INTERNATIONAL MONETARY FUND

Public Spending Pressures in the UK

United Kingdom

Andrew Hodge

SIP/2024/029

***IMF Selected Issues Papers* are prepared by IMF staff as background documentation for periodic consultations with member countries.** It is based on the information available at the time it was completed on June 14, 2024. This paper is also published separately as IMF Country Report No 24/204.

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SELECTED ISSUES PAPERS

Public Spending Pressures in the UK

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PUBLIC SPENDING PRESSURES IN THE UK[1]

This paper characterizes UK public spending pressures over a ten-year horizon and their implications for public deficits and debt levels. The analysis is based on a 'bottom-up' scenario for total public expenditure, that includes, inter alia, implementation of the NHS Long-Term Workforce Plan, public investment to support the Balanced Pathway to Net Zero, and state pension spending under the Triple Lock policy. This scenario is approximately consistent with IMF staff's baseline projection for the medium term (to FY2029/30) shown in the 2024 Article IV consultation staff report, which assumes real growth in Departmental Expenditure Limits (DEL) of two percent per year after FY2024/25. Assuming revenue stabilizes in FY2028/29 at the level projected by IMF staff (40.8 percent of GDP), public debt does not stabilize over ten years, reaching 101.3 percent of GDP by FY2034/35. Stabilizing debt will require the primary balance to be 0.8–1.4 ppts of GDP higher per year (on average after FY2024/25), depending on the time horizon for stabilization (5 or 10 years) and the target probability of debt stabilization (50 or 75 percent).

A. Introduction

1. **The UK faces mounting pressures on public services as well as having critical public investment needs, including for the green transition**. At the same time, the UK does not have detailed spending projections after FY2024/25, which is the end of the period covered by the 2021 spending review. The government currently assumes real spending growth of current spending (RDEL) of one percent per year during FY2025/26–FY2028/29, while the capital budget (CDEL) is flat in nominal terms.[2] These assumptions are facing increasing scrutiny, given that it is unclear how the mounting pressures can be accommodated within *these* parameters.

2. **In this project, the drivers of these spending pressures are identified and quantified, through a breakdown of spending into the various 'functions' of government (see Annex Tables I.1 & I.2 for further details).** A functional breakdown of spending rather than a departmental breakdown keeps the analysis tractable because spending in particular areas (e.g., education) can be delivered by more than one central government department, devolved administration, or local government. A functional approach also makes it easier to incorporate estimates of future spending needs already in the literature (particularly for health and pensions). The focus is medium to long term, encompassing the decade to FY2034/35. This window is chosen to be long enough to capture some of the longer-term spending trends, but short enough to be relevant for current policy discussions.

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[1] by Andrew Hodge (EUR).

[2] Departmental Expenditure Limits (DEL) account for around two-fifths of public sector Total Managed Expenditure (TME). DEL were set at the 2021 Spending Review until FY2024/25 but grow at the assumed rate thereafter. The remainder of public expenditure is Actively Managed Expenditure (AME), which included interest payments, pension, and other welfare spending, that cannot be as easily pre-planned. The sum of DEL and AME is Total Managed Expenditure (TME).

3. The analysis is based on a scenario for total public spending generated using bottom-up projections that is approximately consistent with IMF staff's medium-term baseline (to FY2029/30, presented in the 2024 Article IV Consultation Staff Report) and assessment of which spending needs are most critical and likely to be accommodated.

4. The main drivers of spending are found in health (including social care), education, and social protection (state pension and welfare), reflecting pressures on public services, including because of ageing, while pressures also appear in housing and transport due to investment needs, including for the green transition. Although these are the main drivers, the project encompasses all of the main functions of government, including defense and public safety.

5. While estimates of spending needs in selected areas (notably health, pensions) already exist in the literature, a key contribution of this project is to illustrate how pressures across the full spectrum of functional spending combine within an aggregate spending envelope, showing the difficult decisions of spending prioritization that would be needed to stabilize public debt, unless additional revenue raising measures are implemented.

B. Historical Spending Trends

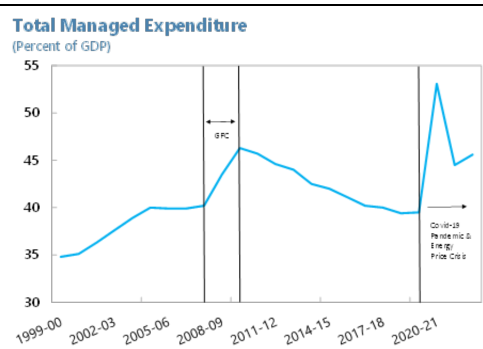
6. The UK has experienced several distinct trends in public spending over the past two decades (see Appendix table A3 for historical data on Total Managed Expenditure (TME) by functional classification to FY2022/23):

- First, there is the **upscaling of public spending on services** in the **early 2000's**. After declining in the early to mid-1990's, public spending (TME) rose by approximately 5 ppts of GDP between FY1999/00 and FY2007/08. In part, this reflected deliberate government policy to invest in public services. Most notably, this included health, which increased by around 2 ppts of GDP, to 6½ percent of GDP by FY2007/08, accompanied by a one percentage point of GDP increase in education spending and a ½ percent of GDP increase on transport, while spending on housing doubled in percent of GDP from 0.4 to 0.8 percent.

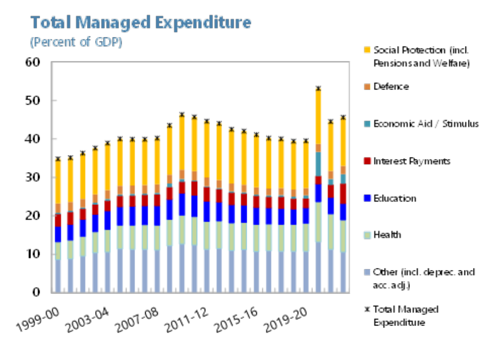
- Second, there was a sharp surge of public spending in the period following the **Global Financial Crisis (GFC)**, including due to automatic stabilizers as the economy contracted. TME rose by 6 percent of GDP between FY2007/08 and FY2010/11, reaching a level that was approximately 11 ppts higher than it was a decade earlier.

- Third, the election of the Coalition Government in 2010 began a period widely characterized as **'austerity'**, during which TME declined by around 5 ppts of GDP to its pre-GFC level of 40 percent by FY2019/20. While spending on health declined over the decade by less than ½ percent of GDP and transport spending even slightly increased, education spending declined by 1½ ppts of GDP to end the decade 1 full percentage point of GDP below its FY2007/08 level. Defence spending also declined to be roughly 1¾ percent of GDP in FY2018/19, about ½ percent of GDP below its pre-GFC level. Welfare spending (excluding the state pension) declined steeply back to its late 1990's level over the decade to FY2019/20 (chart below), with annual increases in benefit levels capped at 1 percent from 2014 and then frozen from 2016. Pension spending also declined but less dramatically. After being relatively stable throughout the late 1980's and 1990's at around 4½ percent of GDP, state pension spending rose during the 2000's to be 5½ percent of GDP in the early 2010's, which the OBR attributes to the ageing population, generous 'uprating' (likely including the introduction of the 'triple lock' policy in 2011) and the decline in nominal GDP and sluggish recovery associated with the 2009 recession. Increases in the state pension eligibility age in the late 2010's caused pension spending to decline to around 5 percent of GDP in FY2019/20.

- Finally, the **pandemic and energy price crisis** caused another spike in TME, of over 13 ppts. to 53 percent of GDP in FY2020/21, with large amounts of discretionary relief given to consumers and firms (around 6 ppts of GDP), appearing in the functional category of 'economic affairs'. Spending on health increased by around 3 ppts of GDP the same year and spending on non-pension benefits also rose sharply. Given the higher borrowing and rise in interest rates, interest payments have risen by 2½ percent of GDP more recently to approximately 5 percent of GDP in FY2022/23, while spending on 'public and common services' has increased, which includes external affairs.



Source: HM Treasury.



Source: HM Treasury.

C. The Spending Scenario in Detail

7. While the scenario is constructed from bottom-up projections across spending functions, it is approximately consistent with IMF staff' medium-term baseline (shown in the 2024 Article IV Staff Report), which assumes that spending will rise by 2 percent per year in real terms (both current (RDEL) and capital spending (CDEL)) until FY2028/29, while non-interest AME will rise with population growth and inflation on average. Spending growth would then continue at a similar pace until FY2034/35. The detailed functional breakdown of spending in the scenario illustrates that it encapsulates high priority spending on the state pension, health, social care, housing, and education, at least in the medium term, which defence spending is assumed to reach 2½ percent of GDP per year. The scenario is also consistent with increased investment in the green transition, although it may need to be prioritized over other capital expenditure. Beyond these main drivers, the projections assume that most other drivers of spending remain constant in percent of

GDP. Each of the major drivers are explained in detail below. Assumptions for every functional spending area are presented in *Text Table 1, with the implied spending levels in Text Tables 2–3*.

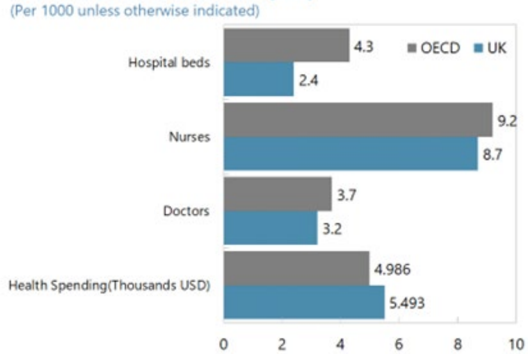
Health

8. There are acute pressures on health spending in the UK. NHS staff vacancy rates are elevated, while (albeit imperfect) metrics of resource adequacy are below that of peer countries, including the number of hospital beds, doctors and nurses per capita (see chart below). Simultaneously, the percentage of the population reporting that they are disabled (including with mental illness) is higher than in many peer countries, suggesting additional strain on the health system. It should be noted, however, that health outcomes (such as child mortality, stroke and cancer survival rates etc) in the UK remain close to the OECD average.

9. In order to address the strains on the health system, the NHS has presented a Long-Term Workforce Plan that aims to address staffing shortages, by (i) a 27 percent expansion of training places by FY2028–29 for medical personnel, including doctors and nurses; and (ii) attempts to reduce attrition by allowing retirees to return to work while still accessing their pensions. This would reduce reliance on migrant workers and the NHS workforce would grow by around 2½–3 percent per year, increasing total NHS staff numbers from 1.4 million in FY2021–22 to 2.2–2.3 million in FY2036–27.

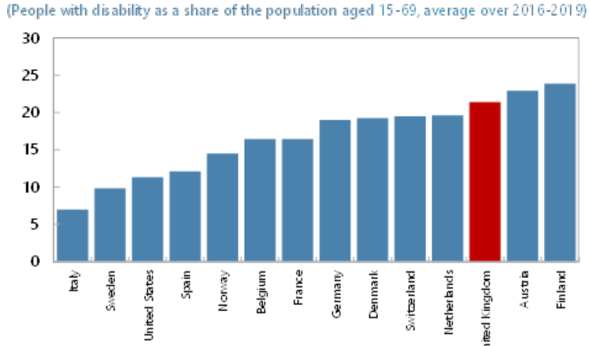
10. In its 2023 Green Budget, the Institute of Fiscal Studies (IFS) estimates that annual NHS budget increases of around 3.6 percent per year in real terms (or 70 percent in total by FY2036–37), in line with the long-run average real-terms growth rate in UK health spending (3.6 percent per year from FY1949–50 to FY2022–23, although only 2.4 percent since 2009), would be sufficient to fund the Long-Term Workforce Plan, under the ambitious assumption that annual labor force productivity in the health system would grow by 1½–2 percent. This would imply that health spending rises by 1¾ ppts points of GDP between FY2025/26 and FY2034/35. This is assumed in the spending scenario.

Measures of Resource Adequacy
(Per 1000 unless otherwise indicated)



Sources: OECD(2023).

Disability Prevalence
(People with disability as a share of the population aged 15-69, average over 2016-2019)

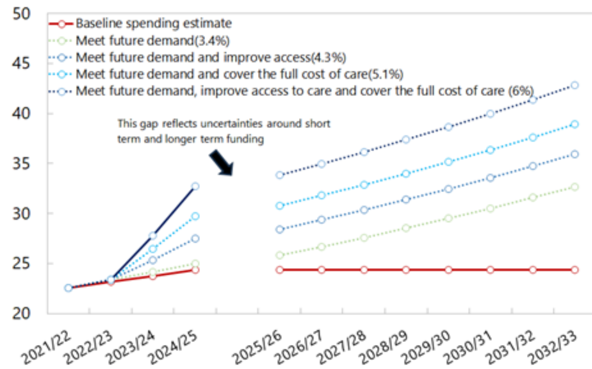


Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) for European countries.

Social Care

11. In contrast to the universal NHS, social care (including care in the home for the elderly, disabled etc) is provided by local governments and is means tested. In September 2023, the UK Health Foundation estimated that growth of 3½ percent per year in real terms over the next decade is needed simply to keep up with demand, which rises to 4.3 percent per year in real terms to expand access, as is assumed in the spending scenario.

Social Care Funding Needs
(Billions of constant FY 2022/23 pounds)



Sources: Health Foundation.

Housing

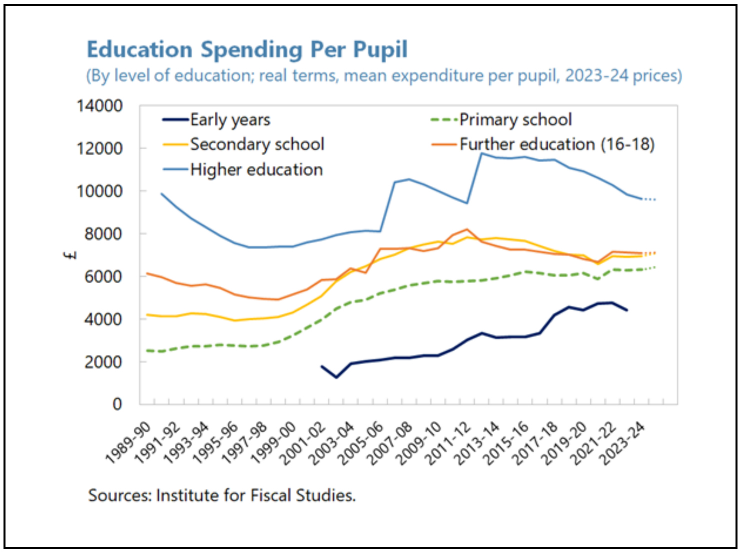
12. Funding for affordable (public) housing was reduced after 2010, with spending on housing and communities[3] cut by 32 percent in real terms between FY2010/11 and FY2015/16, followed by some recovery such that spending in FY2022/23 was 1.7 percent above the FY2010/11 level in real terms. Research commissioned by the National Housing Federation (2019) estimated that an additional 145,000 social / affordable homes are needed per year, which will require public housing construction, to contribute to an estimated 380,000 new homes required per year to alleviate the housing need of 3.9 million households over 15 years. The spending scenario assumes annual real growth of 5 percent (2018–23 average) to meet demand, although the precise amount of funding needed is uncertain. Spending on housing grew by an average annual amount of 11 percent in real terms during 2000-2010.

Education

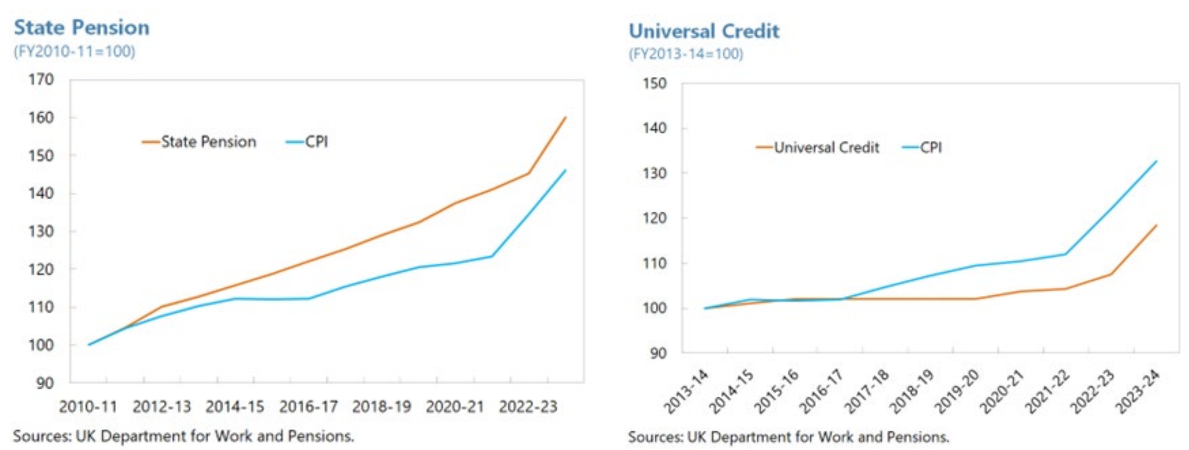
13. There have been recent increases in schools funding that are set to boost overall education spending to around 4½ percent of GDP in FY2024/25, from 4 percent of GDP in FY2019/20. This increase seems warranted, given that there was a gradual decline in funding per pupil in secondary and further/ vocational education between FY2010/11 and FY2019/20, as well as

[3] Most public spending on Housing and Communities occurs via the Department for Leveling Up, Housing and Communities.

a sharper decline in higher education funding per pupil, all in real terms (chart below). There are also well-reported capital spending needs for schools. The scenario assumes that education spending remains at 4½ percent of GDP per year until FY2029/30 but declines thereafter as the ageing of the population implies declining pupil numbers (a 9 percent decline in total primary school student numbers is expected in England by 2028, while absolute numbers of secondary school students are expected to begin to decline after 2025, according to the UK Department for Education's 2023 projections). Primary and secondary schooling account for around 80 percent of education spending.



Uprating of State Pension and Other Welfare Benefits (e.g. Universal Credit)



State Pension (Within the Functional Category of Social Projection)

14. Given the importance of pension obligations and the bipartisan commitment to the 'Triple Lock', pensions are assumed to rise in the spending scenario in line with the OBR's January 2024 projection for state pension spending, implying that it will rise to around 150 billion pounds by

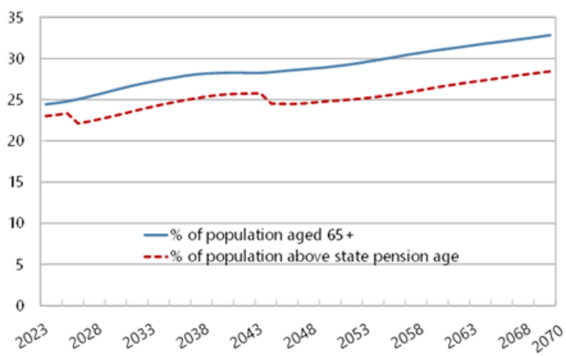
FY2027/28, taking into account (i) the ageing of the population, with the ratio of the working age to retired population to decline from four-to -one to three-to one by 2050, despite higher migration (245,000 net migration in steady state is assumed), which affects the growth in the number of pension recipients; (ii) the increase in the State Pension age to 67 during 2026–28, which will have a partly offsetting impact on growth of pension beneficiaries; and (iii) the Triple Lock, by which pension spending is set to grow by the rate of average wage growth, which is assumed to exceed both the inflation rate and the floor of 2.5 percent, under the policy. The net impact of these factors is that spending on the state pension rises from 4.8 percent of GDP in FY2022/23 to 5.6 percent of GDP by FY2034/35.

Ageing and the State Pension

With a State Pension Age of 66, the UK already has among the highest retirement ages of other advanced economies. The Basic State Pension (as share of median full-time earnings) has risen since the Triple Lock's introduction in 2010 by over two ppts. The 'new state pension' is available to those reaching State Pension Age (SPA) after 2016. Others receive the Basic State Pension.

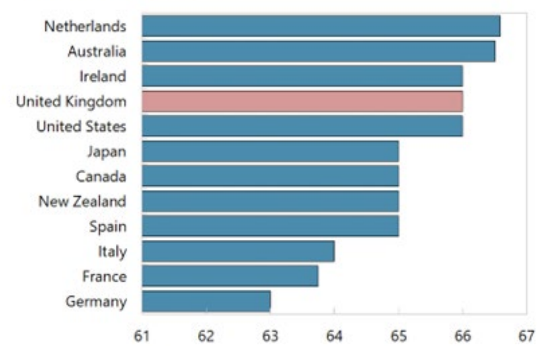
Share of Population Above State Pension Age

(Percentage of adult population (age 20+))



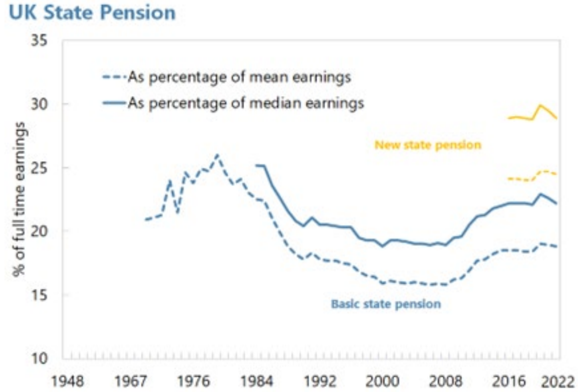
Sources: Institute of Fiscal Studies; and ONS.

Normal Retirement Age



Sources: Institute of Fiscal Studies; and OECD.

UK State Pension



Sources: Institute of Fiscal Studies and Department for Work and Pensions.

Public Investment and the Green Transition

15. The spending scenario is consistent with capital spending (CDEL) rising by 2 percent per year in real terms from FY2025/26-FY2028/29, as in staff's baseline and then to grow by 1½–2 percent per year in real terms from FY2029/30–FY2034/35. This implies CDEL rising from around 3½ percent of GDP in FY2024/25 to around 3¾ percent of GDP by FY2034/35. There are well reported capital spending needs in health, education, transport, but also for the green transition. Distributing projected CDEL spending across functional areas is challenging because it can be spread across many departments. Nonetheless, the scenario implicitly accommodates capital spending in several key areas:

- **Climate.** The Climate Change Committee's (CCC) Balanced Pathway to Net Zero implies that annual public investment in the green transition will need to increase by £5–10 billion by 2030.[4] This could be accommodated within the projected path of CDEL, which rises from £99 billion in FY2024/25 to £122 billion by FY2029/30. This spending will be spread across several departments, including the Departments of Energy Security and Net Zero and the Departments of Environment, Food and Rural Affairs.

- **Transport (road, rail, and public transport)** The recent increase in transport spending to 2 percent of GDP in FY2024/25 is assumed to be maintained to FY2029/30, before a gradual decline. This incorporates both RDEL and CDEL and thus could accommodate an increase in capital spending.

16. The rise of CDEL spending could also accommodate increased capital spending on health and education facilities, as is widely reported to be necessary, although the precise amount of necessary spending is highly uncertain. Outside of these key areas, prioritization would be necessary in the spending scenario.

Other Drivers

17. Defence spending will be 2–2½ percent of GDP in FY2024/25, according to budget data, so it is assumed to rise to 2½ percent of GDP, in line with government commitments. General Public Services spending (public and common services), which includes external affairs, is currently around 2¼ percent of GDP, higher than at any point in the past two decades. Assuming the Ukraine emergency is resolved, spending in this area is assumed to decline gradually after FY2029/30 back to the FY2010–19 average of 0.6 percent of GDP.

[4] In its report accompanying the Sixth Carbon Budget, the CCC recommend whole-of-economy investment in the green transition of £50 billion by 2030. Staff assess that a public contribution of around one third would be reasonable.

Table 1. United Kingdom: Assumptions: Scenario for TME FY2025/26–FY2034/35	
Aggregate spending (consistent with functional assumptions below)	RDEL real growth of 2 percent p/a to FY2029/30 then 1½–2 percent p/a; CDEL 2 percent p/a real growth to FY2029/30 then 1½–2 percent p/a; AME rises with population growth and inflation on average over time;
Functional exp. assumptions	
Main Drivers:	
Health	Real growth of 3½ percent p/a all years to fund NHS workforce plan;
Education	Following recent increases, maintain at 4½ percent GDP until FY2029/30, then decline to 4 percent GDP as student numbers fall
Social Protection *Of which:*	
State Pension	Increase in line with OBR 2023 MT estimates, adjusted for 1yr rise of retirement age FY2026/27
Social Care	Real growth of 4.3 percent p/a all years to meet demand & improve access (Health Foundation est.)
Other Social Protection (incl. benefits)	Rise with population growth and inflation in all years
Housing and Community Amenities	5 percent real growth (2028–23 avge) p/a to meet demand for social homes. Constant in percent of GDP after FY2029/30
Transport	After recent increases, maintain at 2 percent GDP until FY2029/30, then at FY2028–23 average of 1.8 percent GDP
Environmental Protection	Maintain current poercent GDP (0.4-0.5)
Other Drivers:	
Defence	2½ percent GDP per year
Public Order & Safety	Maintain 2010–19 avge (percent GDP)
General Public Services (including ODA and Ukraine aid)	Maintain percent GDP until FY2028/29 then gradually return to 2010–19 average
Economic Affairs (including Sc. & Tech; Economic Aid (energy crisis); agriculture & fisheries;	Return economic aid to 2010–19 avge by FY2029/30; maintain others in percent GDP
Recreation, culture and religion	Maintain in percent GDP.
NB: **Interest Payments**	Projected interest payments are consistent with the evolution of primary spending and debt in each scenario, computed using the IMF's Debt Sustainability Analysis Tools.

Table 2. United Kingdom: Scenario—Detailed Spending Projections by Function

Central Spending Scenario (% GDP)	Actual Data					Budget Data		Projections										
	2018-19 outturn	2019-20 outturn	2020-21 outturn	2021-22 outturn	2022-23 outturn	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
1. General public services	3.7	3.6	3.4	4.7	6.5	6.7	6.2	5.7	5.8	5.9	6.0	5.8	5.3	5.2	5.1	5.1	5.0
of which: public and common services	*0.6*	*0.6*	*0.9*	*1.2*	*1.1*	1.8	2.0	1.8	1.8	1.8	1.8	1.6	0.9	0.8	0.7	0.6	0.5
of which: international services	*0.5*	*0.5*	*0.5*	*0.4*	*0.3*	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
of which: public sector debt interest	*2.6*	*2.4*	*2.0*	*3.2*	*5.1*	4.5	3.9	3.6	3.7	3.8	3.9	3.9	4.0	4.1	4.1	4.2	4.2
2. Defence	1.8	1.9	2.1	2.1	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
3. Public order and safety	1.5	1.5	1.9	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
4. Economic affairs	2.8	3.0	9.4	4.2	4.9	3.7	3.5	3.4	3.3	3.3	3.2	3.1	2.9	2.9	2.9	2.9	2.9
of which: enterprise and economic development	*0.6*	*0.8*	*6.3*	*1.6*	*2.5*	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
of which: science and technology	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
of which: employment policies	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
of which: agriculture, fisheries and forestry	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
of which: transport	*1.5*	*1.5*	*2.4*	*1.9*	*1.7*	2.2	2.0	2.0	2.0	2.0	2.0	2.0	1.8	1.8	1.8	1.8	1.8
5. Environment protection	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
6. Housing and community amenities	0.6	0.6	0.7	0.7	0.7	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
7. Health	7.0	7.3	10.5	9.2	8.4	8.4	8.4	8.6	8.7	8.9	9.0	9.2	9.4	9.6	9.8	10.0	10.2
8. Recreation, culture and religion	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
9. Education	4.0	4.0	4.6	4.3	4.2	4.5	4.4	4.5	4.5	4.5	4.5	4.6	4.6	4.4	4.3	4.2	4.0
10. Social protection	12.6	12.3	14.4	12.8	12.6	12.5	12.4	12.4	11.9	11.9	11.9	12.0	12.0	12.1	12.1	12.2	12.3
Of which pensions (incl. winter fuel payment & other benefits)					4.8	5.3	5.3	5.3	4.9	5.0	5.0	5.1	5.2	5.3	5.4	5.5	5.6
Of which: Social Care					0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2
Of which: other (incl. welfare benefits)					6.7	6.3	6.2	6.1	6.0	6.0	5.9	5.8	5.8	5.7	5.7	5.6	5.5
EU transactions	0.4	0.3	0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Public sector expenditure on services	35.5	35.5	48.5	40.8	42.2	41.6	40.8	40.7	40.3	40.5	40.7	40.7	40.2	40.3	40.3	40.4	40.5
Accounting adjustments	3.9	4.0	4.6	3.7	3.5	3.2	3.1	3.1	3.3	3.0	2.9	2.8	2.7	2.6	2.5	2.4	2.4
Total Managed Expenditure	39.4	39.5	53.1	44.5	45.6	44.8	44.0	**43.7**	**43.6**	**43.5**	**43.5**	**43.5**	**42.9**	**42.9**	**42.8**	**42.8**	**42.8**

Table 3. United Kingdom: Scenario—Implications for Fiscal Aggregates

								Projections									
Implications for Fiscal Aggregates (% GDP)	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Revenue				39.0	40.3	40.6	40.4	40.7	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8
Interest Revenue				1.1	1.2	1.5	1.6	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Primary Revenue				37.9	39.1	39.1	38.9	39.3	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5
Primary Expenditure				40.9	40.2	40.3	40.0	40.1	39.9	39.7	39.7	39.6	38.9	38.8	38.7	38.6	38.6
Interest Payments				3.2	5.0	4.5	3.9	3.6	3.7	3.8	3.9	3.9	4.0	4.1	4.1	4.2	4.2
Total Expenditure				44.1	45.2	44.8	44.0	43.7	43.6	43.5	43.5	43.5	42.9	42.9	42.8	42.8	42.8
Primary Balance					-1.1	-1.2	-1.2	-0.8	-0.4	-0.2	-0.2	-0.1	0.6	0.7	0.8	0.9	0.9
PSNB				5.1	4.9	4.2	3.5	3.1	2.9	2.7	2.7	2.7	2.1	2.1	2.0	2.0	2.0
SFA				0.0	2.9	3.0	2.1	1.6	1.6	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7
PSND (Excl. BoE)				0.0	84.7	89.4	92.1	93.5	94.9	96.1	97.5	98.6	99.2	99.8	100.3	100.8	101.3
Nominal GDP (£bns)	2,174	2,245	2,085	2,362	2,553	2,715	2,777	2,873	2,978	3,087	3,202	3,311	3,420	3,533	3,650	3,770	3,895
Nominal GDP (% Ch)	3.6	3.3	-7.1	13.3	8.1	6.3	2.3	3.5	3.6	3.7	3.7	3.4	3.3	3.3	3.3	3.3	3.3
Real GDP (% Ch.)	1.2	0.9	-11.6	13.6	1.7	0.1	0.9	1.6	1.7	1.6	1.6	1.2	1.3	1.3	1.3	1.3	1.3
GDP Deflator (% Ch)	2.1	2.4	5.4	-0.8	6.8	6.1	1.3	1.8	2.0	2.0	2.0	2.1	2.0	2.0	2.0	2.0	2.0

D. Macro-Fiscal Implications

18. In order to study the macro-fiscal implications of the spending scenario, the projections for primary expenditure and interest payments are combined with the IMF staff's baseline revenue projection (shown in the 2024 Article IV Staff Report), which implies that revenue rises to 40.8 percent of GDP by FY2028/29, on account of fiscal drag associated with frozen personal income tax thresholds (although uprating of fuel duty is not assumed). Revenue is projected to remain unchanged at this level (in percent of GDP) between FY2028/29 and FY2034/35, for the purpose of the scenario.

19. The projected primary balance and Public Sector Net Borrowing (PSNB) implied by the above calculations are translated into a projection for Public Sector Net Debt (PSND) (excl. BoE), using the stock flow adjustments implied by the OBR's 2024 Spring Budget projections until FY2028/29 and then assuming that annual stock flow adjustments remain unchanged as a share of GDP each year thereafter until FY2034/35. See Text Table 3 above for these projections.

Implication of Spending Scenario for Fiscal Aggregates

(NB: Revenue Rises to 40.8 Percent GDP by FY2028/29 and then Stabilizes)

20. Primary expenditure declines over the ten-year projection horizon, consistent with AME spending declining as a share of GDP, as assumed in staff's baseline projections. Although this scenario is consistent with real growth of 2 percent per year in current and capital planned spending (RDEL and CDEL) over the medium-term and similar growth from FY2029/30, other spending (i.e. AME, which is 60 percent of total spending, including non-pension welfare) rises at a slower pace, growing approximately in line with the rate of population growth and projected inflation over the ten-year horizon on average.[5]These assumptions imply that AME grows more slowly than nominal GDP, given that the rate of population growth is slower than staff's medium-to-long term assumed rate of potential growth (1.3 percent), which is projected to prevail after FY2029/30 until FY2034/25.

21. Given declining primary expenditure, partly offset by interest payments that rise gradually to 4¼ percent, Public Sector Net Borrowing (PSNB) declines to approximately 2 percent of GDP by FY2031/32, but falls no further, so that Public Sector Net Debt (PSND) (ex BoE) does not stabilize over the ten-year horizon and increases to 101.3 percent of GDP by FY2034/35.

Fiscal Adjustment to Stabilize Debt

22. Additional fiscal effort will be required to stabilize debt and could involve a combination of revenue-raising measures and spending reform, including indexation of pensions to the cost of living, in place of the Triple Lock (see Annex IV, 2023 IMF Article IV Staff Report for suggested measures). Credible efficiency increasing measures could also be considered, by harnessing AI and digitalization in service delivery and administration.

23. Text Table 4 (below) shows the average annual amount by which the primary balance must be higher (i.e., the additional fiscal effort) in order to stabilize debt under several adjustment paths which differ according to: (i) the horizon over which debt is stabilized; and (ii) the desired probability with which debt is projected to stabilize given uncertainty about growth, inflation, exchange rates and interest rates.

24. In each case, the additional fiscal effort is assumed to take the form of higher revenue, modeled as a uniform increase in the elasticity of nominal revenue to GDP growth over the time horizon for debt stabilization, which would be generated by some combination of revenue measures (not specified). The calculation takes into account the impact of stabilizing debt on interest payments, but is otherwise a partial equilibrium exercise, in the sense that the impact of additional fiscal effort on growth, inflation, interest rates and exchange rates is assumed to be zero.

25. Stabilizing debt over five years requires the annual primary balance to be 0.8 ppts. of GDP per year higher on average (Adj. Path 1) (see Text Table 4). Increasing the probability with which debt is projected to stabilize over five years, to 75 percent, raises the amount by which the annual primary balance must be higher from 0.8 to 1.2 ppts. per year on average, but reduces risks

[5]Population growth is assumed to follow the ONS January 2023 projections until FY2028/29. Inflation is projected to evolve according to staff's baseline projections until FY2025/26, when it returns to the two percent inflation target, where it is assumed to remain thereafter.

to fiscal sustainability (Adj. Path 2). Stabilizing debt over a longer horizon and with a high probability (75 percent) requires the primary balance to be 1.4 ppts. of GDP per year higher on average (Adj. Path 3).

26. As a final step, the exercise is extended to allow the additional fiscal effort to have feedback effects on economic growth and fiscal aggregates. Fiscal adjustment is estimated to reduce the level of real GDP by 1¾–2 ppts per year by FY2029/30, depending on the probability with which debt is projected to stabilize. Incorporating the effect of lower output on revenues, and on the GDP denominator for the debt ratio, would raise the required fiscal effort by an additional 0.35–0.4 ppts. of GDP per year approximately, in order to stabilize debt within five years.

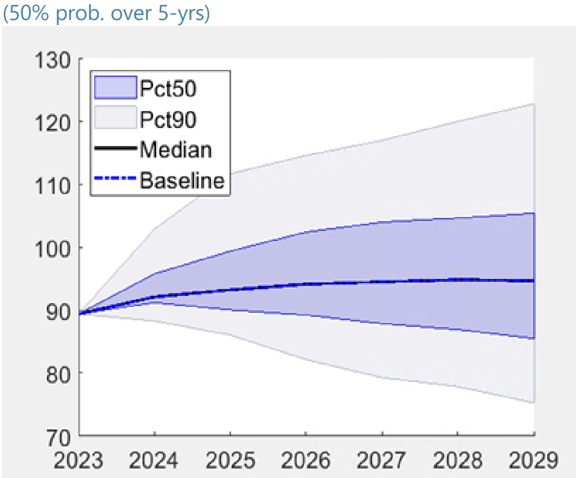
Concluding Note

27. The amount of fiscal effort required to stabilize debt is significant, on all the adjustment paths shown. While the additional fiscal effort was modeled as deriving from higher revenue in this paper, reducing spending (in percent of GDP) is also an option. This will require difficult choices about the level of taxation and spending priorities. Savings may also be achieved via improvements in the productivity of the public sector, although these are difficult to quantify ex ante.

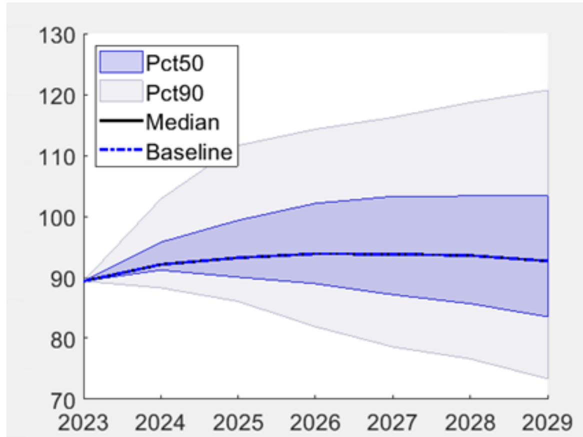
28. Stabilizing public debt would be more challenging if spending pressures were more acute than presented in this paper. In order to illustrate this, a higher spending scenario is considered which aims to approximate an upper bound for spending needs. For further details, see Annex Two.

Figure 1. Public Debt (excl. BoE) Under Fiscal Adjustment Paths

Path 1
(50% prob. over 5-yrs)



Path 2
(75% prob. over 5-yrs)



Path 3
(75% prob. over 10-yrs)

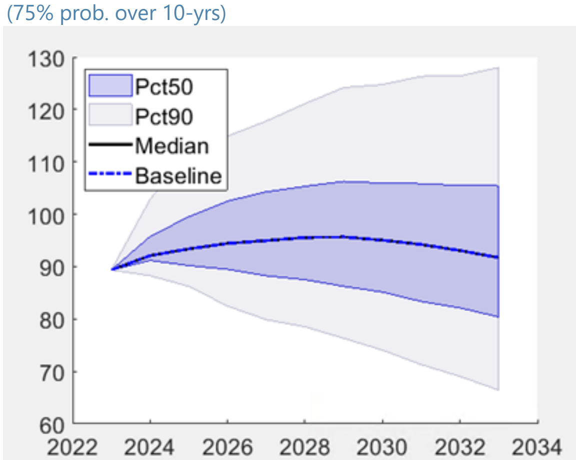


Table 4. United Kingdom: Fiscal Effort to achieve Debt Stabilization: Adjustment Paths (ppts. of GDP)

	Path 1 *(50% prob. over 5-yrs)*	*Path 2* *(**75**% prob. over 5-yrs)*	*Path 3* *(**75%** prob. over **10**-yrs)*
Average annual excess public sector primary balance *relative to staff's baseline*	**0.8**	**1.2**	**1.4**
Debt level at end of horizon *relative to staff's baseline*	**-3.9**	**-5.9**	**-11.1**
Impact of adj. on level of real GDP by end of horizon [1]	**-1.7**	**-2**	**-2.1**
Additional annual fiscal adj. needed because of impact on real GDP	**0.35**	**0.4**	**0.23**

[1] Based on an impact fiscal multiplier of 0.4 for revenue measures, similar to those assumed by the Office for Budget Responsibility, which decays to 0.3 in t+1 and 0.2 in t+2.

Annex I. Methodology

1. The project draws on the functional breakdown of historical Total Managed Expenditure (TME) in the Public Expenditure Statistical Analyses (PESA), an annual publication of HMT released in July 2023 (see Appendix Tables A1 and A2). The functional areas are based on the OECD's Classifications of the Functions of Government (CoFOG). Spending in each area sums to Public Sector Expenditure on Services (PSES), which differs from TME by an accounting adjustment, that includes depreciation.

Table I.1. United Kingdom: The Functional Break of Public Spending

1. General public services
1.1 Executive and legislative organs, financial and fiscal affairs, external affairs
1.2 Foreign economic aid
1.3 General services
1.4 Basic research
1.5 R&D general public services
1.6 General public services n.e.c.
1.7 Public debt transactions
of which: central government debt interest
of which: local government debt interest
of which: public corporation debt interest
of which: Bank of England
of which: public sector pensions

2. Defence
2.1 Military defence
2.2 Civil defence
2.3 Foreign military aid
2.4 R&D defence
2.5 Defence n.e.c.

3. Public order and safety
3.1 Police services
of which: immigration and citizenship
of which: other police services
3.2 Fire-protection services
3.3 Law courts
3.4 Prisons
3.5 R&D public order and safety
3.6 Public order and safety n.e.c.

4. Economic affairs
4.1 General economic, commercial and labour affairs
4.2 Agriculture, forestry, fishing and hunting
of which: market support under CAP
of which: other agriculture, food and fisheries policy
of which: forestry
4.3 Fuel and energy
4.4 Mining, manufacturing and construction
4.5 Transport
of which: national roads
of which: local roads
of which: local public transport
of which: railway
of which: other transport
4.6 Communication
4.7 Other industries
4.8 R&D economic affairs
4.9 Economic affairs n.e.c.

5. Environment protection
5.1 Waste management
5.2 Waste water management
5.3 Pollution abatement
5.4 Protection of biodiversity and landscape
5.5 R&D environment protection
5.6 Environment protection n.e.c.

6. Housing and community amenities
6.1 Housing development
of which: local authority housing
of which: other social housing
6.2 Community development
6.3 Water supply
6.4 Street lighting
6.5 R&D housing and community amenities
6.6 Housing and community amenities n.e.c.

7. Health
Medical services
Medical research
Central and other health services

8. Recreation, culture and religion
8.1 Recreational and sporting services
8.2 Cultural services
8.3 Broadcasting and publishing services
8.4 Religious and other community services
8.5 R&D recreation, culture and religion
8.6 Recreation, culture and religion n.e.c.

9. Education
9.1 Pre-primary and primary education
of which: under fives
of which: primary education
9.2 Secondary education
9.3 Post-secondary non-tertiary education
9.4 Tertiary education
9.5 Education not definable by level
9.6 Subsidiary services to education
9.7 R&D education
9.8 Education n.e.c.

10. Social protection
of which: personal social services
10.1 Sickness and disability
of which: personal social services
of which: incapacity, disability and injury benefits
10.2 Old age
of which: personal social services
of which: pensions
10.3 Survivors
10.4 Family and children
of which: personal social services
of which: family benefits, income support and tax credits
10.5 Unemployment
of which: personal social services
of which: other unemployment benefits
10.6 Housing
10.7 Social exclusion n.e.c.
of which: personal social services
of which: family benefits, income support, Universal Credit and tax credits
10.8 R&D social protection
10.9 Social protection n.e.c.

2. Among the noteworthy features of the functional classification is that health spending is almost entirely (80–90 percent) comprised of funding for the NHS via the Department of Health and Social Care (DHSC), as well as spending by local governments on public health initiatives. Social protection includes the state pension and other cash benefits, but also benefits in kind such as social care for the elderly and disabled. The education budget includes early childhood, primary, secondary and tertiary education spending. Transport spending includes road, rail and public transport. Environmental protection captures some spending by the Department for Energy Security and Net Zero (ESNZ), which has also spent significant recent sums on economic assistance to consumers and firms during the Energy Price Crisis.

Table I.2. United Kingdom: Mapping From Functional to Departmental Classification of Public Expenditures (FY2022/23)

(illustrates how spending on each 'functional area' maps to spending across various departments, devolved administrations and local government)

Public sector expenditure on services by departmental group and function, 2022-23, £ millions

Function / Departmental Grouping	1. General public services	*of which: public and common services*	*of which: international services*	*of which: public sector debt interest*	2. Defence	3. Public order and safety	4. Economic affairs	*of which: enterprise and economic development*	*of which: science and technology*	*of which: employment policies*	*of which: agriculture, fisheries and forestry*	*of which: transport*	5. Environment protection	6. Housing and community amenities	7. Health	8. Recreation, culture and religion	9. Education	10. Social protection	EU transactions	Total
Health and Social Care	-	-	-	-	-	-	-	-	-	-	-	-	-	-	174,979	-	-	-4,434	-	**170,545**
Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,585	1,956	-	**47,541**
Home Office	-	-	-	-	-	7,098	-	-	-	-	-	-	-	-	-	-	-	-	-	**7,098**
Justice	5	5	-	-	-	11,784	-	-	-	-	-	-	-	-	-	-	-	-121	-	**11,667**
Law Officers' Departments	-	-	-	-	-	811	-	-	-	-	-	-	-	-	-	-	-	-	-	**811**
Defence	-	-	-	-	51,647	-	-	-	-	-	-	-	-	-	-	24	-	1,955	-	**53,626**
Single Intelligence Account	-	-	-	-	3,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**3,796**
Foreign, Commonwealth and Development Office	8,742	309	8,433	-	-	-	-	-	-	-	-	-	-	-	-	-	-	40	-	**8,782**
Levelling Up, Housing and Communities	353	353	-	-	-	-	16	16	0	-	-	-	-	6,432	-	5	-	13	-	**6,819**
Culture, Media and Sport	-	-	-	-	-	-	65	65	-	-	-	-	41	123	1	8,505	-	652	-	**9,388**
Science, Innovation and Technology	155	155	-	-	-	-	6,897	169	6,727	1	-	-	160	-	145	95	2,972	269	-	**10,692**
Transport	-1	-1	-	-	-	352	29,194	8	-4	-	-	29,190	1	-	-	-	-	9	-	**29,556**
Energy Security and Net Zero	38	-	38	-	-	124	43,068	43,068	-	-	-	-	3,687	-	-	-	-	0	-	**46,917**
Environment, Food and Rural Affairs	-	-	-	-	-	-	4,277	-	-	-	4,277	-	1,533	8	-	-	-	-	-	**5,817**
Business and Trade	39	38	0	-	-	-	4,092	3,736	296	61	-	0	-	-	-	-	-	374	-	**4,504**
Work and Pensions	16	16	-	-	-	-	3,635	2	-2	3,636	-	-	-	-	-	-	-	222,080	-	**225,731**
HM Revenue and Customs	4,471	4,471	-	-	-	-	13,286	13,286	-	-	-	-	45	173	-	-	-	22,264	-	**40,238**
HM Treasury	137,358	9,703	-	127,655	-	-	157	157	-	-	-	-	-	-	-	-	-	5	-2,274	**135,245**
Cabinet Office	1,780	1,780	-	-	-	-	18	-	-	18	-	-	-	-	-	-	-	2,339	-	**4,136**
Scotland	1,237	1,236	1	-	-	3,490	3,296	678	3	-	774	1,841	335	2,363	16,677	298	2,957	4,662	-	**35,315**
Wales	268	268	-	-	-	2	968	244	25	-	436	262	98	967	9,987	89	1,050	161	-	**13,591**
Northern Ireland	447	447	-	-	-	1,415	1,895	269	110	105	616	795	71	870	6,061	184	3,427	9,699	-	**24,068**
Small and Independent Bodies	2,158	2,158	-	-	-	6	454	297	7	-	112	38	-	-	-	-	187	-	-	**2,805**
Local Government	6,637	5,804	-	743	65	18,854	13,732	1,832	-	-	440	11,451	7,913	6,855	3,720	4,810	49,362	56,850	-	**168,796**
Public sector expenditure on services for each function	**163,702**	**26,832**	**8,472**	**128,398**	**55,507**	**43,935**	**125,050**	**63,826**	**7,162**	**3,821**	**6,664**	**43,578**	**13,884**	**17,790**	**211,570**	**14,010**	**105,539**	**318,772**	**-2,274**	**1,067,484**

Table I.3. United Kingdom: Functional Classification of UK Public Spending

(Historical Data; Percent of GDP)

Functional Classification of Public Expenditure ***Percent of GDP***	Actual Data											
	1999-00 outturn	2000-01 outturn	2001-02 outturn	2002-03 outturn	2003-04 outturn	2004-05 outturn	2005-06 outturn	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 outturn
1. General public services	4.3	4.2	3.9	3.7	3.8	4.0	4.1	4.1	4.1	4.4	4.2	4.8
of which: public and common services	*0.8*	*0.7*	*0.8*	*0.8*	*0.9*	*0.9*	*0.9*	*0.9*	*0.8*	*0.9*	*0.9*	*0.8*
of which: international services	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*	*0.5*
of which: public sector debt interest	*3.1*	*3.1*	*2.7*	*2.5*	*2.6*	*2.7*	*2.7*	*2.8*	*2.9*	*3.1*	*2.9*	*3.5*
2. Defence	2.4	2.3	2.2	2.2	2.3	2.2	2.2	2.2	2.2	2.3	2.4	2.4
3. Public order and safety	1.7	1.8	2.0	2.0	2.1	2.1	2.1	2.0	2.0	2.1	2.2	2.0
4. Economic affairs	2.0	2.1	2.4	2.5	2.6	2.5	2.5	2.5	2.4	3.1	3.1	2.5
of which: enterprise and economic development	*0.4*	*0.4*	*0.4*	*0.5*	*0.5*	*0.5*	*0.5*	*0.4*	*0.5*	*1.0*	*0.8*	*0.3*
of which: science and technology	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
of which: employment policies	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.2*	*0.2*	*0.2*	*0.1*	*0.2*	*0.3*	*0.3*
of which: agriculture, fisheries and forestry	*0.4*	*0.4*	*0.5*	*0.4*	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*	*0.4*	*0.4*	*0.3*
of which: transport	*0.7*	*0.8*	*1.0*	*1.2*	*1.3*	*1.2*	*1.2*	*1.3*	*1.3*	*1.3*	*1.5*	*1.3*
5. Environment protection	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7
6. Housing and community amenities	0.4	0.5	0.5	0.4	0.5	0.6	0.8	0.8	0.8	1.0	1.0	0.8
7. Health	4.7	4.9	5.2	5.5	5.9	6.2	6.3	6.4	6.5	6.9	7.5	7.4
8. Recreation, culture and religion	0.7	0.7	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
9. Education	4.0	4.1	4.4	4.5	4.8	4.8	4.9	4.9	5.0	5.2	5.7	5.6
10. Social protection	11.6	11.5	11.9	12.0	12.2	12.2	12.0	11.9	12.0	12.8	14.3	14.1
Of which pensions (incl. winter fuel payment & other benefits)												
Of which: Social Care												
Of which: other (incl. welfare benefits)												
EU transactions	-0.3	-0.2	-0.4	-0.2	-0.2	-0.1	0.0	-0.1	-0.1	-0.2	0.1	0.4
Public sector expenditure on services	32.0	32.4	33.4	34.1	35.2	35.9	36.1	36.0	36.3	39.0	42.0	41.4
Accounting adjustments	2.7	2.7	2.9	3.5	3.6	4.1	3.8	3.9	3.9	4.4	4.4	4.2
Total Managed Expenditure	34.8	35.1	36.3	37.6	38.9	40.0	39.9	39.9	40.2	43.5	46.3	45.7

Functional Classification of Public Expenditure ***Percent of GDP***	Actual Data											
	2011-12 outturn	2012-13 outturn	2013-14 outturn	2014-15 outturn	2015-16 outturn	2016-17 outturn	2017-18 outturn	2018-19 outturn	2019-20 outturn	2020-21 outturn	2021-22 outturn	2022-23 outturn
1. General public services	4.8	4.4	4.3	4.1	4.0	4.0	4.0	3.7	3.6	3.4	4.7	6.5
of which: public and common services	*0.7*	*0.6*	*0.6*	*0.6*	*0.7*	*0.6*	*0.6*	*0.6*	*0.6*	*0.9*	*1.2*	*1.1*
of which: international services	*0.5*	*0.4*	*0.5*	*0.6*	*0.4*	*0.5*	*0.5*	*0.5*	*0.5*	*0.5*	*0.4*	*0.3*
of which: public sector debt interest	*3.6*	*3.3*	*3.1*	*2.9*	*2.9*	*2.8*	*3.0*	*2.6*	*2.4*	*2.0*	*3.2*	*5.1*
2. Defence	2.3	2.1	2.0	2.0	1.9	1.8	1.8	1.8	1.9	2.1	2.1	2.2
3. Public order and safety	1.9	1.8	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.9	1.7	1.7
4. Economic affairs	2.3	2.1	2.3	2.2	2.4	2.4	2.5	2.8	3.0	9.4	4.2	4.9
of which: enterprise and economic development	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*	*0.6*	*0.8*	*6.3*	*1.6*	*2.5*
of which: science and technology	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
of which: employment policies	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
of which: agriculture, fisheries and forestry	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
of which: transport	*1.2*	*1.2*	*1.2*	*1.2*	*1.4*	*1.4*	*1.4*	*1.5*	*1.5*	*2.4*	*1.9*	*1.7*
5. Environment protection	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.6	0.6	0.5
6. Housing and community amenities	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.7
7. Health	7.3	7.2	7.2	7.1	7.1	7.0	7.0	7.0	7.3	10.5	9.2	8.4
8. Recreation, culture and religion	0.7	0.7	0.6	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6
9. Education	5.2	4.9	4.7	4.5	4.4	4.2	4.1	4.0	4.0	4.6	4.3	4.2
10. Social protection	14.6	14.7	14.1	13.9	13.7	13.1	12.8	12.6	12.3	14.4	12.8	12.6
Of which pensions (incl. winter fuel payment & other benefits)												4.8
Of which: Social Care												0.9
Of which: other (incl. welfare benefits)												6.7
EU transactions	0.3	0.4	0.4	0.3	0.4	0.2	0.3	0.4	0.3	0.3	-0.1	-0.1
Public sector expenditure on services	40.6	39.5	38.3	37.6	37.1	36.0	35.7	35.5	35.5	48.5	40.8	42.2
Accounting adjustments	4.0	4.6	4.1	4.4	4.0	4.2	4.3	3.9	4.0	4.6	3.7	3.5
Total Managed Expenditure	44.6	44.0	42.5	42.0	41.1	40.2	40.0	39.4	39.5	53.1	44.5	45.6

Annex II. A High Spending Scenario

1. This alternative scenario is designed to identify an approximate upper bound on required spending across functional areas. Overall, the scenario is consistent with DEL (both RDEL and CDEL) rising by 3½ percent per year in real terms on average over the ten-year forecast horizon from FY2025/26 to FY2034/35, with AME growing by the rate of population growth and inflation on average.

2. As in the central scenario presented in the paper, health spending grows in line with the IFS cost estimates for the NHS Long-Term Workforce Plan, while the Triple Lock is maintained throughout the ten-year forecast horizon. However, relative to the central scenario, key drivers of *additional* spending in the high spending scenario include:

- **Education.** The recent increase in funding to 4½ percent of GDP is assumed to be maintained and then increased gradually to reach the pre-GFC funding level of around 5¼ percent of GDP by FY2029/30.

- **Social Care.** Funding is assumed to increase by 6 percent per year in real terms, the amount identified by the Health Foundation as necessary in order to *both* keep up with increased demand and cover all out-of-pocket costs of beneficiaries.

- **Public Order and Safety.** Given reported spending needs on prisons, spending is assumed to grow by the 2000-2010 real growth rate of 3.8 percent, increasing spending from 1.6 percent of GDP currently to 2 percent of GDP by FY2034/35.

- **Housing.** Spending on affordable housing is assumed to rise by the 2000–10 average growth rate of 11 percent per year in real terms until FY2029/30, to address the housing crisis and increase the supply of public housing.

- **Environmental Protection.** In order to accommodate higher spending on the green transition than envisaged in the CCC Balanced Pathway to Net Zero, spending in this area increases to 0.6 percent of GDP per year (the 2000–10 average).

3. In this high spending scenario, primary spending rises throughout the ten-year horizon, reaching 42.4 percent of GDP by FY2034/35, so that Public Sector Net Borrowing (PSNB) increases to 6½ percent of GDP by FY2034/35. As a consequence, Public Sector Net Debt (PSND) (ex. BoE) rises steeply to 124.7 percent of GDP by FY2034/35. In order to stabilize public debt over a ten-year horizon, the primary balance would need to be higher by around 2.3 ppts. of GDP per year on average (see Annex Tables A4-A6 for further details).

Table II.1. United Kingdom: Assumptions: Scenarios for TME FY2025/26 – FY2034/35		
	Central Scenario	**High Spending Scenario**
Aggregate spending (consistent with functional assumptions below)	RDEL real growth of 2 percent p/a to FY2029/30 then 1½–2 percent p/a; CDEL 2 percent p/a real growth to FY2029/30 then 1½–2 percent p/a; AME rises with population growth and inflation on average over time;	RDEL real growth of approx. 3.5 percent p/a in all years; CDEL real growth of approx. 3.5 percent p/a in all years; AME rises with population growth and inflation on average over time;
Functional exp. assumptions		
Main Drivers:		
Health	Real growth of 3½ percent p/a all years to fund NHS workforce plan;	Real growth of 3½ percent p/a all years to fund NHS workforce plan;
Education	Following recent increases, maintain at 4½ percent GDP until FY2029/30, then decline to 4 percent GDP as student numbers fall	Increase gradually over horizon to 5 ½–5¾ percent GDP (pre-GFC level)
Social Protection *Of which:*		
State Pension	Increase in line with OBR 2023 MT estimates, adjusted for 1yr rise of retirement age FY2026/27	Increase in line with OBR 2023 MT estimates, adjusted for 1yr rise of retirement age FY2026/27
Social Care	Real growth of 4.3 percent p/a all years to meet demand & improve access (Health Foundation est.)	Real growth of 6 percent p/a to meet demand and fully cover user costs
Other Social Protection (incl. benefits)	Rise with population growth and inflation in all years	Rise with population growth and inflation in all years
Housing and Community Amenities	5 percent real growth (2028–23 avge) p/a to meet demand for social homes. Constant in percent of GDP after FY2029/30	11 percent real growth p/a (pre-GFC average) to meet demand for social homes, until FY2029/30, then average real growth of 3 percent p/a
Transport	After recent increases, maintain at 2 percent GDP until FY2029/30, then at FY2028–23 average of 1.8 percent GDP	After recent increases, maintain at 2 percent GDP in all years
Environmental Protection	Maintain current percent GDP (0.4–0.5)	Increase to 0.6 percent GDP (2000–10 avge)
Other Drivers:		
Defence	2½ percent GDP per year	2½ percent GDP per year
Public Order & Safety	Maintain 2010–19 avge (percent GDP)	'Increase real growth to 3.8 percent p/a, average of past 5 years and 2000–10 average, including capital spending
General Public Services (including ODA and Ukraine aid)	Maintain percent GDP until FY2028/29 then gradually return to 2010–19 average	Maintain percent GDP until FY2028/29 then gradually return to 2010–19 average
Economic Affairs (including Sc. & Tech; Economic Aid (energy crisis); agriculture & fisheries;	Return economic aid to 2010–19 avge by FY2029/30; maintain others in percent GDP	Return economic aid to 2010–19 avge by FY2029/30; increase ag. & fisheries spending to 2000–10 avge; maintain others in percent GDP
Recreation, culture and religion	Maintain in percent GDP.	Increase to 2000–10 avge.
NB: **Interest Payments**	Projected interest payments are consistent with the evolution of primary spending and debt in each scenario, computed using the IMF's Debt Sustainability Analysis Tools.	

Table II.2. United Kingdom: High-Spending Scenario—Detailed Spending Projections by Function

High Spending Scenario (% GDP)	Actual Data					Budget Data		Projections										
	2018-19 outturn	2019-20 outturn	2020-21 outturn	2021-22 outturn	2022-23 outturn	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
1. General public services	3.7	3.6	3.4	4.7	6.5	6.7	6.2	5.8	5.9	6.1	6.2	6.4	6.4	5.9	5.9	5.9	5.9
of which: public and common services	*0.6*	*0.6*	*0.9*	*1.2*	*1.1*	1.8	2.0	1.8	1.8	1.8	1.8	1.8	1.6	0.9	0.8	0.7	0.6
of which: international services	*0.5*	*0.5*	*0.5*	*0.4*	*0.3*	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
of which: public sector debt interest	*2.6*	*2.4*	*2.0*	*3.2*	*5.1*	4.5	3.9	3.6	3.8	3.9	4.0	4.1	4.3	4.5	4.6	4.7	4.8
2. Defence	1.8	1.9	2.1	2.1	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
3. Public order and safety	1.5	1.5	1.9	1.7	1.7	1.6	1.6	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.0
4. Economic affairs	2.8	3.0	9.4	4.2	4.9	3.7	3.5	3.4	3.4	3.3	3.3	3.2	3.2	3.3	3.3	3.3	3.3
of which: enterprise and economic development	*0.6*	*0.8*	*6.3*	*1.6*	*2.5*	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
of which: science and technology	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
of which: employment policies	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
of which: agriculture, fisheries and forestry	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4
of which: transport	*1.5*	*1.5*	*2.4*	*1.9*	*1.7*	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1
5. Environment protection	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
6. Housing and community amenities	0.6	0.6	0.7	0.7	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.5
7. Health	7.0	7.3	10.5	9.2	8.4	8.4	8.4	8.6	8.7	8.9	9.0	9.2	9.4	9.6	9.8	10.0	10.2
8. Recreation, culture and religion	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
9. Education	4.0	4.0	4.6	4.3	4.2	4.5	4.4	4.8	5.2	5.6	5.6	5.6	5.6	5.7	5.7	5.7	5.7
10. Social protection	12.6	12.3	14.4	12.8	12.6	12.5	12.4	12.4	11.9	11.9	12.0	12.0	12.1	12.2	12.3	12.4	12.5
Of which pensions (incl. winter fuel payment & other benefits)					4.8	5.3	5.3	5.3	4.9	5.0	5.0	5.1	5.2	5.3	5.4	5.5	5.6
Of which: Social Care					0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.4
Of which: other (incl. welfare benefits)					6.7	6.3	6.2	6.1	6.0	6.0	5.9	5.8	5.8	5.7	5.7	5.6	5.5
EU transactions	0.4	0.3	0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Public sector expenditure on services	35.5	35.5	48.5	40.8	42.2	41.6	40.8	41.0	41.2	42.1	42.5	43.2	43.6	43.6	44.0	44.4	44.9
Accounting adjustments	3.9	4.0	4.6	3.7	3.5	3.2	3.1	3.1	3.3	3.0	2.9	2.8	2.7	2.6	2.5	2.4	2.4
Total Managed Expenditure	39.4	39.5	53.1	44.5	45.6	**44.8**	**43.9**	**44.0**	**44.5**	**45.1**	**45.4**	**45.9**	**46.3**	**46.2**	**46.6**	**46.9**	**47.2**

Table II.3. United Kingdom: High-Spending Scenario—Implications for Fiscal Aggregates

								Projections									
Implications for Fiscal Aggregates (% GDP)	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Revenue				39.0	40.3	40.6	40.4	40.7	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8
Interest Revenue				1.1	1.2	1.5	1.6	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Primary Revenue				37.9	39.1	39.1	38.9	39.3	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5
Primary Expenditure				40.9	40.2	40.3	40.0	40.4	40.8	41.2	41.4	41.8	42.0	41.7	42.0	42.1	42.4
Interest Payments				3.2	5.0	4.5	3.9	3.6	3.8	3.9	4.0	4.1	4.3	4.5	4.6	4.7	4.8
Total Expenditure				44.1	45.2	44.8	43.9	44.0	44.5	45.1	45.4	45.9	46.3	46.2	46.6	46.9	47.2
Primary Balance				-3.1	-1.1	-1.2	-1.2	-1.1	-1.3	-1.7	-1.9	-2.3	-2.5	-2.2	-2.5	-2.6	-2.9
PSNB				5.1	4.9	4.2	3.5	3.4	3.7	4.3	4.6	5.1	5.5	5.4	5.7	6.0	6.4
SFA				0.0	2.9	3.0	2.1	1.6	1.6	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7
PSND (Excl. BoE)				0.0	84.8	89.4	92.1	93.8	96.1	98.8	102.0	105.4	109.1	112.7	116.5	120.5	124.7
Nominal GDP (£bns)	2,174	2,245	2,085	2,362	2,553	2,715	2,777	2,873	2,978	3,087	3,202	3,311	3,420	3,533	3,650	3,770	3,895
Nominal GDP (% Ch)	3.6	3.3	-7.1	13.3	8.1	6.3	2.3	3.5	3.6	3.7	3.7	3.4	3.3	3.3	3.3	3.3	3.3
Real GDP (% Ch.)	1.2	0.9	-11.6	13.6	1.7	0.1	0.9	1.6	1.7	1.6	1.6	1.2	1.3	1.3	1.3	1.3	1.3
GDP Deflator (% Ch)	2.1	2.4	5.4	-0.8	6.8	6.1	1.3	1.8	2.0	2.0	2.0	2.1	2.0	2.0	2.0	2.0	2.0