outstrip the amount repaid. The proportion of outlays recorded as loans increases due to the reforms announced at the time of the March 2022 forecast which increase the amount of total outlays expected to be repaid. Repayments lag behind as, for the average student, it can take many years before payments, which are income contingent, outweigh the increase in amounts owed by the accumulation of interest.

Chart B.2: Forecast nominal change in PSNFL by components



Source: OBR

[5] When the Bank of England purchases gilts this reduces private sector holdings of gilts and so the size of the liability, but liabilities increase by the reserves issued to finance the purchase. As the Asset Purchase Facility unwinds these effects are reversed.

Valuation

B.6 The valuation methodologies used in PSNFL are the same as those used in other balance sheet aggregates.[6] Where market values are readily available (equity and holdings of debt securities) they are used, for (the generally non-traded) pension liabilities, a present value of future pensions payments is estimated.[7] Elsewhere nominal values are used. In the case of cash and deposits this is the true value, but for loans it is used because often only the nominal value is available.[8]

B.7 There are two notable areas where alternative methods are used. The first is for student loans where, in recognition of the income contingent nature of the loans and because of the expectation that a large portion of the loans will not be repaid, the valuation used is a present value of expected future repayments. In 2023-24 this meant that instead of recording the outstanding loan book at its nominal value of £230 billion it was valued at £122 billion.

B.8 The second concerns the government's own debt security liabilities. These are not recorded at their market value but instead are held at their face (or redemption) value. This reflects that government debt, such as gilts, is usually held to redemption. However, it complicates valuations when the public sector buys or sells government debt as the Bank of England's APF has been doing since 2009. Most APF gilts were bought when market values were in excess of face value (at a premium) and most are being sold when market prices are below face value (at a discount). In PSNFL (and PSND) this loss is recorded in two stages.[9] The premium increases PSNFL when the gilts were bought, while the discount increases PSNFL when they are sold. Across the forecast period, a total of £104 billion of losses are expected to be made on the sale or redemption of APF gilts, but PSNFL (and PSND) is only forecast to increase by a further £31 billion, as an increase of £72 billion was previously recorded when the gilts were bought.

B.9 The valuation of assets and liabilities recorded at either a market or present value will change as underlying economic or other conditions change. This is not true for loans recorded at their nominal value, which will retain that value, regardless of how the loan performs until either repaid or written off. Given that loans are routinely pursued for a number of years before being written off, this means that the genuine value of the loan book will be exaggerated (in our forecasts we include estimates of these write offs).

[6] The valuations used are in line with *the European system of accounts 2010,* or the *Manual on government deficit and debt* where the latter provides further guidance for the public sector.
[7] Revaluation of pension liabilities, in particular, can lead to material changes in PSNFL, which we further explore below in B.23.
[8] However, as a portion of loans will not be repaid, in our forecasts we include estimates of write offs to recognise this.
[9] In PSND excluding the Bank of England all of the loss is recorded at the point where HMT makes indemnity payments to the APF.

Table B.2: Valuation methods of PSNFL financial instruments

Financial instrument	Valuation method
Monetary gold and SDRs[1]	Market
Currency and deposits	Nominal
Government debt liabilities	Face
Other debt securities	Market
Student loans	Present
Other loans	Nominal
Equity	Market
Pension entitlements	Present
Other[2]	Mostly nominal

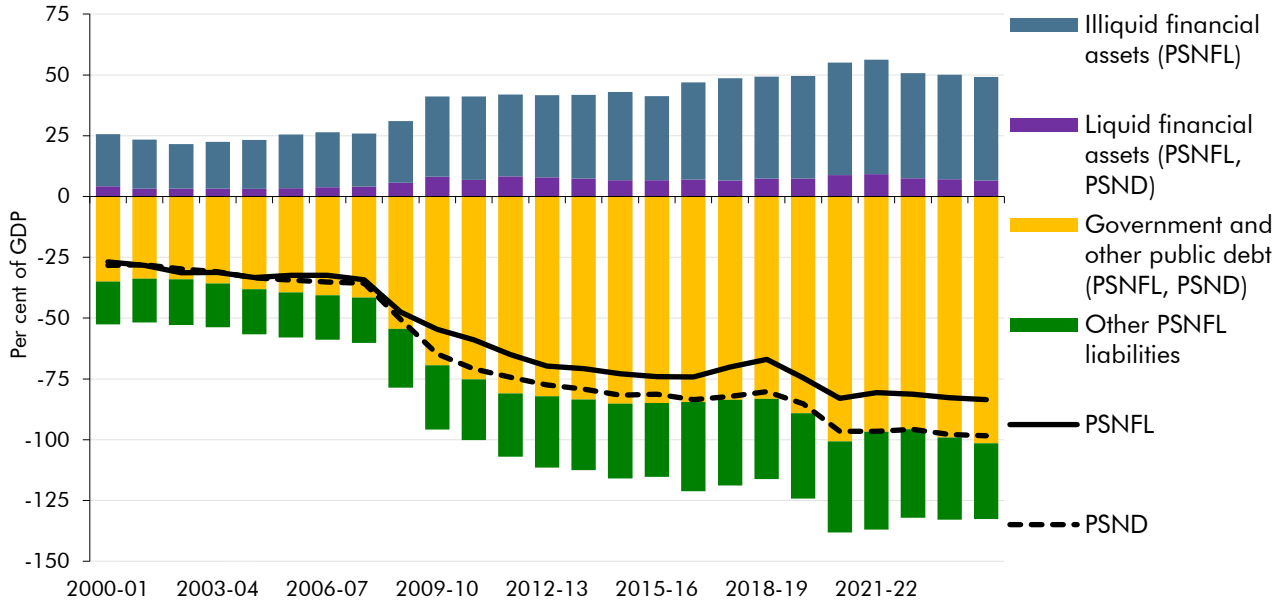
[1] Special drawing rights (SDRs) are foreign-exchange reserve assets created by the IMF and allocated to its members.
[2] 'Other' mainly compromises accounts payable (or receivable). It also includes non-life technical reserves, financial derivatives, and employee stock options, and provisions for call under standardised guarantees.
Source: OBR

Relationship with PSND

B.10 PSND, in contrast to PSNFL, captures a narrower range of debt liabilities (currency deposits, loans and debt securities) from which only liquid assets are netted off (Chart B.3). It is an approximate stock equivalent of the cash deficit or the 'public sector net cash requirement'. By contrast, PSNFL can be thought of as the stock equivalent of the accrued deficit (or in other words, PSNB), which includes valuation changes but excludes the cash timing effects that hit PSND.

B.11 The additional assets and liabilities that are included in PSNFL, but not in PSND, are liabilities for funded pension schemes, special drawing rights (SDR) liabilities, loan assets, equity assets and accounts payable/receivable. The inclusion of funded pension scheme liabilities and their associated equity investments is the largest source of difference between PSND and PSNFL (Table B.3). Other illiquid assets, such as student loans, account for much of the remaining difference.

Chart B.3: Components of PSNFL



Source: ONS, OBR

Table B.3: PSND to PSNFL forecast reconciliation

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Public sector net debt	2,700	2,836	2,913	3,018	3,133	3,248	3,361
Public sector net financial liabilities	2,285	2,408	2,518	2,622	2,710	2,799	2,886
Difference	**-414.4**	**-428.0**	**-394.6**	**-396.5**	**-423.6**	**-449.3**	**-475.0**
of which:							
Pension liabilities	507.3	536.3	564.6	594.3	625.3	657.7	691.4
Monetary gold and SDR liabilities	30.9	29.7	29.7	29.7	29.7	29.7	29.7
Loan assets	-348.1	-331.6	-284.3	-286.7	-313.2	-340.0	-367.7
Equity assets	-550.0	-591.6	-615.9	-637.7	-659.6	-682.3	-706.4
Other[1]	-54.5	-70.8	-88.8	-96.1	-105.8	-114.3	-122.1

[1] 'Other' mainly comprises of accounts payable (or receivable), and currency and deposits.

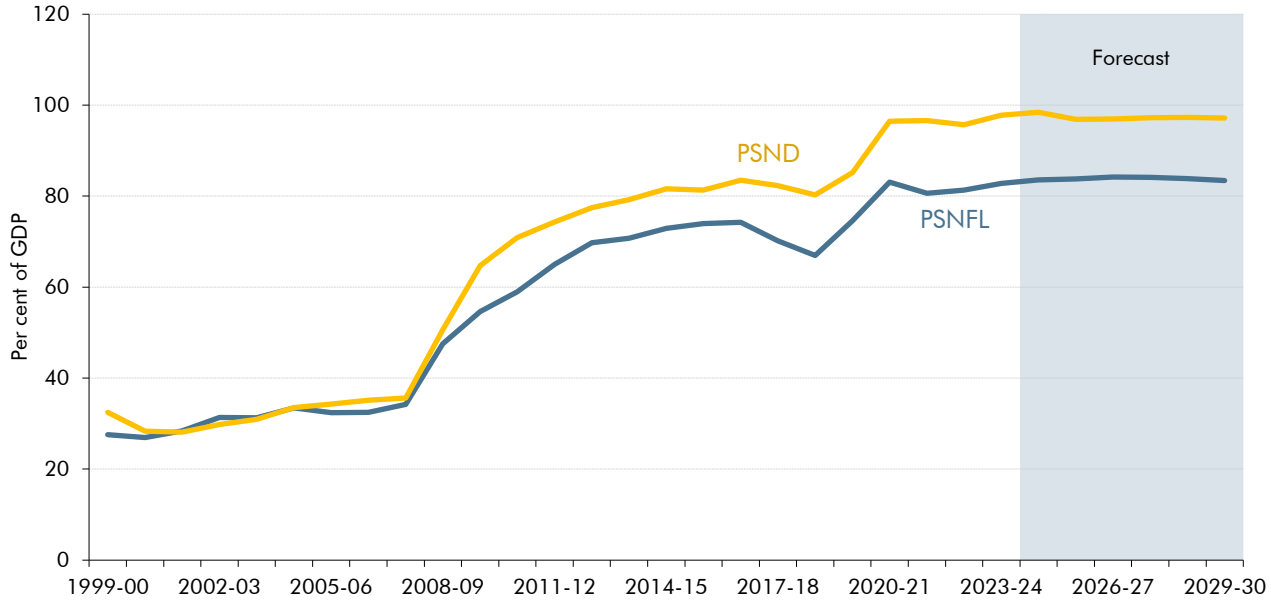
Source: OBR

B.12 Both measures of debt were of a similar magnitude in the decade prior to the financial crisis. They both increased significantly as a result of the crisis, but it also opened up a wedge between the two driven by the nationalisation of distressed banks, the assets of which reduced PSNFL but not PSND, while the liabilities hit both measures. This wedge has persisted and is now increasingly due to the issuance of loans by the Bank of England and student loans by the government, which add to PSND but are largely netted off in PSNFL.

B.13 The path of PSNFL will continue to improve relative to PSND providing the government remains a significant net acquirer of financial assets. In the current forecast, persistent contributors to this 'wedge' include student loans which amass at an average of £19 billion

a year in our forecast, and taxes owed which grow by an average of £10 billion each year. On current policy settings, large net additions to the student loans book are likely, and in a growing economy, taxes receivable are also likely to continue to grow. However, it is not a given that this will be the case. Changes to the forecast of items which are included in PSNFL but not in PSND could lead to a relative deterioration in the outlook for PSNFL. These sensitivities are discussed from paragraph 23.

Chart B.4: PSND and PSNFL as a share of GDP



Source: OBR

Forecasting PSNFL

B.14 PSNFL is the stock equivalent of PSNB, and we use this as the basis of our forecasting methodology. Across the forecast period PSNB accounts for nearly 90 per cent of the rise in PSNFL. The remaining 10 per cent comes from valuation changes which occur when the observed value of an asset or liability changes without a corresponding transaction recorded in PSNB. We currently forecast a variety of types of valuation change:

- **Gilt premia**, which records the difference between the price gilts are sold for by the Debt Management Office and the face value the liabilities are recorded at in the accounts.

- Sales losses in the **Asset Purchase Facility**, again representing the difference between sale and face value.

- **General government equity**, driven by an assumption that the value of equity holdings will on average increase in line with nominal GDP.

- **Funded pensions**, which contain the net impact of a number of assumptions in the model that mean the paths of PSNFL and PSNB diverge. In our forecast the most

important of these is the assumption of growth in the market value of equity holdings.[10]

- Other impacts are almost entirely revaluations of assets in the **official reserves**, which respond to changes in foreign exchange rates.

B.15 Some changes in asset value do involve transactions (usually a transfer to or from the creditor), in particular any write offs of loans and policy changes to student loans. For all active loan books, we make forecasts of probable write offs and include them as capital transfers in our PSNB forecast, and reduce the size of the loan book accordingly.

Table B.4: PSNB to PSNFL forecast reconciliation

	£ billion						
	Outturn	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Public sector net financial liabilities	2,285	2,408	2,518	2,622	2,710	2,799	2,886
Change in PSNFL	**126.7**	**122.5**	**110.8**	**103.3**	**88.2**	**88.7**	**87.4**
of which:							
Public sector net borrowing	121.9	127.5	105.6	88.5	72.2	71.9	70.6
Valuation changes	4.8	-5.0	5.2	14.8	16.1	16.8	16.8
of which:							
Central government gilt premia		8.5	3.9	3.2	3.3	3.4	3.1
Asset purchase facility		3.4	3.7	5.8	5.8	6.1	6.6
General government equity		1.4	-1.6	2.4	2.4	2.5	2.6
Funded pensions		-23.3	-0.9	3.4	4.5	4.7	4.5
Official reserves		4.3	0.0	0.0	0.1	0.1	0.1
Other		0.6	0.0	0.0	0.0	0.0	0.0

Source: OBR

Potential fiscal illusions

B.16 Fiscal illusions occur when the impact on a transaction on fiscal aggregates differs from the economic reality. Governments can be tempted to exploit these fiscal illusions and undertake policies that move a fiscal aggregate favourably while worsening fiscal sustainability.

B.17 PSND gives no value to illiquid financial assets, and so, when targeting PSND, governments have an incentive to sell illiquid assets to improve PSND regardless of whether this improves underlying fiscal sustainability. One example of this is the 2017 sale of part of the student loan book. The sale explicitly had an objective of reducing PSND, and achieved a price that was below the value the government placed on the assets in its accounts.[11]

[10] In addition, ONS methodology means that the imputed earnings on assets differ from the actual earnings that affect the balance sheet, and from the valuation of gilts held in the schemes.
[11] National Audit Office, *The sale of student loans,* 20 July 2018.

B.18 Targeting debt in fiscal rules can therefore concentrate policy mostly on slowing the accumulation of liabilities and disincentivise investment in assets, which has led to calls for the use of wider balance sheet measures.[12] However, the use of wider balance sheet measures can also create different risks and policy incentives.

B.19 As PSNFL includes all financial assets, the perverse incentive to sell these assets for less than their value is removed in this metric.[13] However, new incentives are added. The first is issuing low-quality loans. Most financial assets are valued in the accounts at their market value or other methodologies that reflect the quality of the asset (such as at present value for student loans). But other loans are recorded at their nominal value regardless of the probability of repayment, until a decision is made to stop chasing the debt and it is written off. This write-off point may be many years into the future, potentially long after a realistic possibility of repayment has faded. This does not mean that investing in risky assets is necessarily detrimental to fiscal sustainability: this will depend on whether an appropriate interest rate is charged. In our forecasts we explicitly estimate the probability of write offs and reduce the value of the loan book accordingly to minimise the potential illusion.

B.20 More broadly, PSNFL could incentivise the government to purchase financial assets (which will usually have little upfront impact on PSNFL) rather than invest directly in physical capital assets (which are not recognised in the metric). Similarly, the government could be tempted towards converting funded pensions to unfunded pensions (whose current £1.3 trillion of liabilities are not recognised) because the assets would stay on the balance sheet while the liabilities would move off balance sheet.

B.21 At this Budget, the Government has released a *Financial transactions control framework*,[14] which sets out controls that put requirements on central government bodies to ensure financial transactions generate returns above their cost or capital or that costs are transparently recognised. It also commits to producing an annual report on the government's investment portfolio to ensure transparency on value, performance and risk.

B.22 In our forecasts we aim to minimise risks around loans. At this event we have included forecasts for the extra funding given to the National Wealth Fund (NWF). NWF expected credit loss calculations imply that 12 per cent of NWF loans may enter into difficulties over the five years of the forecast,[15] but assuming that repayment is then pursued for two years before the loan is written off, only about two-fifths of these will be recognised in the forecast period. In our forecasts we will, as with the NWF at this Budget, ensure that all new financial investments are costed rigorously, with forecasts that recognise the losses that some investments will make. We will also enhance reporting and scrutiny on the performance of existing investments.

[12] See for example, IMF, *Beyond debt: net worth fiscal anchors, July 2024*, 2024.
[13] Though the incentive to sell capital assets remains.
[14] HM Treasury, *Financial transactions control framework: managing government's financial investments,* October 2024.
[15] The amount written off will be less than 12 per cent of the loan book as some repayments of principal will have taken place.

Uncertainty

Sensitivities

B.23 The forecast for PSNFL as a share of GDP is driven primarily by the forecasts for PSNB and GDP, and so shares many of the same sensitivities as PSND and other fiscal aggregates (see Chapter 7). But there are some additional sensitivities due to the wider coverage of PSNFL. These could have material consequences for the Government's ability to continue to meet its new fiscal rules, especially as at this event the Government has only left itself headroom of £15.7 billion against the PSNFL target, which is very low compared to the uncertainties inherent in any fiscal forecast. These sensitivities include:

- **Changes in equity prices.** Funded pensions held nearly £500 billion of equity in 2023-24. Our forecasts assume the value of these holdings increases in line with nominal GDP, but actual changes are volatile. Were equity price growth to be 2 percentage points] less than nominal GDP growth, PSNFL would be £10 billion higher.

- **Revaluation of pension liabilities.** The most recent revaluation of the local government pension scheme in 2016-17 contributed to a £80 billion increase in pension liabilities that year. These schemes are revalued infrequently and then introduced to the National Accounts with further long lags, meaning that changes are likely to be abrupt and not reflective of recent economic conditions.

- **Changes to student loans policy.** Where these affect existing borrowers there can be large one-off changes to the value of the loan book. Changes implemented in our March 2022 forecast increased the book value by £8.6 billion in 2022-23.

- **Loan write offs.** There were around £76 billion of government loans in 2023-24 (excluding student loans) valued at their nominal value. Our analysis of National Wealth Fund policy suggests that 12 per cent of their loans may be written off at some point. Were this to happen to the whole loan book, the value would decline by £9 billion.

Issues with methodology and outturn

B.24 PSNFL is a relatively new statistic (it was introduced into the public finances in 2016) and has had a relatively low profile. Consequently, both the ONS and the OBR have put less time and resources into developing PSNFL outturn data and forecasts. In addition, the measure includes some additional items compared to PSND, especially the balance sheets of funded pensions, that are inherently volatile in outturn and so are difficult to forecast. Specific areas of risk and uncertainty are:

- The **quality of outturn and the forecast of funded pensions**. Infrequent revaluations of large schemes (in particular in Local Government) and then further large lags incorporating this data into the public finances mean that the last genuine outturn data in the public finances can be from many years ago. The ONS projects this forward to

populate more recent periods, meaning there is a very uncertain base from which to forecast that may not accurately reflect economic or other changes in the schemes. The forecast model for these pensions is also currently not sufficiently rigorous.

- **ONS improvements to outturn data and methodology**. ONS will respond to the greater prominence of PSNFL by assessing in more detail the many data sources of the components they are using to estimate PSNFL, and work to improve the coverage, quality and timeliness of sources. We will then potentially need to adjust the forecast methodology to reflect such changes. Over time this will improve the quality of both outturn and forecast. But it also carries the risk of changes to our forecast.

- **Government policies** that involve the acquisition or disposal or financial assets will have consequences for our PSNFL forecast beyond their PSNB implications. We have worked with HMT to improve the reporting of PSNFL-related material in the costings at this Budget, but there is still much progress to be made to estimate the PSNFL impacts of policies with a high degree of accuracy.

- **Quality of government assets**. We, and the ONS, will need to ensure that we have access to robust information on the quality of government assets and liabilities to ensure that outturn and forecast values for PSNFL fully reflect the actual value of the balance sheet.

B.25 The OBR has agreed with the ONS and HM Treasury a workplan to address these issues and continue to ensure that our forecasts are as robust as possible. We will report on the progress of this workplan at future forecasts.

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