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Autumn Budget 2024: A summary

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Summary

The Chancellor of the Exchequer, Rachel Reeves, presented her 2024 Autumn Budget to Parliament on 30 October and published supporting documents on the gov.uk website. She is the first woman to deliver a UK Budget. This is the Labour Party's first Budget for more than 14 years.

When the Chancellor finished her statement in the Commons, the Office for Budget Responsibility (OBR) published updated forecasts for the UK's economic and fiscal outlook. The OBR is the independent public finances watchdog that produces the official forecasts for the economy and public finances used by the Chancellor.

The Chancellor has increased government spending by around 2% of GDP a year, on average, over the next five years. One-third of the additional spending will go on government's investment spending on things such as transport, housing, and research and development (R&D). The remaining two-thirds will go on government's day-to-day spending.

Half of the increase in spending is funded through an increase in taxes, mainly through higher employer National Insurance contributions (NICs) and capital taxes. The remaining half is funded largely through additional borrowing.

The Chancellor said the Budget is "restoring stability to our public finances and rebuilding our public services" and restoring "economic stability".

Selected tax announcements

Employer NICs

The employer NICs rate will be increased from 13.8% to 15% from April 2025.The threshold above which employer NICs is paid will also be reduced from £9,100 a year to £5,000 a year from April 2025. For some employers, increases will be at least partly mitigated by increases to the employment allowance. The employment allowance allows employers to reduce the total amount of National Insurance they pay a year.

Capital taxes

The main rates of capital gains tax will increase from 30 October 2024. The Business Asset Disposal Relief (BADR) and Investors' Relief (IR) rates will increase in April 2025 and April 2026.

Inheritance tax will apply to pension wealth that is transferable at death (unused pension funds and death benefits) from 6 April 2027. There will be changes to how agricultural property relief (APR) and business property relief (BPR) work for inheritance tax.

Manifesto commitments

Various tax measures from Labour's manifesto were confirmed, including applying VAT to private school fees, increasing the energy profits levy and changing the residence-based regime (which is already set to replace the 'non-dom' regime).

Other announcements

The Budget includes compensation payments to victims of the Post Office Horizon IT and infected blood scandals. An additional £1.8 billion in total has been set aside for victims of the Horizon scandal (for 2024/25 to 2026/27) and £11.8 billion in total for victims of the infected blood scandal (for 2024/25 to 2029/30).

The Chancellor announced that the Carer's Allowance weekly earnings limit will be increased from £151 a week in 2024/25 to £196 in 2025/26.

Various measures to tackle fraud and error in the welfare system were announced, including additional staff to work on fraud and error across the Department for Work and Pensions (DWP) and HMRC, and expanding the DWP's debt recovery powers in cases of fraud and error. The government also increased spending to help spot incorrect Universal Credit claims and to verify changes to Universal Credit claims.

There will be a reduction on discounts under the housing Right to Buy scheme and councils will be able to keep all receipts generated by sales. £500 million will be contributed to the Affordable Homes Programme for 2025/26.

The government will make investments in infrastructure including through the National Wealth Fund.

Fiscal rules

The Chancellor has proposed two new fiscal rules.

One focuses on balancing the day-to-day budget (or current budget), and the other says government's net financial liabilities should be falling, relative to the size of the economy. Public sector net financial liabilities (PSNFL) measures the government's debt and other financial liabilities minus its liquid financial assets (like foreign exchange reserves) and illiquid financial assets (like loans and other financial derivatives). It is a measure of the government's broader balance sheet.

Both rules initially apply to 2029/30, meaning that the current budget should be balanced in 2029/30 and PSNFL should be falling (as a percentage of the economy) in 2029/30. To balance the current budget, government revenues from taxes and other sources must cover day-to-day spending on areas such as public services and welfare. If the current budget is balanced (or in surplus), the government won't be borrowing to fund day-to-day spending.

In 2026/27, when 2029/30 becomes the third year of the forecast period, the third year of the rolling forecast period becomes the target year. Once focusing on the third year of the forecast, the current budget will be deemed to be in balance if it is in surplus, or in deficit of no more than 0.5% of GDP.

Both the new rules are being met in the OBR's October 2024 forecast.

Spending Review and public spending

This Budget included Phase 1 of a new Spending Review. These reviews fix departmental spending plans for the years ahead.

In Phase 1, the government has set departmental budgets for 2024/25 and 2025/26, with budgets for 2026/27 and 2027/28 expected to follow in Phase 2 in spring 2025.

Day-to-day spending: 2024/25 and 2025/26

Day-to-day spending limits will increase by £33 billion between 2024/25 and 2025/26. The Department for Health and Social Care accounts for around a third of this increase, with the Department for Education accounting for a further 13%. The Scottish Government and the Ministry for Housing, Communities and Local Government (MHCLG) local government budget each account for a further 5%.

A few departments will receive real-terms (inflation-adjusted) decreases in their spending limits between 2023/24 and 2024/25.

Investment spending: 2024/25 and 2025/26

Investment spending (officially, 'capital DEL') will increase by £14.7 billion between 2024/25 and 2025/26.

The increases in investment spending are spread more evenly between departments than increases in day-to-day spending.

Longer-term spending totals

The Budget also set spending limits for government as a whole across the new Spending Review period, as well as giving long-term spending forecasts. The OBR forecasts that spending will rise slightly from 44.9% of GDP in 2023/24 to 45.3% in 2025/26, before falling back to 44.5% in 2029/30.

Spending as a proportion of GDP increased sharply during the covid-19 pandemic, and these forecasts suggest that it will now stay at around the same level as in the past few years. This level remains high by historical standards (having gone above 44% in only 11 years between 1948 and 2023/24),

The OBR's economy forecast

The OBR's forecasts are the official forecasts used by the Chancellor for the Budget. They incorporate the impact of the policy decisions that the Chancellor has announced.

The OBR's previous forecasts were published in March 2024.

Government policy and growth

The broad themes of this Budget – large increases in spending, taxes and borrowing – impacted the OBR's forecasts for economic growth.

In summary, the extra government spending temporarily boosts GDP in the next few years (mostly in 2025 and 2026) before fading to close to zero by the end of the OBR's five-year forecast in 2029.

GDP growth

GDP growth is forecast to accelerate from 1.1% in 2024 to 2.0% in 2025, before slowing to 1.8% in 2026 and around 1.5% over 2027 to 2029.

OBR expectations for growth in 2025 and 2026 are higher than those from most other forecasters, including the Bank of England, which in August forecast GDP growth of 1.0% in 2025 and 1.3% in 2026.

Inflation

The OBR forecasts the annual rate of inflation, as measured by the Consumer Prices Index (CPI), to be higher over the next four years than it expected in March 2024.

The OBR's public finances forecast

The Office for Budget Responsibility (OBR) forecasts that government borrowing will increase from £122 billion in 2023/24 to £127 billion in 2024/25. Borrowing is then forecast to fall each financial year before it gets to £71 billion in 2029/30, the final year of the OBR's current forecast period.

The OBR forecasts that borrowing from 2024/25 will be £28 billion higher, on average, a year compared with the March 2024 forecast. This is largely because the Chancellor's spending measures cost more (around £70 billion a year) than the amount raised by her net tax increases (around £36 billion a year).

Government debt was equivalent to 97.8% of GDP at the end of 2023/24. On 30 October, the OBR forecast that it will increase to 98.4% at the end of 2024/25. It will then fall to around 97% in 2025/26 and remain around that level for the rest of the forecast period.

What happens next?

Immediately after the Budget statement, the House of Commons approved a motion so that changes to VAT, stamp duty land tax and tobacco duties could take effect on 30 October.

The Budget debate began in the House of Commons with a speech from the Leader of the Opposition. It will end on 6 November, at which time MPs will be asked to vote on the Budget resolutions.

Each resolution relates to a specific tax proposal. Resolutions that the House agrees to will then be incorporated in the Finance Bill 2024-25, which will give them permanent legal effect.

Separate legislation will be required to give effect to changes to NICs. This is because the Finance Bill's remit specifically excludes any tax that does not raise money for financing central government as a whole. The Finance Bill therefore cannot include provisions relating to NICs, as receipts are collated in the National Insurance Fund.

1 Policy announcements

1.1 Tax

Taxes for individuals

Capital gains tax

Capital gains tax (CGT) is a tax on the profits made from the sale of assets. The rate of capital gains tax paid depends on the individual's income and the type of asset sold. It is paid by individuals and trusts.[1]

The Budget announced changes to capital gains tax rates:

- increasing the main rates of capital gains tax from 30 October 2024. The lower rate will increase from 10% to 18% and the higher rate from 20% to 24%.
- increasing the Business Asset Disposal Relief (BADR) and Investors' Relief (IR) rates from 10% to 14% from 6 April 2025 and from 14% to 18% from 6 April 2026.

These changes are forecast to raise increasing amounts each year, up to £2.5 billion in 2029/30, the final year of the forecast.[2]

There will also be changes to carried interest, which is a form of income for managers of investment funds. Labour's manifesto pledged to close the "carried interest tax loophole". [3]

The rates of capital gains tax on carried interest will increase in 2025/26 from 18% and 28% rates of Capital Gains Tax to a single rate of 32%.[4] From 2026/27, carried interest will be classified as trading profits under the income tax framework, at a discounted rate.[5]

These changes to carried interest are expected to raise around £85 million a year by 2029/30. [6]

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1 OBR, Capital gains tax [accessed 20 October 2024]
2 HMRC, Capital Gains Tax — rates of tax, 30 October 2024
3 Labour Party. Labour's 2024 General Election manifesto (accessed on 30 October 2024)
4 HMRC, Capital Gains Tax: Rates of tax — carried interest, 30 October 2024
5 Office for Budget Responsibility, Economic and Fiscal Outlook October 2024 – para 3.14
6 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1

See:

- Paragraphs 3.14 to 3.19 of the Office for Budget Responsibility (OBR) Economic and Fiscal Outlook
- HMRC, Capital Gains Tax — rates of tax, 30 October 2024
- HMRC, Carried interest: rates of Capital Gains Tax, 30 October 2024

Non-domiciled individuals ('non-doms')

The remittance basis of taxation will be replaced by a residence-based regime, as announced by the previous government in March 2024.[7] This means that, from April 2025, the current tax regime for non-UK domiciled individuals ('non-doms') will be abolished. Under the current regime, people whose permanent home (domicile) is outside the UK may not have to pay UK tax on foreign income. It is being replaced by a new residence-based regime, where all UK residents who stay in the UK for over four years will pay the same tax on their foreign income and gains, regardless of their domicile status.[8]

The current government published its own policy in the summer.[9] This Budget confirmed changes, including in relation to certain transitional protections.

These changes are expected to raise around £4 billion in 2026/27 and £6 billion in 2027/28, with reduced amounts in later years.[10]

There will be legislation for changes to how non-UK domiciled individuals are taxed.

See:

- HM Treasury and HMRC, Reforming the taxation of non-UK domiciled individuals, 30 October 2024
- Paragraphs 3.24 to 3.30 of the OBR's Economic and Fiscal Outlook
- Institute for Fiscal Studies, Reforming the taxation of non-doms: policy options and uncertainties, 4 March 2024

Inheritance tax

Changes to inheritance tax include:

- Inheritance tax will apply to pension wealth that is transferable at death (unused pension funds and death benefits) from 6 April 2027. This is expected to raise £1.5 billion a year by 2029/30. [11]

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7 HM Treasury, Spring Budget 2024, 6 March 2024
8 HM Treasury, Spring Budget 2024, March 2024, HC 560, page 3
9 HM Treasury, 2024: Non-UK domiciled individuals - Policy Summary, 29 July 2024
10 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1
11 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1

- There will be changes to how agricultural property relief (APR) and business property relief (BPR) work for inheritance tax. These changes will raise £0.5 billion a year by 2029/30:[12]
  - Full (100%) relief will continue to apply up to a £1 million limit for the value of assets claimed under these reliefs, jointly.
  - Above this, there will be a new, reduced 50% relief.
  - Business property relief (BPR) on AIM (formerly the Alternative Investment Market) and other "not listed" shares will be reduced from 100% to 50%, and will not count towards the cap.
- Inheritance tax is payable above nil-rate bands. The current freeze to the inheritance tax nil-rate band, at £325,000, and residence nil-rate band, at £175,000, will be extended for two years, to 2029/30. This change will raise £0.4 billion a year by 2029/30.[13]

Agricultural property relief (APR) applies to agricultural land and business property relief (BPR) to business assets and unlisted shares.[14]

For further information, see:

- Paragraphs 3.20 to 3.23 of the OBR's Economic and Fiscal Outlook
- HM Treasury, Summary of reforms to agricultural property relief and business property relief, 30 October 2024
- HMRC, Inheritance Tax on pensions: liability, reporting and payment, 30 October 2024
- HMRC, Inheritance Tax nil-rate band and residence nil-rate bands from 6 April 2028, 30 October 2024
- Library, Inheritance tax: Current policy and debates
- IFS. Reforming inheritance tax Green Budget 2023 - Chapter 7, 27 September 2023

Taxes for businesses

Employer National Insurance contributions

There will be a number of changes to employer National Insurance contributions (employer NICs) from April 2025:

12 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1

13 HMRC, Inheritance Tax nil-rate band and residence nil-rate bands from 6 April 2028, 30 October 2024

14 Office for Budget Responsibility, Economic and Fiscal Outlook October 2024 – para 3.20

- The employer NICs rate will be increased from 13.8% to 15% of pay, above the secondary threshold.
- The main threshold above which employer NICs is paid for an employee – the secondary threshold – will be reduced from £9,100 a year to £5,000 a year. It will remain at this level until 5 April 2028 and be increased in line with Consumer Prices Index (CPI) inflation after that.
- Employment Allowance will be increased from £5,000 to £10,500. Employment Allowance allows employers to reduce the total amount of National Insurance they pay per year.
- At present, Employment Allowance is only available to employers who have less than £100,000 in National Insurance liabilities. This restriction will be removed so larger employers will also be eligible.

The changes are estimated to raise around £24 billion to £26 billion a year by 2025/26. However, the Office for Budget Responsibility (OBR) suggests that indirect behavioural responses, such as reductions in wages and salaries and in profits, will reduce the amount raised overall.

The Treasury is also compensating public sector employers for employer NICs bills through increases to their budgets.[15]

See:

- Paragraphs 3.8 to 3.12 of the OBR's Economic and Fiscal Outlook
- Library briefing National Insurance contributions: an introduction

VAT and business rates for private schools

Education and boarding services provided by private schools will be subject to VAT at the standard rate of 20% from 1 January 2025.[16]

The government will also remove business rates charitable rate relief from private schools in England from April 2025, subject to parliamentary approval. There will be legislation on this. [17]

These policies are expected to raise £1.8 billion in 2029/30. [18]

Labour's manifesto committed to applying VAT and business rates to private school fees. [19]

See:

[15] Office for Budget Responsibility, Economic and Fiscal Outlook October 2024 – paras 3.8 to 3.12
[16] HM Treasury, Autumn Budget 2024 – page 129
[17] HM Treasury, Autumn Budget 2024 – page 130
[18] HM Treasury, Autumn Budget 2024 – policy decisions table 5.1
[19] Labour Party. Labour's 2024 General Election manifesto (accessed on 19 September 2024)

- Paragraphs 3.36 to 3.39 of the OBR's Economic and Fiscal Outlook
- Library briefing Independent schools: taxation and charitable status
- HMRC's VAT on private school fees, 30 October 2024. This includes an analysis of estimated impacts

Business rates

Changes to business rates include:

- 40% business rates relief for retail, hospitality and leisure sectors for 2025/26, up to a cash cap of £110,000 per business. This costs £1.7 billion in 2025/26. [20]
  - In 2023/24 and 2024/25, the relief was 75%, up to a maximum of £110,000 relief.[21] The relief was due to end in April 2025.
  - The government has said that it intends to introduce permanently lower multipliers for retail, hospitality and leisure properties from 2026/27. These will be paid for by a higher multiplier for properties with rateable values above £500,000. [22]
- Extending increased business rates retention for local authorities with devolution deals for 2025/26. These authorities are Greater London Authority, Liverpool City Region Combined Authority, West of England Combined Authority and Cornwall Council. This costs £1.2 billion in 2025/26.
- A freeze for the small business multiplier in England in 2025/26. [23]
- Changes for private schools (mentioned above).

For more information, see:

- Paragraphs 3.65 of the OBR's Economic and Fiscal Outlook
- HM Treasury, Transforming business rates, 30 October 2024 – discussion paper
- Library insight How could the government change the business rates system?

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20 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1
21 See the Library insight How could the government change the business rates system?
22 HM Treasury, Autumn Budget 2024 – page 130
23 Office for Budget Responsibility, Economic and Fiscal Outlook October 2024 – para 3.65

Energy profits levy

There will be a number of changes to the energy profits levy (EPL) regime, including extending the levy for an additional year to 2029/30. [24]

Changes to the energy profits levy were included in the Labour manifesto and then announced by the new government in July. [25]

For more information, see:

- Paragraphs 3.40 to 3.41 of the OBR's Economic and Fiscal Outlook
- HM Treasury, Energy Profits Levy — reforms 2024, 30 October 2024
- HM Treasury, Changes to the Energy (Oil and Gas) Profits Levy, 29 July 2024
- Library briefing, Taxation of North Sea oil and gas

Transport and fuel

Vehicle excise duty (VED)

There will be changes to vehicle excise duty (VED) rates to widen differences between zero emission, hybrid and internal combustion engine cars.

The amount raised will peak at £0.4 billion in 2025/26.[26]

For more, see HMRC, Vehicle Excise Duty first-year rates for cars from 1 April 2025, 30 October 2024.

Fuel duty

Fuel duty rates will be frozen for 2025/26, with the temporary 5p cut in fuel duty rates being extended by 12 months and fuel duty not being increased with inflation (as is, in theory, government policy).

This will cost £3 billion in 2025/26. [27]

For more, see Paragraphs 4.25 and 4.26 of the OBR's Economic and Fiscal Outlook.

Air passenger duty

A range of increases will be made to air passenger duty from 2026/27, with a further 50% increase for larger private jets.

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24 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1
25 Labour Party. Labour's 2024 General Election manifesto (accessed on 19 September 2024); HM Treasury, Changes to the Energy (Oil and Gas) Profits Levy, 29 July 2024
26 HMRC, Vehicle Excise Duty first-year rates for cars from 1 April 2025, 30 October 2024
27 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1

From 2027/28, all rates will be uprated by forecast Retail Prices Index (RPI) inflation and rounded to the nearest penny.

This is forecast to raise £0.7 billion by 2029/30.[28]

For more, see HMRC, Changes to Air Passenger Duty rates from 1 April 2026, 30 October 2024

Property tax

Stamp duty land tax

A higher rate of stamp duty land tax (SDLT) applies to purchases of additional residential properties by individuals, such as second homes, and to purchases of residential properties by companies, in England and Northern Ireland.

The main rate will increase from 3% to 5% above the standard rate of stamp duty land tax from 31 October 2024.

This measure does not apply to Scotland or Wales, where devolved land transaction taxes apply.

This will raise £0.3 billion a year by 2029/30.[29]

For more, see HMRC, Stamp Duty Land Tax — increase to the higher rates on additional dwellings and to the single rate of tax on purchases by non-natural persons, 30 October 2024.

Cross-cutting measures

Collecting more tax

The Budget sets out a range of measures aimed at collecting more tax, including by:

- hiring more compliance and debt management staff
- addressing tax non-compliance in umbrella companies, which are often used by recruitment agencies to pay temporary workers to carry out tasks for other client businesses.[30] The measures would move PAYE obligations to recruitment agencies or, where an agency is not present, move them to end-client businesses, from April 2026.[31]

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28 HMRC, Changes to Air Passenger Duty rates from 1 April 2026, 30 October 2024

29 HMRC, Stamp Duty Land Tax — increase to the higher rates on additional dwellings and to the single rate of tax on purchases by non-natural persons, 30 October 2024

30 HMRC. Working through an umbrella company, updated 29 November 2023

31 Office for Budget Responsibility, Economic and Fiscal Outlook October 2024 – para 3.34

Overall, these measures are forecast to raise increasing amounts across the forecast period, rising to £6.5 billion in 2029/30. [32]

For more information, see:

- Paragraphs 3.31 to 3.35 of the OBR's Economic and Fiscal Outlook examine these measures, and include a table showing additional funding for HMRC
- Library briefing, An introduction to the UK tax gap

Corporate tax roadmap

Alongside the Budget, the government published its Corporate Tax Roadmap 2024. This includes a range of commitments such as capping the headline rate of Corporation Tax at 25% for the duration of the Parliament.

1.2 Other announcements

Compensation payments to victims of infected blood and Horizon IT scandals

The Budget accounted for compensation payments to victims of the Post Office Horizon IT and infected blood scandals for the first time. An additional £1.8 billion in total has been set aside for the victims of the Horizon scandal (for 2024/25 to 2026/27) and £11.8 billion in total for victims of the infected blood scandal (for 2024/25 to 2029/30); an average of £2.3 billion per year over the forecast period. [33]

The government said the funding is "neither a target or a limit – those eligible will receive the compensation they are due".[34]

The Library briefing Infected Blood Inquiry: compensation has further information on the compensation scheme and the background to the inquiry.[35]

There are four main Horizon compensation schemes which are already making payments.[36]

32 HM Treasury, Autumn Budget 2024 – policy decisions table 5.1
33 HM Treasury, Autumn Budget 2024, policy decisions table 5.1 and para 1.11.
34 HM Treasury, Autumn Budget 2024, para 2.84, footnote 89.
35 Commons Library, Infected Blood Inquiry: compensation, 24 September 2024.
36 Department for Business and Trade, Post Office Horizon financial redress data as of 30 September 2024, updated 17 October 2024.

Welfare and work

Winter Fuel Payment

As announced in July 2024, the Budget included changes to remove the universal eligibility for the Winter Fuel Payment. From winter 2024/2025, households will no longer be entitled to the payment unless they receive Pension Credit or certain other means-tested benefits.[37]

This change is forecast to save £1.5 billion in 2024/25, rising to £1.7 billion in 2029/30.[38] The OBR says this will affect 9.2 million pensioners with an average loss of £170 per year.[39]

The Library briefing, Changes to Winter Fuel Payment eligibility rules provides further detail.

National Living Wage increases

The National Living Wage for those aged 21 and over will be increased by 6.7% to £12.21 an hour from April 2025, implementing in full the Low Pay Commission's recommendations.[40] The government said this will affect over 3 million people.[41] The rate for 18-to-20-year-olds will increase by 16.3% from £8.60 an hour to £10.00 an hour.

Pensions triple lock

The State Pension triple lock will be retained for the duration of this Parliament, as promised in the Labour Party's election manifesto.[42] This means the basic and new State Pension will increase by 4.1% in 2025/26, in line with average earnings growth. The Treasury estimates that over 12 million pensioners would receive an additional £470 each in 2025/26.[43]

Carer's Allowance

Carer's Allowance is a benefit for people caring 'regularly and substantially' for a person who receives a qualifying disability benefit. Carers are not eligible for Carer's Allowance if their earnings (after tax, National Insurance, and certain expenses) exceed the earnings limit.

The Chancellor announced that the Carer's Allowance weekly earnings limit will be increased from £151 per week in 2024/25 to £196 in 2025/26.[44] The

37 HC Deb 29 July 2024 c1038-9.
38 HM Treasury, Autumn Budget 2024, policy decisions table 5.1, line 38.
39 OBR, Economic and fiscal outlook, October 2024, para 3.48.
40 NLW rate for those 21 and over. HM Treasury, Autumn Budget 2024, para 2.23. Low Pay Commission, National Living Wage to increase to £12.21 in April 2025, 29 October 2024; Minimum wage rates for 2025, 30 October 2024.
41 HM Treasury, Autumn Budget 2024, para 2.24.
42 Labour Party, 2024 General Election manifesto (PDF) p79.
43 HM Treasury, Autumn Budget 2024, para 2.33.
44 HM Treasury, Autumn Budget 2024, para 2.26.

measure is forecast to cost £25 million in 2025/26 rising to £165 million in 2029/30.[45]

The Library debate pack, e-petition debate relating to Carer's Allowance (19 April 2024) provides further information.

Fraud and error

The Budget included various measures to tackle fraud and error in the welfare system, including additional fraud and error staff across the Department for Work and Pensions (DWP) and HMRC, and expanding the DWP's debt recovery powers in cases of fraud and error. The government also increased spending to help spot incorrect Universal Credit claims and to verify changes in Universal Credit claims.

Overall, these measures are forecast to raise £3.5 billion in 2029/30.[46]

Other welfare measures

Working age benefits will be uprated in full in 2025/26 by the September 2024 Consumer Prices Index (CPI) inflation rate of 1.7%.[47]

The government is providing £1 billion to extend the Household Support Fund and Discretionary Housing Payments in 2025/26.[48] These funds are used by local authorities to support households facing financial hardship.

A new "Fair Repayment Rate" will limit the amount that can be deducted from Universal Credit (UC) payments to pay certain debts and costs owed by claimants. The new rate will cap UC repayments at 15% of the standard allowance. The government says this will allow 1.2 million more households to keep more of their UC payment each month, with households expected to be on average £420 a year better off.[49] The Library briefing Universal Credit deductions (18 July 2023) provides background information.

Housing

Measures on social and affordable housing include:

- reducing discounts under the Right to Buy scheme and allowing councils to keep all receipts generated by sales.[50] These measures are forecast to cost £240 million in 2029/30.[51] The measures aim to "protect existing

45 HM Treasury, Autumn Budget 2024, policy decisions table 5.1, line 53.
46 HM Treasury, Autumn Budget 2024, policy decisions table 5.1, lines 42 to 46.
47 HM Treasury, Autumn Budget 2024, para 2.32.
48 HM Treasury, Autumn Budget 2024, para 2.29.
49 HM Treasury, Autumn Budget 2024, para 2.30.
50 HM Treasury, Autumn Budget 2024, para 3.34.
51 HM Treasury, Autumn Budget 2024, policy decisions table 5.1, line 57.

social housing stock to meet housing need, whilst ensuring long-term tenants can still benefit".[52]

- contributing £500 million to the Affordable Homes Programme for 2025/26. The Affordable Homes Programme is the government's main funding programme to support the capital costs of building affordable housing.
- consulting on a new five-year social housing rent settlement, which intends to increase social housing rent by CPI + 1% for five years, to offer long-term certainty for social housing providers. The consultation would also seek views on other potential options for greater certainty, such as a 10-year settlement.[53]

Investment in infrastructure

National Wealth Fund

The government has set up a National Wealth Fund (NWF), which is intended to provide investment in long-term infrastructure projects and attract private funds.[54] The existing UK Infrastructure Bank will now operate as the National Wealth Fund but have a broader mandate and additional funding.[55]

The government has committed an additional £5.8 billion of capital to the NWF for lending and investment, which is expected to be offset by returns on its investments. Overall, the NWF is forecast to reduce borrowing by £5 million in 2025/26, rising to £135 million in 2029/30.[56]

Energy

The Department for Energy Security and Net Zero settlement included "taking the first step towards a Warm Homes Plan", committing an initial £3.4 billion towards heat decarbonisation and household energy efficiency between 2025/26 and 2027/28.[57] This includes £1.8 billion to support fuel poverty schemes.[58]

The settlement also included funding for various other energy industry and decarbonisation projects, such as support for the first round of green

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52 HCWS 169, 28 October 2024.

53 The Library briefing, Rent setting: social housing (England) (8 December 2022) provides background on social rent setting.

54 Treasury policy paper, National Wealth Fund: Mobilising Private Investment, 14 October 2024; for more, see Library debate pack, UK International Investment Summit 2024 (PDF), pages 7-9

55 See section 3 of Library debate pack, UK International Investment Summit 2024 (PDF)

56 HM Treasury, Autumn Budget 2024, policy decisions table 5.1. OBR, Economic and fiscal outlook, October 2024, para 3.49.

57 HM Treasury, Autumn Budget 2024, para 3.78

58 HM Treasury, Autumn Budget 2024, para 3.78

hydrogen production contracts, investments in carbon capture and storage projects, and funding for Great British Energy.[59]

Transport

The Department for Transport settlement included announcements about investment in local roads maintenance and local public transport. The government said it would increase the bus fare cap from £2 to £3 beginning in January 2025.[60]

The government also highlighted commitments on major transport programmes, including confirming that HS2 will terminate at Euston.[61]

1.3 Public finances targets

Since the 1990s, the UK Government has adopted targets to constrain its management of the public finances, usually focusing on government borrowing and debt. These 'fiscal rules' also signal the government's intentions to voters and financial markets and help the Treasury manage competing bids for money from departments or outside government.

In the 2024 Autumn Budget, the Chancellor has proposed two new fiscal rules, different from those used by the previous Conservative government (see box 1). One rule focuses on balancing the day-to-day budget (or current budget), and the other rule says government's net financial liabilities should be falling, relative to the size of the economy. Public sector net financial liabilities (PSNFL) measures the government's debt and other financial liabilities minus its liquid financial assets (like foreign exchange reserves) and illiquid financial assets (like loans and other financial derivatives). It is a measure of the government's broader balance sheet. The Chancellor describes it as 'net financial debt'.

Both rules initially apply to 2029/30, meaning that the current budget should be balanced in 2029/30 and PSNFL should be falling (as a percentage of the economy) in 2029/30.

In 2026/27, when 2029/30 becomes the third year of the forecast period, the third year of the rolling forecast period becomes the target year. Once focusing on the third year of the forecast, the current budget will be deemed to be in balance if it is in surplus, or in deficit of no more than 0.5% of GDP.[62]

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59 HM Treasury, Autumn Budget 2024, para 4.75

60 HM Treasury, Autumn Budget 2024, para 4.69.

61 HM Treasury, Autumn Budget 2024, para 4.70.

62 HM Treasury. Charter for Budget Responsibility: Autumn 2024, para 3.6 and 3.7.

The Chancellor referred to the current budget rule as the "stability rule" and the PSNFL rule as the "investment rule".[63]

The rules need to be approved by Parliament

Currently, the Chancellor's targets are proposed rules as they are yet to be approved by a vote in the House of Commons. The fiscal rules are included in the Charter for Budget Responsibility, which sets out the government's broad framework for managing the public finances.[64] A revised Charter, with new fiscal rules, was published alongside the Budget.[65] Parliament will vote on it in due course.

The current legislated rules (see box 1), inherited from the previous government, remain the legislated rules until the revised Charter is approved by the House of Commons. As a result, the OBR assessed both the Chancellor's proposed rules and the legislated rules in its October 2024 forecast.[66]

Box 1: The existing fiscal rules

The current legislated iteration of the fiscal rules came into force in February 2023 under the Conservative government. They will be in force until new rules are laid before, and agreed by, Parliament.

The rules cover government borrowing and government debt:

- government borrowing should not exceed 3% of GDP in the fifth year of the forecast period
- government debt should be falling, as a percentage of GDP, in the fifth year of the official forecasts

There is also a cap on welfare spending.

The Library briefing The UK's fiscal targets looks at the UK's fiscal rules and wider policy for managing the public finances.

Labour's stability (current budget balance) rule

Currently, Labour's stability rule says the current budget should be in balance in 2029/30.

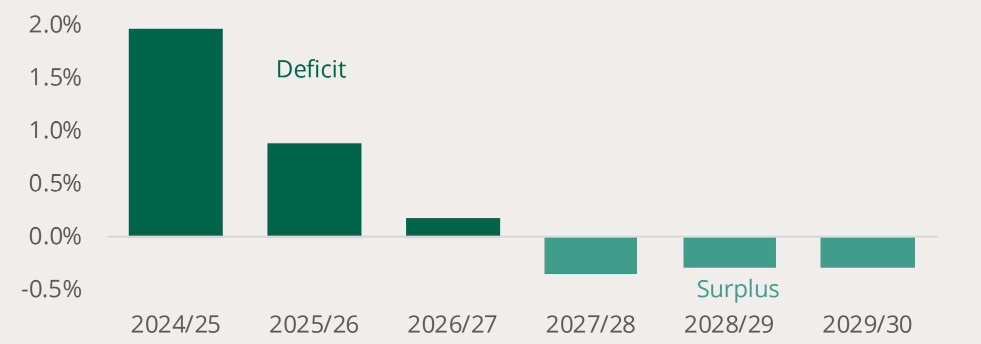
63 HM Treasury. Autumn Budget 2024 speech, 30 October 2024
64 In the Charter for Budget Responsibility, the government sets out how its management of the public finances operates.
65 HM Treasury. Draft Charter for Budget Responsibility: Autumn 2024, 30 October 2024
66 OBR. Economic and fiscal outlook – October 2024, paras 7.27-7.29

To balance the current budget, government revenues from taxes and other sources must cover day-to-day spending on areas such as public services and welfare. If the current budget is balanced (or in surplus), the government won't be borrowing to fund day-to-day spending.

As the chart below shows, the current budget is expected to be in surplus from 2027/28 in the OBR's October 2024 forecast.

Day-to-day government spending is forecast to be less than revenues in 2029/30, meeting the current budget rule

October 2024 forecasts of the current budget deficit, % GDP



Notes: Current budget deficit = Public sector current expenditure + depreciation – public sector current receipts

Source: OBR. Public finances databank – October 2024

The current budget has been used in previous iterations of the UK's fiscal rules. For instance, between 1997 and 2010 the Labour government's 'golden rule' essentially said that the current budget should at least be in balance over the economic cycle. Between 2010 and 2015, the coalition government adopted targets that focused on achieving a current budget balance, after adjusting for the ups and downs of the economy.

The Library briefing The UK's fiscal targets has further information about previous fiscal rules.

Labour's investment (public sector net financial liabilities) rule

The fiscal rule says that public sector net financial liabilities (PSNFL) should be falling as a share of the economy by 2029/30, until 2029/30 becomes the third year of the forecast period (which will be in 2026/27). PSNFL should then fall by the third year of the rolling forecast period.[67]

The fiscal rules have changed several times since 1997, but this is the first time one of the main rules has focused on a broader measure of the

[67] HM Treasury. Charter for Budget Responsibility: Autumn 2024, para 3.7

government's balance sheet. Previous sets of rules have looked at the government's liabilities through the narrower measure of public sector net debt (PSND).

PSNFL is a broader measure of the balance sheet, which includes a greater range of the public sectors' liabilities and assets.

The Chancellor said that including a greater range of assets "recognises that government investment delivers returns for taxpayers". She also said using PSNFL means "we count the benefits of investment, not just the costs. And we free up our institutions to invest just as they do in Germany, France and Japan."[68]

The chart below shows the differences between public sector net financial liabilities (PSNFL) and public sector net debt (PSND). In addition to the liabilities and assets measured by PSND, PSNFL also includes illiquid financial assets and other financial liabilities:

- illiquid financial assets: equity stakes in private companies are the largest group of illiquid assets, in particular from the holdings of funded pension schemes. Loans represent the second largest source of illiquid financial assets for the public sector, notably in the form of student loans. [69]
- other financial liabilities: the largest of which are estimates of liabilities for future claims on insurance funds, future pension payments and future calls on standardised guarantee schemes. Public sector pension liabilities are particularly large. [70]

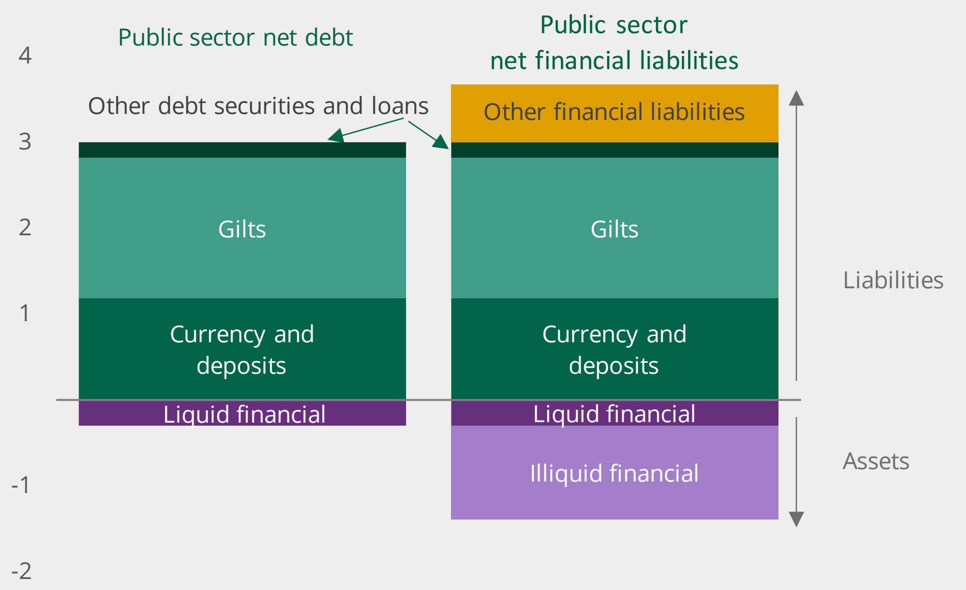
[68] HM Treasury. Autumn Budget 2024 speech, 30 October 2024

[69] Includes: loans (32.1% in 2023/24); equity (50.7%); insurance, pension and standardised guarantee schemes (0.3%); other accounts receivable (14.4%); others (2.4%). ONS. Public sector finances: September 2024: Public sector balances sheet tables: Appendix N

[70] Includes: special drawing rights (4.6% in 2023/24); equity (0.1%); insurance, pension and standardised guarantee schemes (77.2%); financial derivatives (0.3%); other accounts payable (17.2%). ONS. Public sector finances: September 2024: Public sector balances sheet tables: Appendix N

PSNFL includes "illiquid financial assets" and "other financial liabilities" - PSND doesn't

Assets and liabilities, £ billion, 2023/24



Notes:

Currency and deposits includes the significant reserves issued by the Bank of England to buy government gilts through the asset purchase facility (see box 5 of the Library briefing Autumn Budget 2024: Background briefing), in a process known as quantitative easing. As the APF is unwound, through quantitative tightening, deposits will fall and the volume of gilts held by the private sector will increase.

Source: ONS. Public sector finances: September 2024: Public sector balances sheet tables: Appendix N

Additional 'guardrails'

The investment rule is accompanied by other changes to "strengthen controls on public spending on financial assets, such as loans and equity". These 'guardrails' are designed to ensure investment is "high quality and well delivered".[71]

The controls are set out in a new Financial Transaction Control Framework.[72] The controls include that:[73]

- new financial transactions should generate a return at least as large as the cost of financing
- all large-scale financial transactions should be delivered by expert institutions, including the National Wealth Fund, UK Export Finance, and the British Business Bank

[71] HM Treasury. Chancellor chooses a Budget to rebuild Britain, 30 October 2024

[72] HM Treasury. Financial transaction control framework, 30 October 2024

[73] HM Treasury. Autumn Budget 2024, 30 October 2024, Box 1.D

- the government will publish an annual report on its financial assets using asset values audited by the National Audit Office (NAO)

The welfare cap

Labour will continue with a further inherited rule: the welfare cap. The welfare cap was introduced, in its original form, in Budget 2014 and sets limits on the amount that can be spent on certain benefits. The Library briefing The welfare cap explains how the cap works. It shouldn't be confused with the household benefit cap.

Labour has set 2029/30 as the new target year for the cap and has set the cap at £194.5 billion with a 5% margin. This will be the largest welfare cap margin since its introduction in 2014.

How is the Charter changed?

The Treasury published a draft of the revised Charter alongside the Budget.[74] Once at least 28 days have elapsed, it will lay the revised Charter before Parliament for approval.

The revised Charter modifies guidance for the OBR, which means a draft copy must be published 28 days before being laid before Parliament.[75] If no changes were being made to the OBR guidance, then the revised Charter could be immediately laid before Parliament. The recent Budget Responsibility Act requires changes to the OBR's guidance in the Charter.

The revised Charter will come into force once it has been approved by a vote of the House of Commons.[76]

[74] HM Treasury. Draft Charter for Budget Responsibility: Autumn 2024, 30 October 2024

[75] Budget Responsibility and National Audit Act 2011, section 6

[76] Budget Responsibility and National Audit Act 2011, section 1

2 Public spending and the Spending Review

This Budget included the first phase of a new Spending Review. These reviews fix departmental spending plans for the years ahead.

In this first phase, the government has set departmental budgets for 2024/25 and 2025/26, with budgets for 2026/27 and 2027/28 expected to follow in phase 2 in spring 2025.

2.1 Departmental budgets for 2024/25 and 2025/26

Day-to-day spending

This Budget included an overall increase in day-to-day departmental spending (officially 'resource DEL excluding depreciation'), with almost all departments receiving increases in their spending limits. Day-to-day spending limits (in cash terms) for all departments were as shown in the table below.

Day-to-day spending limits will increase by £33 billion between 2024/25 and 2025/26. The Department for Health and Social Care accounts for around a third of this increase, with the Department for Education accounting for a further 13%. The Scottish Government and the Ministry for Housing, Communities and Local Government (MHCLG) local government budget each account for a further 5%.

A few departments will receive real-terms (inflation-adjusted) decreases in their spending limits between 2023/24 and 2025/26. The largest decrease in proportional terms is for the Cabinet Office (with an annual average real-terms cut of 7.4% over this period), followed by the Home Office (3.2%), the Department for Culture, Media and Sport (2.5%), the Department for Environment, Food and Rural Affairs (1.9%) and the Department for Transport (0.7%).

Day-to-day spending limits, by department
£ billions, not adjusted for inflation

	2024/25	2025/26	AARG
Health and Social Care	190.1	200.5	3.4%
Education	88.8	93.0	3.5%
Scottish Government	39.3	41.1	2.3%
Defence	37.5	38.4	1.7%
Home Office	20.8	20.6	-3.2%
Welsh Government	16.9	17.7	1.3%
Northern Ireland Executive	15.2	16.0	1.5%
MHCLG Local Government	12.5	14.3	10.2%
Justice	11.0	11.8	4.3%
Work and Pensions	9.0	10.1	6.4%
Foreign, Commonwealth and Development Office	8.4	8.3	0.6%
Transport	8.2	8.2	-0.7%
HM Revenue and Customs	5.2	5.8	4.1%
Environment, Food and Rural Affairs	4.8	4.8	-1.9%
MHCLG Housing, Communities and Local Government	3.8	3.8	7.5%
Single Intelligence Account	2.8	3.0	2.8%
Small and Independent Bodies	2.6	2.8	6.8%
Energy Security and Net Zero	1.6	1.9	8.8%
Business and Trade	1.8	1.8	3.7%
Culture, Media and Sport	1.5	1.5	-2.5%
Law Officers' Departments	0.9	1.0	7.6%
Cabinet Office	0.8	0.8	-7.4%
Science, Innovation and Technology	0.4	0.4	12.4%
HM Treasury	0.3	0.4	0.7%
Total	**484.2**	**517.2**	

Note: AARG = annual average real-terms growth, 2023/24 to 2025/26

Source: HM Treasury, Autumn Budget 2024, 30 October 2024, table 1.9

Investment spending

Investment spending (officially 'capital DEL') will increase by £14.7 billion between 2024/25 and 2025/26, with the proportional increases for each department typically larger than for day-to-day spending. The figures (in cash terms) for 2024/25 and 2025/26 for each department are shown in the table below.

The increases in investment spending are spread more evenly between departments than increases in day-to-day spending. 16% of the increase is for construction costs for carbon capture, usage and storage (CCUS) and hydrogen projects, although the Budget includes a note that these may not remain part of investment spending totals if the Office for National Statistics decides to classify this spending differently. A further 13% of the increase is for the Ministry of Defence, 12% of it is for the Department of Health and

Social Care, and 10% is for the Department for Science, Innovation and Technology.

As with day-to-day spending, there are some departments that will receive real-terms cuts to their investment budgets between 2023/24 and 2025/26. The largest decrease, in proportional terms, is for the Department for Transport, at 3.1% per year on average over this period.

Investment spending limits, by department

£ billions, not adjusted for inflation

	2024/25	2025/26	AARG
Transport	20.6	21.8	-3.1%
Defence	19.5	21.4	3.4%
Science, Innovation and Technology	13.3	14.7	6.4%
Health and Social Care	11.8	13.6	10.9%
MHCLG Housing, Communities and Local Government	8.5	8.8	10.7%
Energy Security and Net Zero	7.5	8.4	25.2%
Education	5.5	6.7	2.2%
Scottish Government	6.0	6.5	2.3%
Foreign, Commonwealth and Development Office	2.8	3.9	4.3%
Energy Security and Net Zero – CCUS and Hydrogen	1.4	3.7	-
Welsh Government	3.2	3.4	1.3%
Environment, Food and Rural Affairs	2.3	2.7	12.6%
Northern Ireland Executive	2.0	2.2	-0.3%
Justice	1.8	2.0	14.9%
Home Office	1.9	1.5	5.2%
Single Intelligence Account	1.4	1.5	1.7%
Business and Trade	1.7	1.5	19.8%
HM Revenue and Customs	0.7	0.9	7.1%
Ukraine – Extraordinary Revenue Acceleration	0.8	0.8	-
Culture, Media and Sport	0.8	0.7	16.2%
Work and Pensions	0.7	0.7	5.0%
Cabinet Office	0.4	0.5	-1.1%
Small and Independent Bodies	0.4	0.4	9.6%
Law Officers' Departments	0.1	0.1	2.4%
HM Treasury	0.0	0.1	-
Total	**116.6**	**131.3**	

Note: AARG = annual average real-terms growth, 2023/24 to 2025/26

Source: HM Treasury, Autumn Budget 2024, 30 October 2024, table 1.10

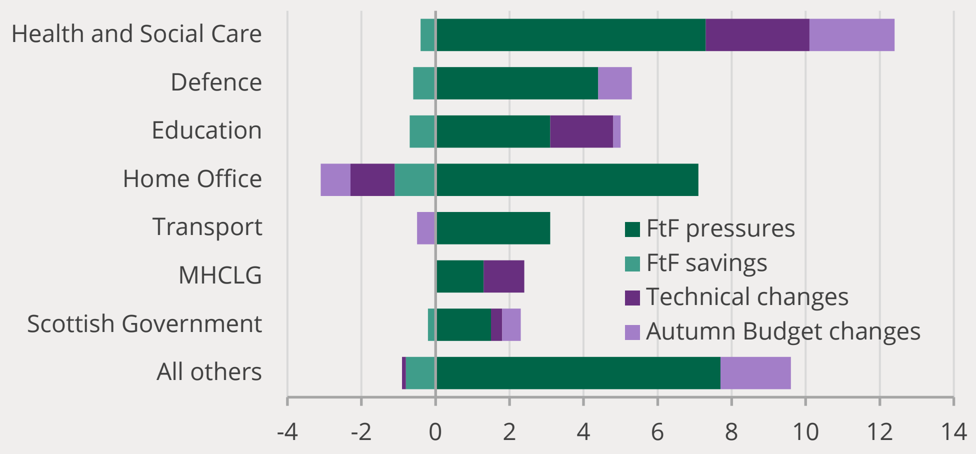
2.2 Spending pressures (the "black hole") and new policies

This Budget also set revised spending limits for 2024/25. These revisions were partly because of new policy commitments, but mainly because of the in-year spending pressures announced by the Chancellor in the "Fixing the foundations" audit published by HM Treasury in July.[77] The government has repeatedly referred to this, including in the Chancellor's speech, as a "black hole" in the public finances.[78]

According to the Treasury's response to the Office for Budget Responsibility (OBR) review of the March 2024 forecast, total day-to-day spending in 2024/25 was increased by £26 billion in the Autumn Budget, compared with the Spring Budget. This increase is made up of £26.1 billion of spending pressures in the "Fixing the foundations" audit and £5.7 billion of new policy commitments, offset by £4 billion of savings included in the July audit and £1.8 billion of technical changes and adjustments. As the chart below shows, spending pressures were the largest cause of changes in 2024/25 for most departments.

Most 2024/25 budget changes were due to in-year pressures

£ billions, change in day-to-day spending between Spring and Autumn Budgets



Note: "FtF" refers to the "Fixing the foundations" audit of public spending in July 2024.

Source: Library analysis of HM Treasury, Response to the OBR review of the March 2024 forecast for departmental expenditure limits, 30 October 2024, table 2

The pressures identified in the "Fixing the foundations" audit are not entirely inherited from the previous government, as they include the cost of public sector pay settlements agreed by the Labour government. This accounted for £9.4 billion of the pressures identified in July.

[77] HM Treasury, Fixing the foundations: public spending audit 2024-25, 29 July 2024

[78] HM Treasury, Autumn Budget 2024 speech, 30 October 2024

2.3 Longer-term spending totals

This Budget also set the spending limits for government as a whole (sometimes called the "envelope") across the new Spending Review period, as well as giving long-term spending forecasts. We can use these to compare the effect of this Spending Review with those in the past.

Higher spending means a larger state

As a result of this Budget, total public spending is now expected to be £1,276 billion in 2024/25. This is the most that the public sector has ever spent in a single year in either cash terms or real terms, including during the covid-19 pandemic.

The Office for Budget Responsibility (OBR) published new forecasts alongside the Budget showing projected spending as a proportion of GDP. This measure is sometimes called the "size of the state". The OBR forecasts that spending will rise slightly from 44.9% of GDP in 2023/24 to 45.3% in 2025/26, before falling back to 44.5% in 2029/30.

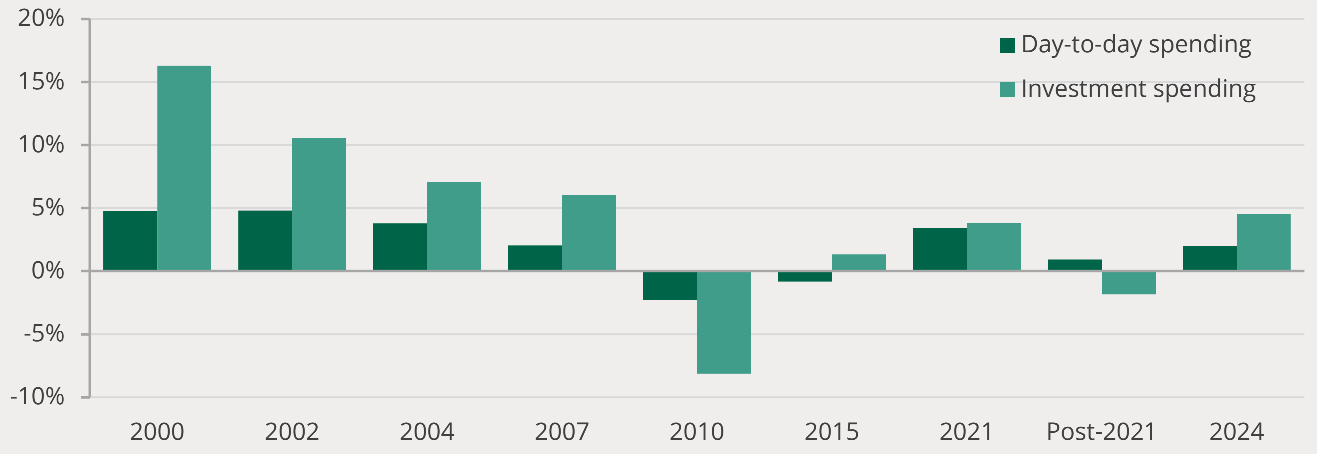
Spending as a proportion of GDP increased sharply during the covid-19 pandemic, and these forecasts suggest that it will now stay at around the same level as in the past few years. This level remains high by historical standards (having gone above 44% in only 11 years between 1948 and 2023/24) and is now forecast to fall more slowly than predicted in the OBR's previous forecast in March 2024.

The spending increases are not historically large…

The chart below compares the spending increases in this Spending Review with the spending planned in previous Spending Reviews. The figure in each case is the annual average real-terms growth in spending across the Spending Review period, calculated using inflation forecasts as they stood at the time of the review in question.

Planned growth in spending at multi-year Spending Reviews

Annual average real-terms growth rate (%)



Note: "Post-2021" refers to the Conservative planned "path of public spending" for 2025/26 to 2027/28, as of the 2024 Spring Budget.

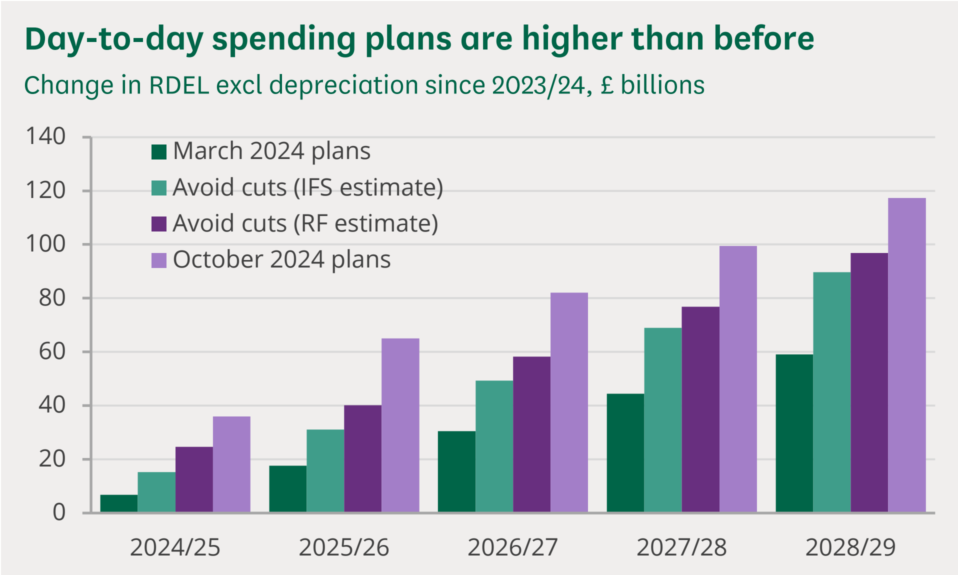
Source: Library calculations based on HM Treasury, Spending Reviews and Budgets (various)

This chart shows that, although the spending increases in the 2024 Autumn Budget are larger than those implied by the Conservative "path of public spending" for the same period, they are not particularly large by historical standards. Day-to-day spending will grow at around the same rate as in the 2007 Spending Review, while the growth rate for investment spending is similar to the growth rate for investment spending in the 2021 Spending Review.

...but they are larger than some pre-Budget estimates

Spending plans as of the 2024 Spring Budget (under the Conservative government) called for average real-terms growth of 1.0% per year in day-to-day spending between 2025/26 and 2027/28. Several commentators, including the Institute for Fiscal Studies (IFS) and the Resolution Foundation, suggested that these amounts would not be sufficient to avoid real-terms spending cuts to many public services.

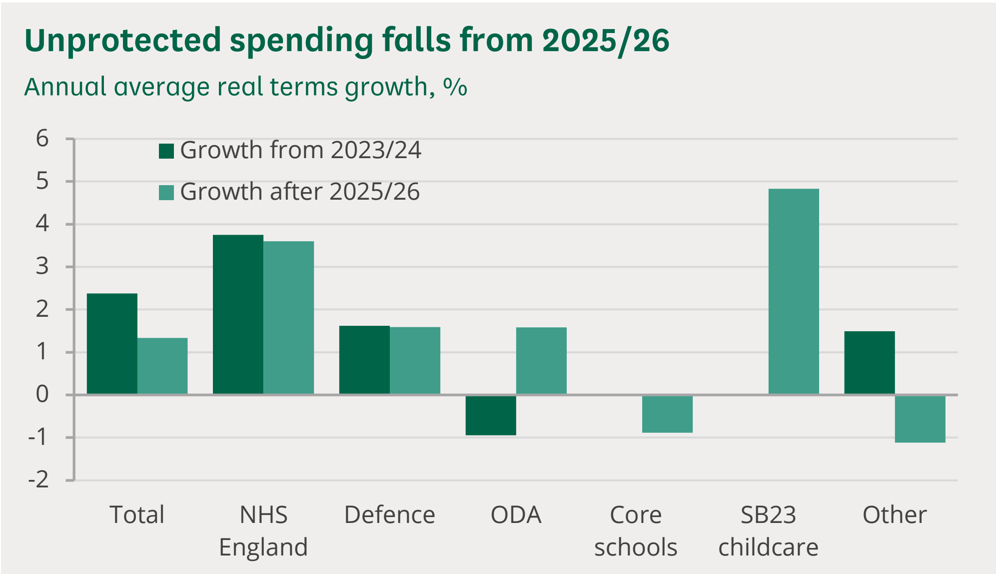
As the chart below shows, the forecasts in this Budget suggest that day-to-day spending will be noticeably higher than the levels that both the IFS and Resolution Foundation estimated would be necessary to avoid such cuts.



Note: RF = Resolution Foundation

Source: Library calculations, based on 2024 Spring Budget, Institute for Fiscal Studies Green Budget 2024, Resolution Foundation Great expectations in hard times?, and 2024 Autumn Budget

According to the OBR, "unprotected" budgets – that is, those other than health, defence, overseas aid, core schools, and childcare – will increase by 1.5% a year on average between 2023/24 and 2025/26. However, as the chart below shows, they will then decrease by 1.1% a year from 2025/26 onwards.



Note: ODA = official development assistance (overseas aid); SB23 childcare = childcare commitments made at the 2023 Spring Budget.

Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, chart 5.9

All control totals have increased

Spending is now forecast to be higher across all parts of the public spending system than had been forecast in March 2024. Total public spending is now forecast to be £100.0 billion higher in 2028/29 than had been forecast in

March. £48.6 billion of this increase comes from planned day-to-day spending, with a further £24.1 billion from planned investment spending. However, the remaining £27.3 billion comes from demand-driven spending, over which the government has much less control. This includes an increase of £8.3 billion in interest on public debt.

2.4 Changes to the Spending Review system

As the government promised in the "Fixing the foundations" audit, the government included changes to the Spending Review system in its draft Charter for Budget Responsibility. As discussed in section 1.3, the revised Charter must be approved by a vote in the House of Commons to take effect.

Under this new system:

- Spending Reviews must take place every two calendar years
- each review will set departmental spending limits for at least three years of the five-year forecast period
- the review and its associated documents will be referred to the House of Commons Treasury Committee[79]

This represents the first time that Spending Reviews have been placed on a statutory basis. It also formally gives Parliament a role in the scrutiny of Spending Reviews, with the involvement of the Treasury Committee.

79 HM Treasury, Draft Charter for Budget Responsibility: Autumn 2024, 30 October 2024

3 OBR forecasts for the economy

The independent Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances on 30 October 2024.[80]

The OBR's forecasts are the official forecasts used by the Chancellor for the Budget. They incorporate the effect of the policy decisions that the Chancellor has announced.[81]

The OBR's previous forecasts were published in March 2024.[82] This section summarises the new forecasts for the economy and compares them with the forecasts from March.

The OBR's forecasts are for the next five years: up to the calendar year 2029 and the financial year 2029/30 (financial years run from April to March the following year). Quarterly forecasts up to the first quarter (Q1) of 2030 are also published.[83]

3.1 GDP growth

The broad themes of this Budget – large increases in spending, taxes and borrowing – impacted the OBR's forecasts for economic growth.

In summary, the extra government spending temporarily boosts GDP in the next few years (mostly in 2025 and 2026), before fading to close to zero by the end of the OBR's five-year forecast in 2029.[84]

The OBR estimates that Budget policy measures increase GDP growth by 0.5 percentage points in 2025. As the temporary boost fades, growth moderates, partly as a result of some "crowding out" of some private sector activity.[85] The OBR is more positive about the Budget policy effects on GDP beyond its standard five-year forecast period (see section 3.6 below on long-term growth).

80 OBR, Economic and fiscal outlook – October 2024, 30 October 2024

81 There's further information about the OBR in the Library briefing The Office for Budget Responsibility and Box 1 (p27) of the Library briefing, Autumn Budget 2024: Background briefing (PDF)

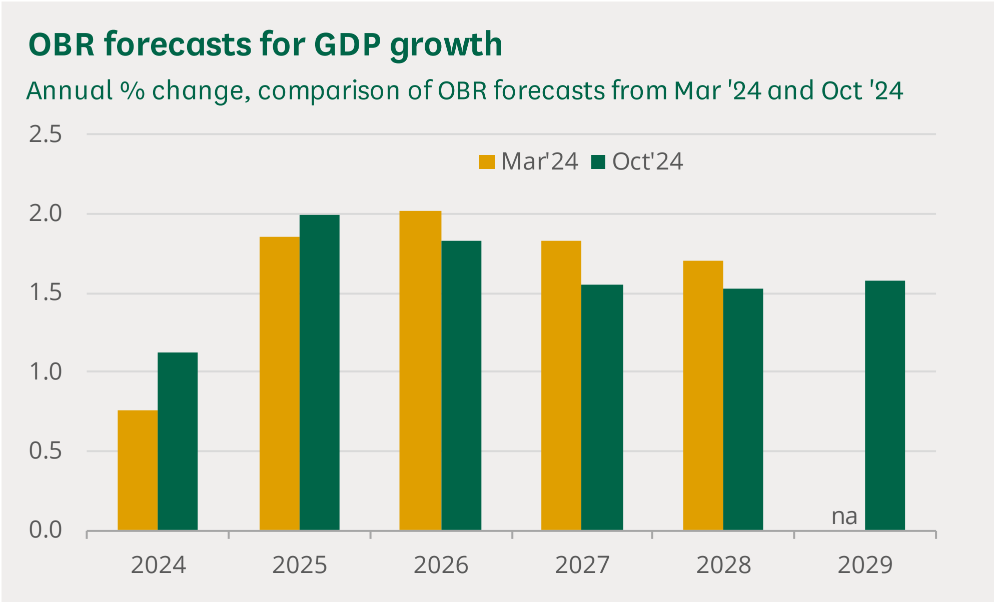
82 OBR, Economic and fiscal outlook – March 2024, 6 March 2024

83 All references to OBR forecasts are taken from the OBR's report and detailed forecast data for the UK economy taken from OBR, Economic and fiscal outlook – October 2024, 30 October 2024

84 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.8, 2.19 and Box 2.1

85 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.8-1.9, 2.4, 2.19, 3.69 and Box 2.1; OBR, Chair's speaking notes at presentation (PDF), p6

Overall, GDP growth is forecast to accelerate from 1.1% in 2024 to 2.0% in 2025, before slowing to 1.8% in 2026 and around 1.5% over 2027 to 2029. This is shown in the chart below.



Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, Table A.1

OBR expectations for growth in 2025 and 2026 are higher than those from most other forecasters, including the Bank of England, which in August forecast GDP growth of 1.0% in 2025 and 1.3% in 2026. The OBR says the difference could be down to the Budget measures that were not captured in the Bank's figures. [86]

3.2 Inflation

The OBR forecasts the annual rate of inflation as measured by the Consumer Prices Index (CPI) to be higher over the next four years than it expected in March 2024.

The OBR says that some of this is due to "greater-than-expected persistence in wage growth" compared with March. This leads to higher costs for businesses and therefore higher prices for customers than would otherwise be the case.[87]

The OBR says that the additional government spending announced at the Budget is also behind its higher annual inflation forecasts. The OBR estimates that the peak effect of the Budget will be in 2026, when the inflation rate will

86 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 2.50
87 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 1.11

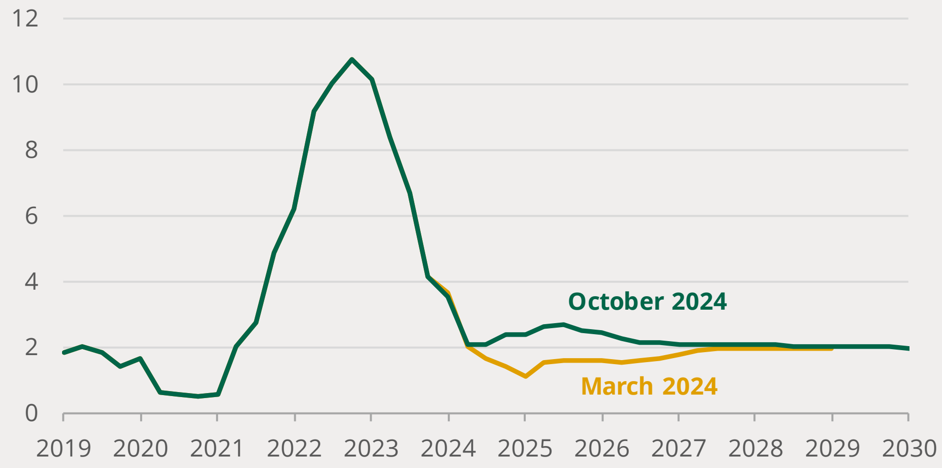
be 0.4 percentage points higher as a result of the measures it has introduced.[88]

Specifically, the OBR notes some knock-on effects from the increase in employer National Insurance contributions (NICs) on prices, and the overall effect of extra spending generating greater demand in the economy (therefore meaning price pressures become greater).[89]

The OBR forecasts inflation to rise to 2.7% in the second quarter (Q2) of 2025, before gradually easing to 2.0% – the Bank of England's target – by Q1 2029, as the chart below shows.

OBR forecasts for inflation

%, annual change in CPI, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, quarterly forecasts from Table 1.7 of detailed forecast tables: economy

3.3 Household incomes

The OBR said that living standards, based on a prominent measure of income it uses, is expected to rise modestly on average in coming years.[90] However, while there are increases forecast over the rest of 2024 and 2025, household incomes adjusted for inflation are expected to stall in 2026 and 2027.[91]

By the start of 2029, this measure of household income is a little over 1% lower than the OBR forecast in March, as shown in the chart below.

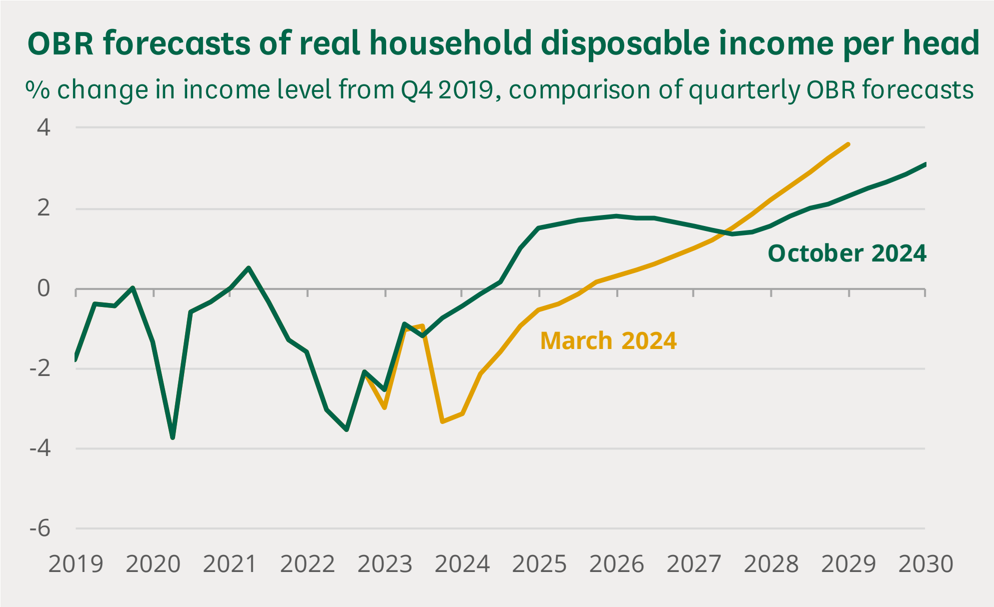
88 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 1.11 and Box 2.1

89 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, Box 2.1

90 This section is based on real household disposable income. This indicator of incomes measures total income across all UK households, after tax and adjusted for inflation.

91 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.15 and 2.40-2.41

Most of this difference – around 85%, the OBR says – is due to Budget policies: "shifting real resources out of private households' incomes in order to devote more resources to public service provision."[92]

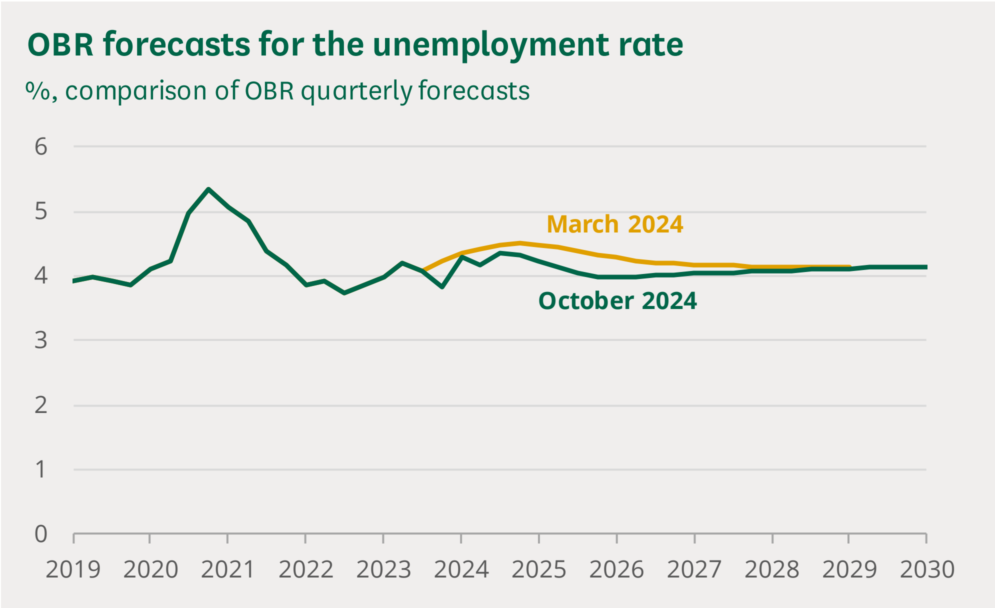


Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, quarterly forecasts based on Table 1.5 of detailed forecast tables: economy

3.4 Unemployment

The OBR expects the unemployment rate to gradually fall from 4.3% to 4.0% by the second half of 2025, lower than forecast in March, as shown in the chart below. This decline is "nearly all" accounted for by Budget policy measures.[93]

92 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.15 and 2.41
93 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.13 and 2.35



Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, quarterly forecasts from Table 1.6 of detailed forecast tables: economy

The survey conducted by the Office for National Statistics to calculate rates of unemployment and other labour market statistics has had problems with data quality: fewer people are responding to the Labour Force Survey, making it less reliable.[94]

3.5 Investment

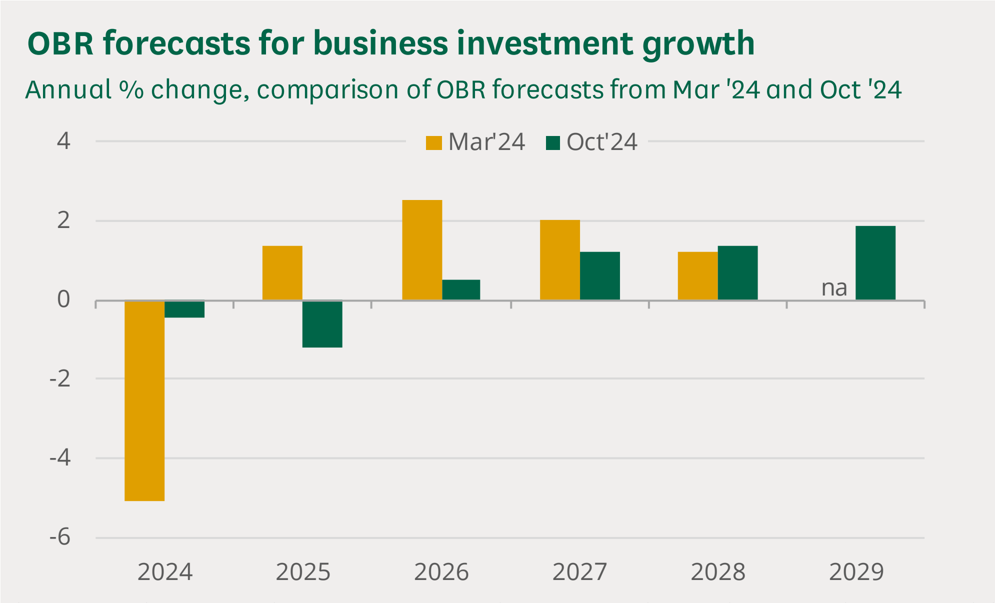
The OBR's business investment forecasts for 2025 and 2026 were revised down, with the net effect of Budget policies lowering business investment.[95] This is shown in the chart below.

The OBR says that higher government spending 'crowds out' private sector investment. This is because the OBR thinks the economy will have little spare capacity (resources). In addition, in this scenario interest rates may be higher than they would otherwise be, making it more expensive for firms to borrow to invest than in a scenario where higher government spending hadn't occurred.[96]

94 For more see section 1 of the Library briefing paper, UK labour market statistics and ONS, Labour market transformation – update on progress and plans: July 2024, July 2024, section 3

95 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 2.15 and Box 2.1

96 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.8, 2.4, 2.19, 3.69 and Box 2.1; OBR, Chair's speaking notes at presentation (PDF), p6



Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, table A.1

The OBR says the increase to departmental capital spending announced at the Budget means that real (inflation-adjusted) government investment will be 15% higher on average from 2025 to 2029 compared with plans in the March 2024 Budget.[97] Government investment as a proportion of GDP will now be broadly stable at 3.4% over the five-year forecast period to 2029, instead of falling.

3.6 Long-term growth

The OBR's expectations of how fast the economy could grow under normal conditions over the long-term (called the growth rate in potential output) were largely unchanged. The OBR thinks the economy can grow sustainably by around 1.6 to 1.7% per year.[98]

The OBR thinks Budget policy measures have a broadly neutral impact on potential output over the next five years, the period the OBR normally forecasts for. However, the OBR notes that these policies would "deliver a net boost to the supply side of the economy [potential output] in the 2030s" and beyond.[99]

The OBR says increased government investment, if sustained, would permanently raise the economy's potential in the long term.[100] The gains

97 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 2.16 and chart 2.6
98 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 2.12 and chart 2.3
99 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 2.12
100 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, paras 1.2 and Box 2.1

become larger over time, with an increase in GDP of around 0.4% after 10 years and 1.4% after 50 years.[101]

3.7 Summary of OBR forecasts for the economy

The table below summarises OBR forecasts from March and October 2024 for key economic indicators.

OBR forecasts: economy

Comparison of October 2024 and March 2024 forecasts

	2023	2024	2025	2026	2027	2028	2029
GDP growth, %							
March 2024	0.3	0.8	1.9	2.0	1.8	1.7	na
October 2024	0.1	1.1	2.0	1.8	1.5	1.5	1.6
GDP level, 2024=100							
March 2024	99.3	100.0	101.9	103.9	105.8	107.6	na
October 2024	98.9	100.0	102.0	103.8	105.5	107.1	108.7
Business investment growth, %							
March 2024	4.8	-5.1	1.4	2.5	2.0	1.2	na
October 2024	5.5	-0.4	-1.2	0.5	1.2	1.4	1.9
ILO unemployment rate, annual ave (%)							
March 2024	4.1	4.4	4.4	4.2	4.2	4.1	na
October 2024	4.0	4.3	4.1	4.0	4.1	4.1	4.1
CPI annual inflation, %							
March 2024	7.3	2.2	1.5	1.6	1.9	2.0	na
October 2024	7.3	2.5	2.6	2.3	2.1	2.1	2.0
Productivity growth, %							
March 2024	0.2	0.3	0.8	1.1	1.1	1.2	na
October 2024	0.0	0.0	1.0	1.2	1.1	1.1	1.1
Average earnings growth, %							
March 2024	6.8	3.6	2.1	2.0	2.3	2.6	na
October 2024	7.6	4.7	3.6	2.1	2.0	2.3	2.5
Real household disposable income per head, % change on previous year							
March 2024	0.5	0.1	1.7	0.8	0.8	1.3	na
October 2024	1.3	1.5	1.5	0.1	-0.3	0.4	0.7

[101] OBR, Economic and fiscal outlook – October 2024, 30 October 2024, Box 2.1 and Treasury, Autumn Budget 2024, 30 October 2024, page 22

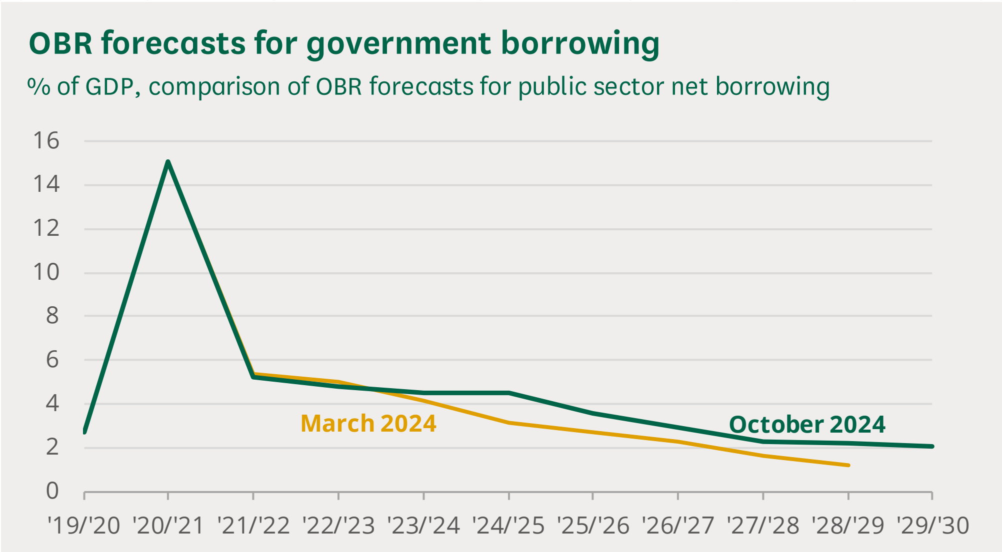
Notes: CPI is Consumer Prices Index, ILO is International Labour Organisation
Source: OBR, Economic and fiscal outlook – October 2024, 30 October 2024, table A.1 and detailed economic forecast tables, and Library calculations

4 OBR forecasts for the public finances

4.1 Government borrowing

When a government spends more than it raises from taxes and other sources (its receipts), it borrows money, mainly from financial institutions. This is sometimes referred to as the budget deficit.

The Office for Budget Responsibility (OBR) forecasts that government borrowing will increase from £122 billion in 2023/24 to £127 billion in 2024/25. Borrowing is then forecast to fall each financial year before it gets to £71 billion in 2029/30, the final year of the OBR's current forecast period. As the chart below shows, there is a similar pattern for borrowing as a percentage of GDP.



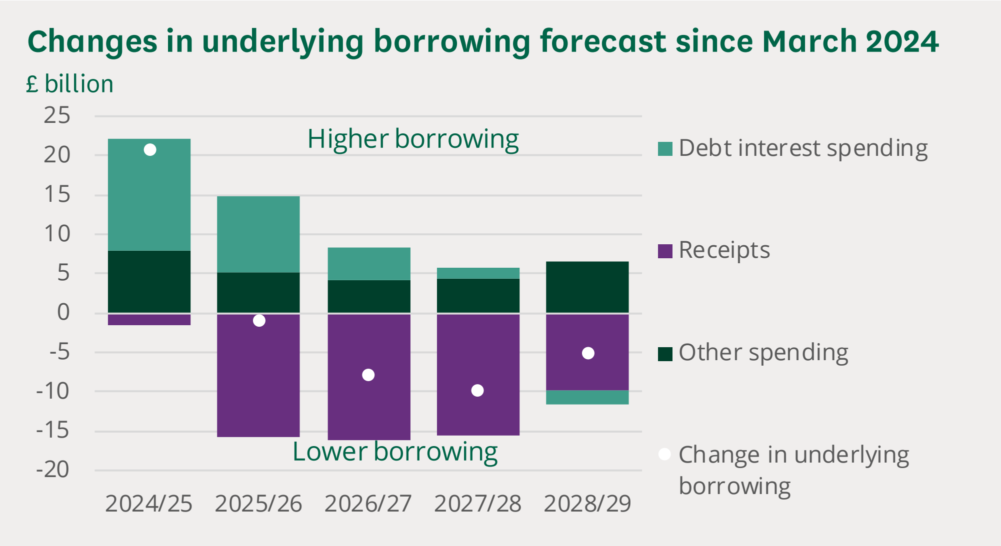
Source: OBR. Public finances databank – October 2024 and August 2024

The October 2024 forecast estimates that borrowing from 2024/25 will be on average £28 billion a year higher than the March 2024 forecast.

The underlying situation hasn't changed greatly

The OBR produces an 'underlying' forecast, which forecasts borrowing before the Chancellor's Autumn Budget policies are included. Its underlying borrowing forecast for 2024/25 is around £21 billion higher than the March 2024 forecast. This largely reflects higher debt interest spending.

In the subsequent four years, the underlying borrowing forecast is around £6 billion a year lower, on average, compared with the March 2024 forecast, as shown in the chart below.[102]



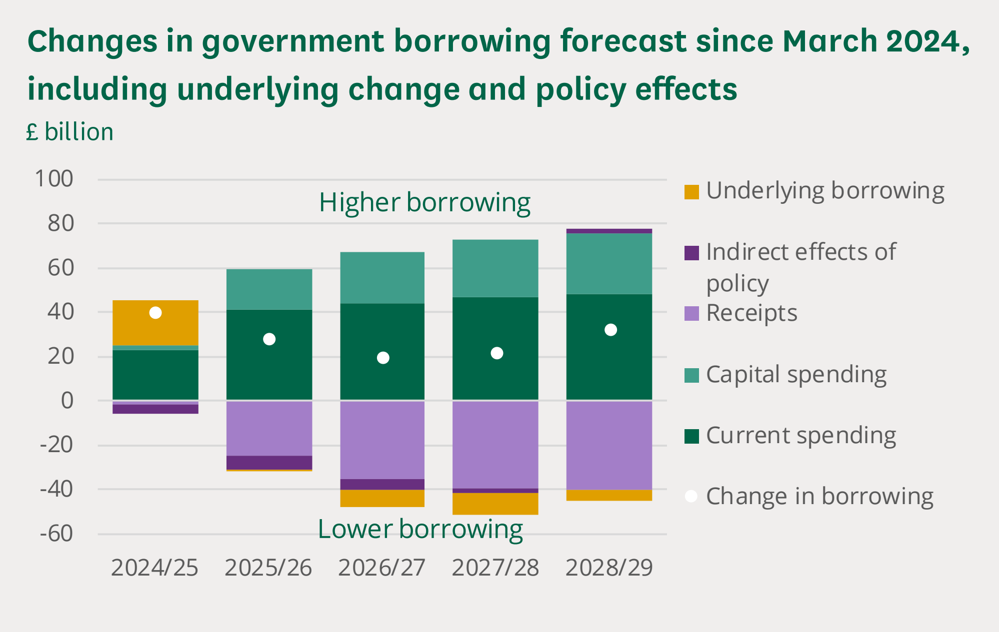
Source: Economic and fiscal outlook – October 2024, Table 6.1

The Chancellor has increased spending by taxing more and borrowing more

The Chancellor's policy measures (see section 1) increase spending by around £70 billion a year, on average, in the years after 2024/25. Roughly two-thirds of the additional spending is day-to-day spending (current spending) and around one-third is investment spending (capital spending).

As shown in the chart below, the Chancellor's tax measures increase forecast receipts by around £36 billion a year, on average. Over two-thirds of the additional revenues come from increases to employers' NICs.

[102] OBR. Economic and fiscal outlook – March 2024, Table 4.12



Source: Economic and fiscal outlook – October 2024, Table 6.1

4.2 Government debt

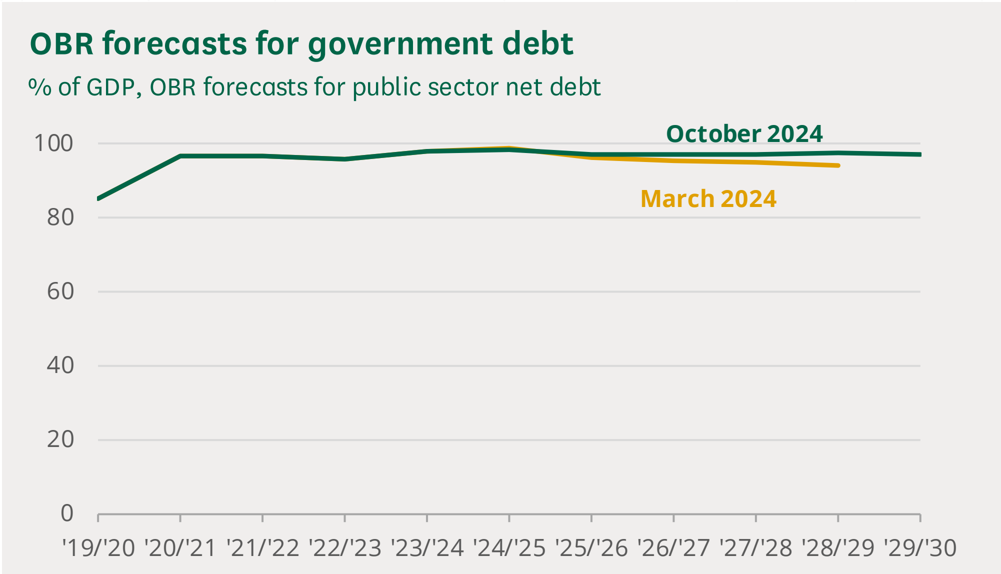
Government debt was equivalent to 97.8% of GDP at the end of 2023/24. On 30 October, the OBR forecast that it will increase to 98.4% at the end of 2024/25. It will then fall to around 97% in 2025/26 and remain around that level for the rest of the forecast period. This is shown in the chart below.

Government debt hasn't consistently been above 90% of GDP since the early 1960s, although it has occasionally been higher; it exceeded 200% of GDP following the Second World War.[103]

In the years after 2024/25, debt is higher in the OBR's October 2024 forecast than in its March 2024 forecast, as shown in the chart below. This is largely because of the additional borrowing from the Chancellor's policy measures announced in the Budget.[104]

103 OBR. Public finances databank – March 2024 (accessed on 6 March 2024)

104 OBR. Economic and fiscal outlook – October 2024, para 6.19



Source: OBR. Public finances databank – October 2024 and August 2024

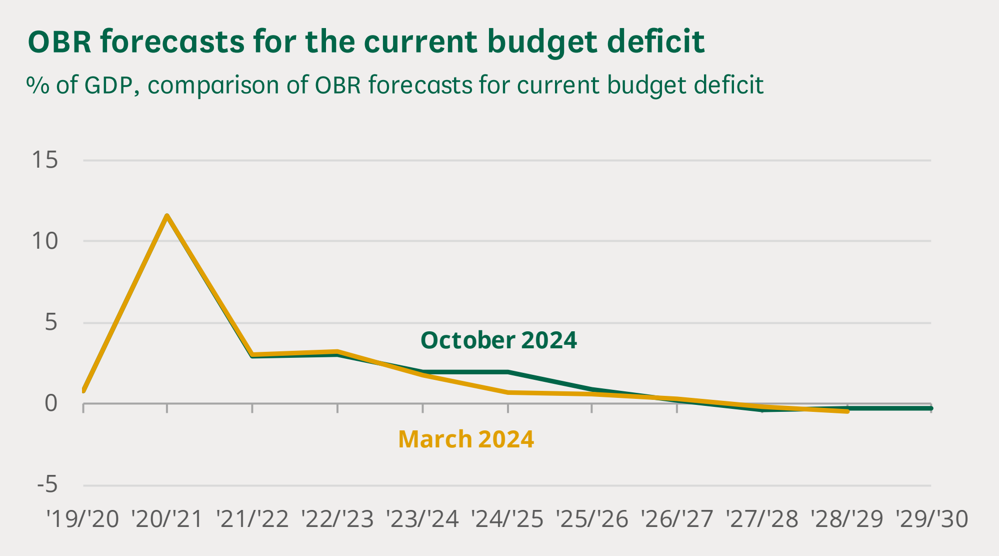
4.3 The Chancellor's fiscal targets

As we discuss in section 1.3, the Chancellor has proposed new targets for the public finances, often referred to as fiscal rules. The new fiscal rules will replace the current legislated rules once approved by the House of Commons.

Current budget balance rule

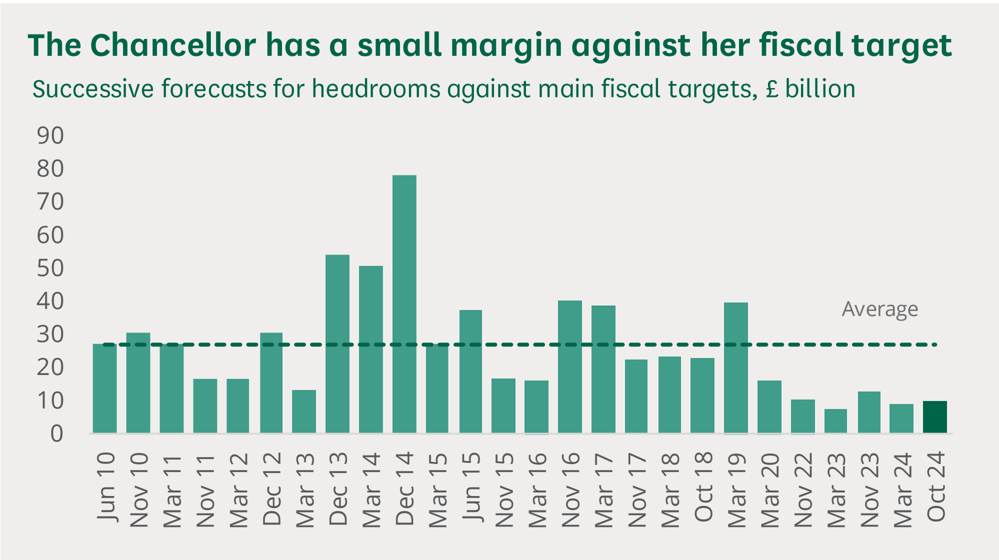
Labour's new fiscal rules say that the current budget must be in surplus in 2029/30 until 2029/30 becomes the third year of the forecast period. The government is forecast to meet this target by a margin of 0.3% of GDP (£9.9 billion) in 2029/30. The OBR says the probability of the target being met is 54%.[105] As the chart below shows, the current budget is forecast to reach a surplus in 2027/28, two years before the target year.

105 OBR. Economic and fiscal outlook – October 2024, para 7.5



Sources: OBR. Public finances databank – October 2024 and August 2024

The margin that the Chancellor has against her main fiscal target (the current budget rule) is relatively low compared with the margins that other Chancellors have had against their main fiscal targets since 2010. This is shown in the chart below.



Source: OBR. Economic and fiscal outlook – October 2024, Chart 7.3

Public sector net financial liabilities rule

The Chancellor's rule says that public sector net financial liabilities (PSNFL) should be falling as a share of the economy by 2029/30 until 2029/30 becomes the third year of the forecast period. It should then fall by the third year of the rolling forecast period.

The government is forecast to meet this target by a margin of 0.5 per cent of GDP (£15.7 billion) in 2029/30. The OBR says the probability of the target being met is 51%.[106]

4.4 Summary of OBR forecasts for the public finances

OBR forecasts: public finances

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Net borrowing (PSNB), £ billion							
March 2024	114.1	87.2	77.5	68.7	50.6	39.4	na
October 2024	121.9	127.5	105.6	88.5	72.2	71.9	70.6
Net borrowing (PSNB), % of GDP							
March 2024	4.2	3.1	2.7	2.3	1.6	1.2	na
October 2024	4.5	4.5	3.6	2.9	2.3	2.2	2.1
Current budget deficit, % of GDP							
March 2024	1.7	0.7	0.6	0.3	-0.2	-0.4	na
October 2024	1.9	2.0	0.9	0.2	-0.3	-0.3	-0.3
Public sector net financial liabilities (PSNFL), £ billion							
March 2024	2,297	2,392	2,475	2,554	2,614	2,665	na
October 2024	2,285	2,408	2,518	2,622	2,710	2,799	2,886
Public sector net financial liabilities (PSNFL), % of GDP							
March 2024	83.3	84.6	84.6	84.0	83.0	81.6	na
October 2024	82.8	83.5	83.8	84.2	84.1	83.9	83.4
Net debt (PSND), £ billion							
March 2024	2,691	2,793	2,820	2,903	2,995	3,078	na
October 2024	2,700	2,836	2,913	3,018	3,133	3,248	3,361
Net debt (PSND), % of GDP							
March 2024	97.6	98.8	96.4	95.5	95.1	94.3	na
October 2024	97.8	98.4	96.9	97.0	97.2	97.3	97.1
Net debt (PSND) excluding Bank of England, % of GDP							
March 2024	88.8	91.7	92.8	93.2	93.2	92.9	na
October 2024	88.9	91.8	93.1	94.4	95.1	95.6	95.8
Central government net debt interest, £ billion							
March 2024	104.7	89.0	88.9	96.2	103.0	109.6	na
October 2024	106.7	104.9	105.7	108.2	112.9	117.9	122.2

Notes: March 2024 PSNFL forecast are restated to capture the effects of APF sales & redemption losses

[106] OBR. Economic and fiscal outlook – October 2024, para 7.5

5 What happens next?

5.1 Debate, resolutions and the Finance Bill

Immediately after the Budget statement, the Chancellor moved motions under the Provisional Collection of Taxes Act (PCTA) 1968, so that changes to VAT, stamp duty land tax and tobacco duties could take effect on 30 October (see section 2.1). The motion was agreed to without a vote.

The Chancellor moved the first of 62 'ways and means resolutions' (PDF), on which the Budget debate will take place until 6 November. Therefore, formally, the debate will take place under this first motion: "that income tax is charged for the tax year 2025-26". The debate began in the House of Commons with a speech from the Leader of the Opposition. At the end of the Budget debate, MPs will be asked to vote on each of the resolutions.

Although the debate formally occurs on the first of the ways and means resolutions, the debate also relates to other parts of the Budget. Debates are usually structured around themes, and parliamentary procedure allows for a debate "on the broadest lines" .

Each resolution relates to a specific tax proposal. Resolutions that the House agrees to will then be incorporated in the Finance Bill 2024-25, which will give them permanent legal effect.

Under the terms of PCTA 1968, the resolutions need to be approved by the Commons within 10 sitting days of the Budget. Usually, MPs will only vote on some of these resolutions, reflecting the most controversial aspects of the Budget; the rest will pass unopposed.

The Finance Bill 2024-25 may also cover other matters relating to the administration of the tax system.

There is further information about the process and Parliament's role in the following:

- House of Commons Library, What is the Budget? 23 October 2024
- House of Commons Library, The Budget and the annual Finance Bill, 15 August 2024
- UK Parliament, MPs' Guide to Procedure: Budget and Finance Bill

5.2 National Insurance contributions (NICs)

In her statement, the Chancellor announced an increase in the main rate of NICs paid by employers and reduced the threshold at which they start paying NICs. The Chancellor also announced an increase in the employment allowance, which allows employers to deduct a certain amount from their employer NICs bills.

Separate legislation will be required to give effect to these changes.

Why do changes to NICs require a separate bill?

The Finance Bill's remit specifically excludes any tax that does not raise money for financing central government as a whole. The Finance Bill therefore cannot include provisions relating to NICs, as receipts are collated in the National Insurance Fund. The National Insurance Fund is separate from central government spending.

Similarly, the Finance Bill cannot impose a charge to finance other bodies in the public sector (such as local authorities), or to authorise borrowing.

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