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CHARTERED ACCOUNTANTS

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On 28 October 2026, John Healey, Labour's replacement Chancellor of the Exchequer for Rachel Reeves, after only her second budget, presented to Parliament his first.

When the Chancellor finished his statement in the Commons, the Office for Budget Responsibility (OBR) published updated forecasts for the UK's economic and fiscal outlook.



The primary purpose of the Budget is to present the current government's plan for tax receipts, public spending and borrowing in the coming financial year. In practice, the focus is on the medium-term economic and fiscal outlook, whether the five-year fiscal forecasts prepared by the OBR are consistent with the Chancellor's fiscal rules.

Confusingly each incoming chancellor (since 1997) has changed the fiscal rules, measures by which government seeks to reassure investors in UK debt. But one measure, the deficit, funded by borrowing, represents a reliable metric for measuring each government's performance when in office.

Back when Gordon Brown became Chancellor in 1997. He designed a "Golden Rule" ('borrow only to invest') and simultaneously had to legally report against the Maastricht criteria, which explicitly mandated that total public sector net borrowing must not exceed 3% of Gross Domestic Product.

Following the fallout from the 2022 'mini-budget', first Jeremy Hunt and then Reeves, sought to establish a new framework.

In particular, Hunts' rule said public sector net borrowing must be kept **below 3% of GDP** by the fifth year of the rolling forecast period. In origin, a requirement of the EU's Maastricht Treaty.

Hunt also ruled that underlying public sector debt must fall as a percentage of GDP by the fifth year of a rolling five-year forecast period - specifically by **2027-28**, an extension to the previous target horizon from three to five years.

In fact, to emphasise his fiscal rectitude, at the time, Jeremy Hunt stated that the current budget would be in surplus by 2027–28 during his Spring Budget speech on March 15, 2023:

*"Even better, in the final two years of the [2023] forecast our current budget is in surplus, meaning **we only borrow for investment and not for day-to-day spending**."* That is 2027–28 (projection 'Final Year 2'): a prediction of a £12.9 billion surplus for the current budget, by the end of March 2028.

At that time the official projected annual deficit, the difference between receipts, spending and investment, of over £150 billion, was to be falling in every single year of the forecast, with borrowing - including that to fund investment, not within 'current spending' - reducing from around **5% of GDP** in 2023-24 to 1.7% of GDP in 2027–28.

Though, in the final pre-election March 2024 Budget, that key 2027–28 projection of a current spending surplus was reduced to roughly £5 billion. Leaving Reeves, Hunts' successor, with a thin fiscal margin when she took over later that same year. Following Starmer's election victory (eight seats short of Blair's 1997 landslide).

Why then is that same pivotal year (2027-28) now forecast to have a **current budget spending deficit of £17½ billion,** with borrowing (PSNB/GDP) remaining at the controversially high level of between 4 and 5 percent of GDP. Despite substantial increases in taxation.

	Borrowing	
	£bn	%GDP
2018/19	44	2.00%
2019/20	59	2.60%
2020/21	311	14.70%
2021/22	116	4.80%
2022/23	124	4.70%
2023/24	135	4.80%
2024/25	150	5.10%
2025/26	134	4.40%
2026/27	***133****	***4.20%***
2027/28	***112****	***3.40%***

**OBR projection or medium-term forecasting*

In reality the predicted budget surplus for 2027–28 was obtained through a projection of future spending that could not be achieved, without a contraction of provision. Real-term cuts in core 'un-protected' departmental spending of 3.2% a year.

A real terms increase in envisaged overall spending of 1% would reduce provision, owing to UK population growth (0.5% to 0.8% every year); an aging population increasing the cost of delivering health and social care (projected 25% increase in the number of pensioners over the next 20 years); and public sector wages historically rising faster than general consumer inflation.

A conclusion from this is that in 2024 the returning government would have had to realistically raise taxes or otherwise reduce the provision of public services.

In the event, Rachel Reeves' Budgets used significant tax rises in 2025-26 and this year 2026-27 to fund a higher level of current spending than planned by the previous government, together with more borrowing to fund public investment.

While post-election tax rises may have seemed inevitable, they were larger than expected. With tax increases being used to fund most of the additional current spending and investment as the main driver of the increase in the size of borrowing:

	Outturn 2024-25 £bn	Outturn 2025-26 £bn	Forecast 2026-27 £bn
Current expenditure	1,217	1,278	1,356
Net investment	75	88	93
Total managed expenditure	1,292	1,366	1,449
of which:			
Welfare spending	314.8	333.8	352.7
Debt interest	105.7	108.7	123.9
Taxes – receipts	1,015	1,105	1,183
of which:			
Income tax & NI	478	534	579

The figures above were those that Healey presented to Parliament in his Budget, with a projection for five years.

Budget 2026 follows more than a decade and a half of weak economic performance since the financial crisis, even with record levels of net inward migration. Including the 'austerity years', turmoil of a pandemic, surge in energy costs, and historically low economic growth.

Economic activity per person (that is real GDP per capita growth) grew by an average of just 0.4% a year over the 18 years to March 2026 and is now being predicted to grow by 1.1% a year over the period to March 2031. (The comparison: 2.3% annual average per person growth, achieved in the 50 years before.)

The weak level of economic growth over the last two decades has coincided with an enormous increase in public indebtedness, to maintain the provision of public services, that has seen net debt (PSND/GDP) nearly triple in scale. Rising from £461 billion or 33½% of GDP on 31 March 2005, to a reported £2,918 billion (the stock of all UK's Government debt, net of liquid financial assets) at the end of March 2026, 93% of GDP in relative size, and more than £3 trillion today.

Debt, in relative size to the UK economy, is forecast by Healey to be no lower in 2031-32 than in the current year 2026-27, already now above the average of other G7 countries.

By selecting a fiscal rule that rolls forward each year, the Chancellor's objective of seeing debt as a share of GDP peak and then start to fall, based on the past – see borrowing table from 2018-19, looks like it may never occur.

As already referred to above, the Spring Budget 2023 had a fiscal target that was to be met with **underlying debt** to GDP forecast to start to fall by 2027-28, while the Spring Budget 2024 a year later did not expect this to happen until 2028-29.

Indeed, Reeve's current budget surplus of **£24bn** (Spring 2026) is two years later, 2029-30, than that target announced by Hunt.

In this 2026 Budget Healey has now reduced Reeves' cast-iron headroom by £9bn to £15bn, in the OBR's latest forecast.

Below a £20 billion rule of thumb for **headroom**, an informal rule of the Treasury that this is the minimum necessary. A wise estimate given the OBR judge the chances of meeting the rule in any event are just better than 50:50 (estimated at 56%). As the OBR say the margin is 'very small' compared to the inherent risk.

Since March 2026 there has been another spike in **energy prices**, owing to the conflict in the Middle East and Ukraine, and a significant rise in market interest rates for UK debt.

The **cost of servicing government debt** has ballooned; the OBR forecast an annual cost of £160 billion in 2031-32. UK debt yields have risen substantially across all maturities, now close to their long-run averages following a period of extraordinarily low rates after the financial crisis. Current market volatility has caused the ten-year yield to range from around 4½% to 5½%.

Accordingly, higher interest rates and energy prices contribute to **CPI inflation**, which is expected to increase to 3¾ per cent in early 2027, with a one-in-five chance that CPI will be higher than 4%. However, owing to labour supply, the OBR expect no real earnings growth in 2027.

Subdued **real wage growth**, together with the effect of frozen income tax thresholds (until April 2031), are the basis for lower living standards. The OBR consider that Real Household Disposable Income per person (RHDI), is likely to grow by an average of under ½% a year from 2025-26 through to 2030-31, and in the near-term fall slightly (late 2026 into 2027).

The OBR's outlook for UK **productivity growth** has been downgraded. The OBR's review, earlier this year, into trends since the pandemic, concluded that they had been too optimistic. The outlook for productivity growth is a **key risk** to the economic and fiscal forecasts, for example the development and adoption of artificial intelligence in the workplace.

Uncertainty around welfare spending, which has seen 'very significant rises' since the pandemic, mean that if this were to continue, at the post-pandemic growth rate, the additional cost would be around £25 billion annually by 2031-32.

While on the one hand changing the 'triple-lock' for pensions is thought by the OBR to significantly reduce the projected cost to the state of pension obligations for pensioners, by removing the 'ratchet'. On the other hand, Andy Burnham announced an intention to expand the state provision of social care, yet without a plan for public finances over the longer term.

Unsustainable upward trajectory of debt:

The OBR concludes with a chilling scenario. Reeves' March 2026 Budget projected a **surplus,** excluding debt costs (the 'primary deficit or surplus'), of 1½% of GDP by 2030-31. If achieved, this would be the largest such surplus since 2000-01. But since 2022 successive governments have set out similar plans for debt consolidation, which have not subsequently been achieved.

If there were a primary deficit in 2030-31 at the same level as in 2025-26, then there would be an 'unsustainable upward trajectory of debt' the OBR says, starting in the 2030s.