The great escape

Why Britain is stuck in a fiscal funk and how we can break free

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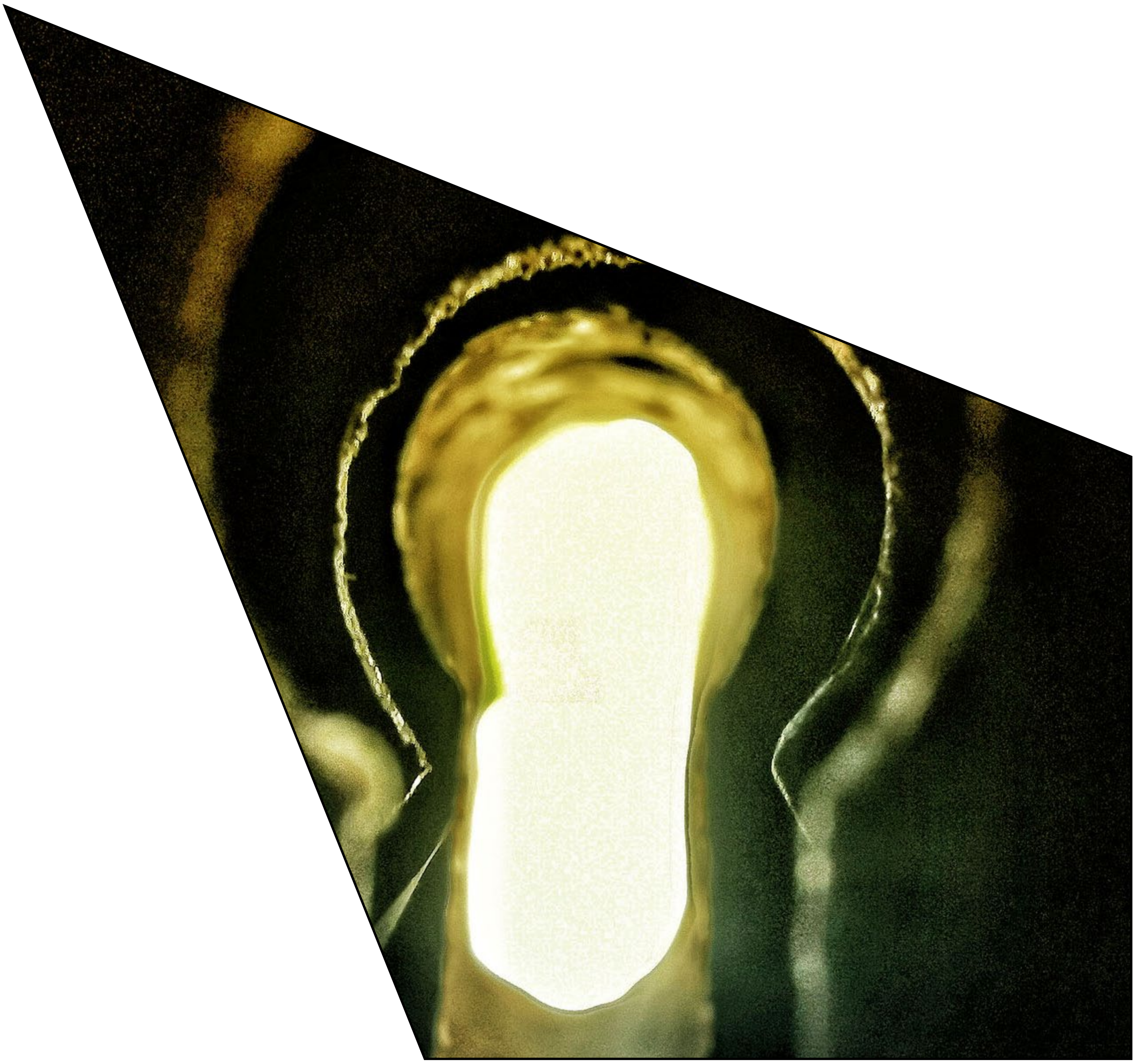

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Executive Summary

A new Prime Minister and Chancellor will inherit a country stuck in a seemingly endless fiscal funk. Public debt has nearly tripled since the financial crisis; taxes are heading to at least an 80-year high; and the months before every Budget are dominated by speculation about how the government will tighten its belt further against a backdrop of financial-market jitters. This doesn't just make for a miserable debate, it has real consequences felt acutely across the country as public services have visibly deteriorated. There is a growing sense that the UK has become 'ungovernable', feeding into a fragmentation and polarisation of our politics. But it doesn't have to be this way. This report – the first in a series on the size and shape of the state and how the public finances can be better managed in an era of low growth and high uncertainty – diagnoses how Britain fell into this funk and sets out a playbook for escaping it.

Low growth has been ruinous for tax receipts but that overstates the broader impact on the public finances

For many, the underlying driver of this malaise is straightforward: it is just a product of Britain's growth disaster. Since 2007, growth has collapsed, with GDP per person increasing more slowly than in any other G7 country bar Italy. Not only has this been disastrous for household incomes, but it has also left tax receipts around £450 billion a year below what they would have been had growth continued on its pre-financial-crisis path.

But the impact of weak growth on the public finances does not end there. Because public sector pay is ultimately anchored to private sector earnings, an economy-wide earnings slowdown made the state's workforce cheaper. This adjustment was as painful in the public sector as in the private: real public sector compensation per head grew by just 0.8 per cent a year between 2007 and 2025, leaving the average public sector worker £35,000 a year worse off across pay and pensions than if it had continued growing at its pre-financial trend. While terrible for their living standards, it meant that the cost of providing public services was around £110 billion lower in 2025-26 than it would otherwise have been. Meanwhile welfare spending is similarly £101 billion below trend. This is not because the total welfare bill has fallen behind incomes across the economy – at 10.8 per cent of GDP in 2025-26 it was 0.8 percentage points higher than in 2007-08 – but because incomes themselves stopped growing. Together, these £210 billion of 'savings' offset almost half of the hit to receipts. This was the more automatic – though difficult – part of trimming the state to fit our diminished economic resources.

The remaining £240 billion or so shortfall has been met through spending cuts, tax rises and higher borrowing – an adjustment that has been more difficult still, with cuts weakening public services and tax rises weighing further on growth. Day-to-day spending outside pay, welfare and debt interest is around £140 billion lower than if pre-crisis budget growth had continued. Along with an additional £20 billion shortfall of investment spending, this adds up to nearly £160 billion squeeze on the state's capacity to deliver. Tax has taken the strain only recently: up to 2019-20 the tax-to-GDP ratio was slightly below its 2007-08 level. But since 2019-20, it has it has since risen by 3 percentage points, delivering more than a £90 billion boost to the public finances in 2025-26.

This adjustment has been managed badly. The full extent of Britain's growth slowdown has dawned on governments only gradually, as sporadic downward revisions to the Office for Budget Responsibility's (OBR's) medium-term forecasts were followed by piecemeal tightening. This reactive and inconsistent approach produced serious policy errors. For example, cutting public sector net investment by 38 per cent in the three years to 2011-12 – just when record-low interest rates offered the chance to correct decades of underinvestment – will have had a lasting effect on the size of the economy. More recent mistakes have been on tax. With the Government having ruled out touching the three biggest revenue-raisers, the 2024 Budget was built around a rise in employer National Insurance instead. This widened the economically damaging tax penalty on employment and fell disproportionately on low-paid jobs. All the while, the tax system has become steadily more complex: 14 new taxes were added between 2020 and 2025 – more than in any half-decade since the 18th century, taking the total number of UK taxes to its highest level in almost 200 years. These errors have fed back into weaker growth, worsening Britain's fiscal predicament.

Britain has grown older and sicker, adding around £90 billion of fiscal pressure

Low growth does not explain all our fiscal woes. Even on its benign pre-crisis growth path, Britain would still have faced a severe demographic and health challenge.

From a fiscal perspective, 2007 marked a poorly timed turning point for Britain's demographics. Just as the financial crisis hit, the baby boomers began reaching retirement age and the working-age share of the population started to fall for the first time in more than 30 years. Based on the OBR's modelled age profiles for tax and spending, population ageing since that point has cost the Exchequer around £50 billion a year. Policy has sometimes leaned against this pressure, notably by raising the State Pension age. As a result, there are 3.1 million fewer people of pension age today, saving roughly £40 billion. But the political cost associated with policies that are net takeaways from the large number of politically engaged older voters has meant more generous treatment elsewhere, such as the triple lock which is already costing £12.6 billion more than if pensions were uprated in line with earnings.

Worsening health – a much less discussed driver of fiscal pressures – has been just as important. In the decade to 2022-

2024, the share of the population in poor health rose by 4 percentage points, and ageing explains only around one-fifth of that rise. Mental health has deteriorated consistently across surveys since the early 2010s, particularly among younger adults, matched by diagnostic evidence and a rise in 'deaths of despair'. The physical health picture is more mixed, but the complexity of need has risen sharply: across all age groups, the share of acute hospital admissions with at least three pre-existing conditions trebled between 2006-07 and 2020-21. Had the overall prevalence of poor health simply stayed at its 2007-08 level, the government could have maintained today's level of spending per person in poor health and saved around £50 billion in 2025-26 alone. Stripping out the part driven by ageing leaves about £40 billion of additional pressure from higher spending on the NHS and health-related benefits.

Accommodating health spending has meant deep cuts to everyday public services

The British state has broadly accommodated this rising need. Central government now spends nearly £300 billion a year on the Department of Health and Social Care (DHSC) budget and health-related benefits combined – equivalent to £1 in every £4 of non-interest spending, and more than £10,000 per person in poor health. Real health-related spending grew by 58 per cent between 2007-08 and 2025-26. That sounds generous, but it has been only just enough to keep pace with the nation's declining health: real spending has only risen by around 8 per cent per person in poor health since 2012-13. Although this is a crude measure, it helps explain why satisfaction with health services is so low despite a significant rise in real per-person spending over the past two decades.

The price of more spending on healthcare has been paid by nearly every other public service. Protecting the biggest department has meant swingeing real-terms cuts across most others, and the 2025 Spending Review continued the pattern, with £9 in every £10 of the planned growth in day-to-day spending going to health and social care. Local government has fared worst of all. Its spending fell by 15 per cent between 2007 and 2024 after adjusting for inflation and population growth, even as central government spending rose by 21 per cent. Within those shrunken local budgets, social care has crowded out the rest, leaving real per-person spending on other local services down by a third since 2007-08. Regardless of whether this was the right decision in a tough spot, no government has ever admitted that was the choice being made.

These pressures will only intensify in the years to come

Unfortunately for those seeking easy solutions, the pressures of the past two decades are only set to intensify.

This can be seen using long-run fiscal projections, building on the approach of the OBR in its Fiscal Risks and Sustainability report. Based on these projections it is evident that we are on an unsustainable path for the public finances. How this manifests itself depends on the exact assumptions made, however. In the OBR baseline, using its interpretation of 'unchanged' government policy, debt is set to rise continuously over the next 50 years, peaking at over 300 per cent of GDP – well above levels normally sustained by rich countries. One critique of the approach is that the OBR assumes tax thresholds and benefit entitlements are uprated in line with earnings, when sticking to the legislative default of inflation-uprating would put public debt on a less alarming path. This is true in a narrow sense, but it is not a helpful way of thinking about our long-term fiscal challenge. If Income Tax thresholds were indexed to prices rather than earnings, debt would reach 'only' 150 per cent of GDP, rather than peaking at over 300 per cent as in the OBR's baseline. But that comes at the cost of an eye-watering tax burden: in 30 years' time, someone on two-thirds of average earnings – the Government's own benchmark for low pay – would be paying the higher rate of Income Tax. Likewise, uprating working-age benefits with prices rather than earnings would flatter the fiscal arithmetic, but at the cost of the ratio of average earnings to the average UC award doubling (from 4.3 times to 9 times). It's clear that inflation uprating in perpetuity is not going to solve the long-term fiscal challenges posed by health and ageing.

Less attention has been paid to an assumption that pulls the long-run projections in the opposite – that is, a more optimistic – direction. The projection starts after the Government has delivered the £43 billion of announced tax rises in the run-up to an election, which account for over three-fifths of this Parliament's total consolidation. (It will be interesting to see if the new administration sticks to these plans.) If the primary balance stays at its current level instead, the ultimately explosive path for public debt starts today, with debt hitting 200 per cent of GDP by 2050. The unsustainability of the UK's fiscal picture is real, and the adjustment needed will not happen by itself.

The drivers of the mounting pressure are clear. An ageing population will continue to weigh on the public finances even after sensible rises in the State Pension age. By the middle of the century, the average person is set to become a net recipient from the state. State Pension spending, already 5 per cent of GDP, is projected to reach 9 per cent by 2075 – and could potentially cost even more if the ratchet effect of the triple lock is larger than expected. Health spending is set to climb from 8 to 13 per cent of GDP, propelled by demographics, rising ill-health and cost pressures that together imply real growth of 2.5 per cent a year. And, for the first time since the Korean War, there is cross-party consensus that defence spending must rise: the NATO commitment of 3.5 per cent of GDP on defence by 2035 compares with an average of just 2.2 per cent over the past three decades. The relative demographic calm of the 2030s is a crucial window in which to get the public finances into shape before these pressures intensify once more. Simply hoping they ease will not cut it.

A playbook for a 'great escape' from Britain's fiscal funk

What is clear, is that just waiting and hoping that growth turns up is not the answer. Faster growth is key for family finances but, contrary to what politicians of all stripes may think, it is not an escape route from hard decisions, not least because rising wages will gobble up much of the extra tax revenue.

Quick fixes might be tempting but fare no better. Wheezes that loosen the fiscal rules and increase borrowing – exempting defence spending from the fiscal rules, or extending the forecast horizon to ten years – are not serious and fail to recognise the predicament we are in, risking a destabilising rise in borrowing.

The good news for the new residents of Downing Street is that the fiscal escape plan is surprisingly straightforward. Indeed, our long-run modelling shows that balancing the current budget on average would mean lower debt in 30 years' than now. As achieving current budget balance is one of the Government's fiscal rules, all it needs to do is deliver what has already been promised.

Achieving this, however, is easier said than done.

Future recessions are inevitable, which means that stabilising the current budget on average in practice requires running a current budget surplus of at least 1 per cent of GDP outside those recessions.

The starting point for running surpluses is addressing policies that are inherently unsustainable. Failing to address these would imply an implausibly large consolidation worth nearly 2 per cent of GDP between now and 2050. The most obvious example here is the State Pension triple lock, which should be replaced with a smoothed earnings link; and Fuel Duty, which raised £24 billion in 2025-26, but is being hollowed out by the switch to electric vehicles, meaning a beefed-up plan is needed to replace the lost receipts.

There should also be a renewed focus on getting more bang for our buck by raising public services productivity. The ONS's headline measure was 3.2 per cent below its 2019 level in 2025, a worse sustained fall than anything recorded before the pandemic. A realistic aim, then, is to recover the productivity lost since the pandemic, including by investing more in the physical and intangible capital used to deliver those public services. It is crucial that improved productivity leads to cashable savings in the cost of running services, resisting the temptation to expand what the state does rather than lower the cost of providing it.

Credibly tighter fiscal policy could deliver a double boost to the public finances, not just lowering debt directly, but also lowering borrowing costs. UK gilt yields are around 1.5 percentage points above the average of our rich-country peers at the time of writing, having decoupled around the time of the disastrous mini-budget in 2022. Part of the UK's elevated yields reflects the decision by the Bank of England to sell down its stock of gilts more quickly than elsewhere. Stopping or reducing active sales would reduce the spillovers from monetary policy which are making the fiscal adjustment even more challenging. The macroeconomic framework should allow for appropriate consideration of these effects.

Our long-run modelling shows that, even after doing all of the above, a significant further adjustment of 0.5 per cent of GDP is needed to deliver stable public finances.

Delivering this requires a more strategic approach to the size and shape of the state than we have seen over recent decades. A starting point would be for governments to provide a medium-term strategy for the size, shape and role of the state, along with how taxes will be raised to finance it. This must include a plan for containing the pressures from an ageing and ailing population, particularly from health and disability benefits spending. While we leave the full remedy here to future work, such a plan is likely to include significant NHS investment and the rollout of a preventative approach to the nation's health.

We also need to strengthen the institutional framework to deliver all of this. The recurring failure of Budgets and manifestos to survive contact with reality is a political-economy problem: governments face insufficient penalty for promising the impossible, or for dressing up near-term giveaways as 'fiscal fictions' about future restraint. This is as true of the last government's implausible spending cuts as of the current government's manifesto tax lock. Remedies should include institutional reform, building on the requirement for a medium-term strategy, and increasing the transparency and scrutiny of party manifestos, including with OBR costings of the kind used in Australia.

Overall, then, while nihilism about our strained public finances is understandable, the fiscal funk of recent years need not be an inevitable guide to our fiscal future. Here our politicians should not passively hope for growth to ride to the rescue. Instead, starting at the Autumn Budget this year the task is to set out plans that put us back on track for stable public finances, a more efficient tax system, and a more productive and prioritised state.

Section 1

Introduction

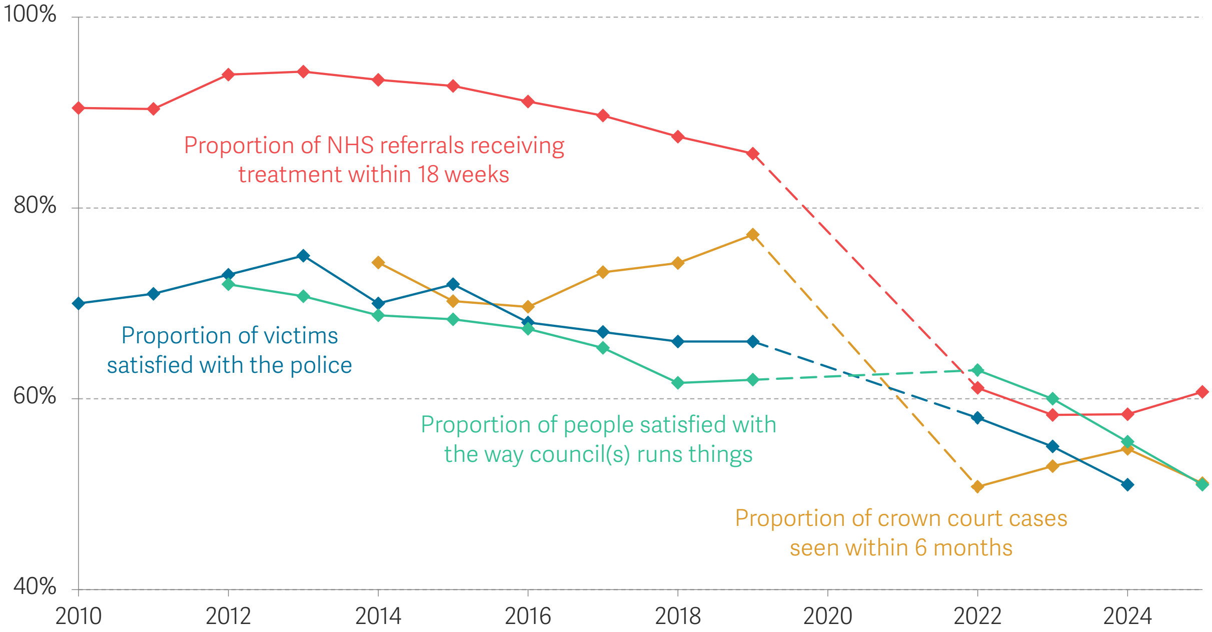
With a new Prime Minister and Chancellor set to arrive at Downing Street, it's hard to avoid the conclusion that they will inherit a country stuck in a seemingly endless fiscal funk. Successive governments have taken difficult and unpopular decisions to cut spending or raise taxes, but this hasn't prevented a disastrous deterioration in the country's public finances with debt nearly tripling since the financial crisis. The months before recent Budgets have been dominated by speculation about further belt tightening, or tax rises, with apparently no money for the Government to spend even on its highest priorities. And pressure from jittery financial markets has been an ever-present threat to the stability of recent governments.

The consequences of all this have been dire. Both the performance of public services and satisfaction with them have declined, especially post-pandemic (see Figure 1). Taxes as a proportion of national income are set to rise to at least an 80-year high.[1] And voters increasingly feel that the state cannot deliver on its promises.[2] This has contributed to a splintering and polarisation of political debate, as voters reach for a more radical approach to ending this malaise.

1 RF analysis of OBR, Economic and fiscal outlook, March 2026. Here, taxes are defined as national account taxes.
2 For more on perceptions of state capacity among low and middle income households in Britain, see: Resolution Foundation, Unsung Britain: A portrait of the country's poorer half, Resolution Foundation, February 2026, https://doi.org/10.63492/ndtl708.

FIGURE 1: **The ability of the British state to deliver public services has deteriorated since the financial crisis**

Measures of public services performance and satisfaction: England/England & Wales



NOTES: Data on victims not satisfied with the police covers England and Wales and refers to financial years. Treatment figures are 12-month averages. Dashed lines indicate periods during the pandemic.
SOURCE: RF analysis of Institute for Government, Performance Tracker; ONS, Crime Survey for England and Wales; NHS England, monthly RTT data collection; Local Government Association, Polling on satisfaction with councils; MoJ, Criminal court statistics.

New leadership brings an opportunity to renew Britain's economic strategy for the rest of this Parliament and beyond. So how can the new Prime Minister avoid the same fate as their recent predecessors? To answer that, it is necessary to understand the forces that have driven this malaise and how they are likely to evolve in the coming years. This is the first paper in a series that considers the size and shape of the state and how our public finances can be better managed in an era of low growth and high uncertainty. It should be viewed as a problem statement – setting out the underlying drivers of the predicament that successive governments have found themselves in – but also identifying the key areas in which action is needed to put economic policy on a more stable footing.

With these aims in mind, the rest of this report is structured as follows:

- Section 2 begins with a diagnosis of the underlying problems that have led to our tight public finances;
- Section 3 assesses how pressures on the public finances are likely to evolve in the coming years; and
- Section 4 sets out a policy roadmap for escaping the seemingly intractable bind that Britain finds itself in today.

Section 2

Diagnosing Britain's fiscal malaise

It is tempting to see Britain's fiscal bind as rooted simply in the disastrous slowing of economic growth since the financial crisis. But, in this section, we use a simple accounting framework to show that the reality is not so straightforward. Slow growth has indeed been ruinous for tax revenues, which were £450 billion lower in 2025-26 than had the economy remained on its pre-crisis path. Yet because weaker growth has also meant weaker wages, governments have been able to squeeze public sector pay and welfare by a combined £210 billion without them losing ground relative to private sector earnings. The remaining shortfall of around £240 billion has been met through deep cuts to other spending, post-pandemic tax rises, and higher borrowing. This adjustment has been managed badly, with sporadic realisations of Britain's new fiscal reality leading to policy errors – from cutting investment in the early 2010s to inefficient tax rises in the 2020s – that have fed back into weaker growth.

But low growth does not explain all our fiscal woes. Britain's population has grown older and sicker over the past two decades, adding almost £100 billion of pressure to the public finances in 2025-26. Health-related spending has risen sharply in response, without any increase in what the state provides per individual in poor health. Despite raising the State Pension age in the 2010s and taxes in the 2020s, the cost has been borne by nearly every public service outside of health and education, with the deepest cuts falling on the local services that people see and use every day.

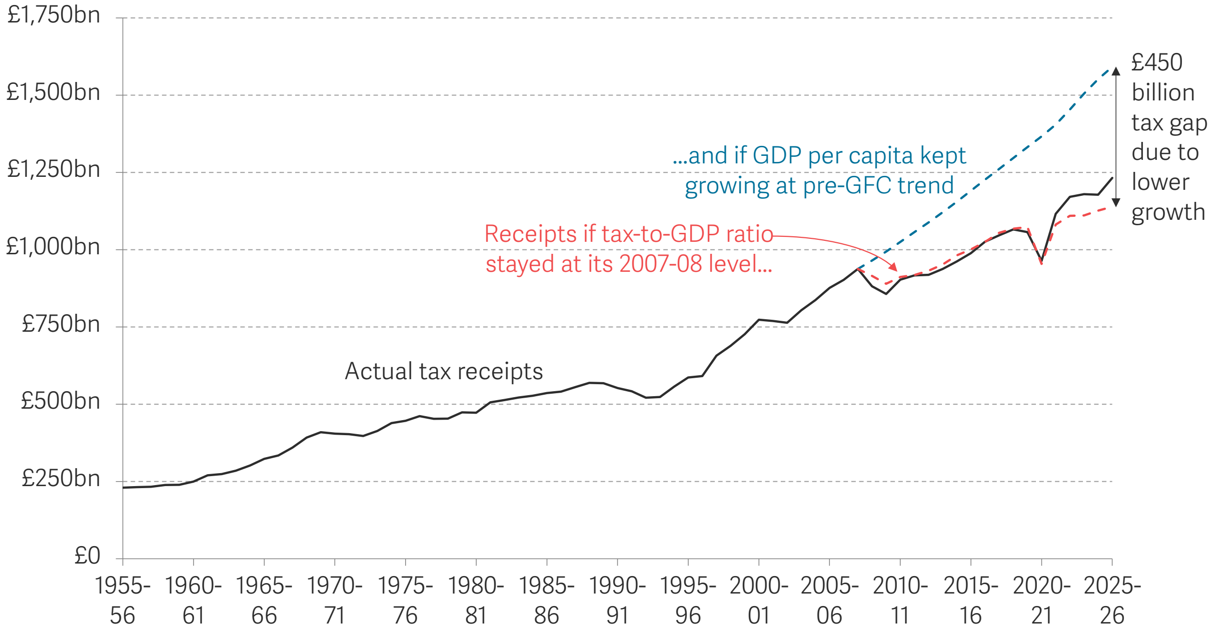
Many believe the disastrous slowing in economic growth is the single cause of our public finance woes. But in this section we use a simple accounting framework to show that the reality is not so straightforward. We start with tax revenues – where the impact of slower growth has been ruinous – before moving onto how growth has fed into decisions about public spending.

Nearly two decades of low growth has depressed both tax receipts and spending

Britain's post-crisis growth slowdown has been nothing short of catastrophic. Since 2007, GDP per person has grown at the slowest rate of any G7 economy bar Italy.[3] After nearly two decades of slow growth, tax receipts in 2025-26 were £450 billion lower than if the economy had remained on its pre-crisis growth path (see Figure 2).

FIGURE 2: **Slow growth since the financial crisis is costing the Exchequer £450 billion a year**

Real-terms public sector current receipts, outturns and counterfactual projections: UK



NOTES: Data converted to 2025-26 prices using the GDP deflator. The dashed red line is created by holding the tax-to-GDP ratio at its 2007-08 level and applying this to outturns for GDP. The dashed blue line also holds the tax-to-GDP ratio at its 2007-08 level but applies it to a counterfactual path for GDP. The counterfactual for real GDP combines the average rate of GDP per capita growth between Q1 1955 and Q1 2008 with outturns for population growth and the GDP deflator.
SOURCE: RF analysis of ONS, National accounts.

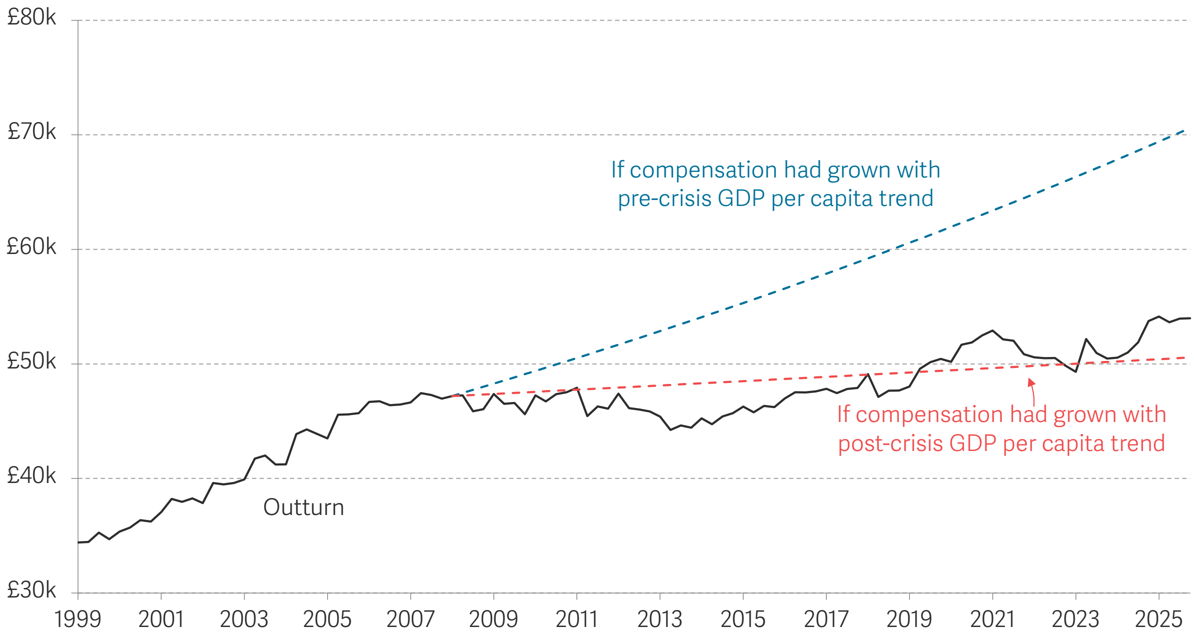
The painful consequences of weak growth have been felt across the economy. In the private sector, real wages are 27 per cent below where a continuation of the pre-crisis trend would have placed them today.[4] In the public sector, pay growth, public services and public investment have been repeatedly squeezed as budgets have been cut in the face of tax revenue shortfalls. This is the key reason why weak economic growth has led to an unprecedented stagnation in living standards.[5]

3 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024, https://doi.org/10.63492/pd7935.
4 Based on private sector regular pay, deflated by CPIH. RF analysis of ONS, EARN01: Average weekly earnings.
5 Resolution Foundation and Centre for Economic Performance, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

This impact of weak growth on tax revenues is just one side of how it affects the public finances. In a very simple accounting sense, the impact of nearly two decades of weak wage growth has also reduced spending, so the overall impact on the public finances is less dramatic. Between 2007 and 2025, public sector employee compensation – which includes both pay and pension contributions – grew by just 0.8 per cent per year after adjusting for inflation. At times, this was due to a specific public sector pay squeeze.[6] But, ultimately, public sector pay is determined by what is needed to achieve the recruitment and retention necessary for delivery, which in turn depends on private sector pay growth. Put another way, the shortfall of public sector pay reflects an economy-wide slowdown in output and earnings growth (see Figure 3). As a result, the average public sector worker today is £35,000 a year worse off than they would have otherwise been, across pre-tax pay and pension contributions combined. That has left public sector employee compensation 31 per cent less than had the pre-crisis trend continued, similar to the 27 per cent pay shortfall in the private sector. This is terrible for these workers' living standards but saved the state a whopping £111 billion in 2025-26 compared to a continuation of the pre-crisis trend – offsetting around a quarter of the shortfall in tax revenues.

FIGURE 3: **Weak economic growth has made public sector workers poorer – but cheaper to employ**

Real annualised general government compensation of employees per head, outturns and counterfactual projections: UK



NOTES: Data converted to 2025-26 prices using the GDP deflator. The counterfactual trend is constructed using a counterfactual for real GDP growth, combined with outturns for changes in the price of GDP and the tax-to-GDP ratio.
SOURCE: RF analysis of ONS, National accounts.

6 N Cominetti, N Hamdan & H Slaughter, Labour Market Outlook Q2 2023, Resolution Foundation, August 2023.

Welfare spending is also just over £100 billion below where a continuation of its pre-crisis trend would have seen it. As with public sector pay, this reflects a lack of economy-wide income growth, rather than the welfare bill failing to keep up with incomes elsewhere as the economy. In 2025-26, total welfare spending in Great Britain was an estimated 10.8 per cent of GDP, just 0.8 percentage points higher than its 2007-08 level.[7] The relative stability of the welfare bill in this period is remarkable, given the cuts and reforms that followed the financial crisis.[8] The main factors behind this stability – ageing, State Pension policy and declining health – are discussed in more detail below. But their impact, when combined with repeated pushes for welfare reform, has been to reshape the pattern of welfare spending in the UK. As a result, while the welfare bill has tracked incomes across the economy, the same has not been true for many individual recipients.[9] For example, non-health-related working-age benefits have been particularly hard hit, falling from 2.7 per cent of GDP in 2007-08 to 1.8 per cent in 2025-26.[10]

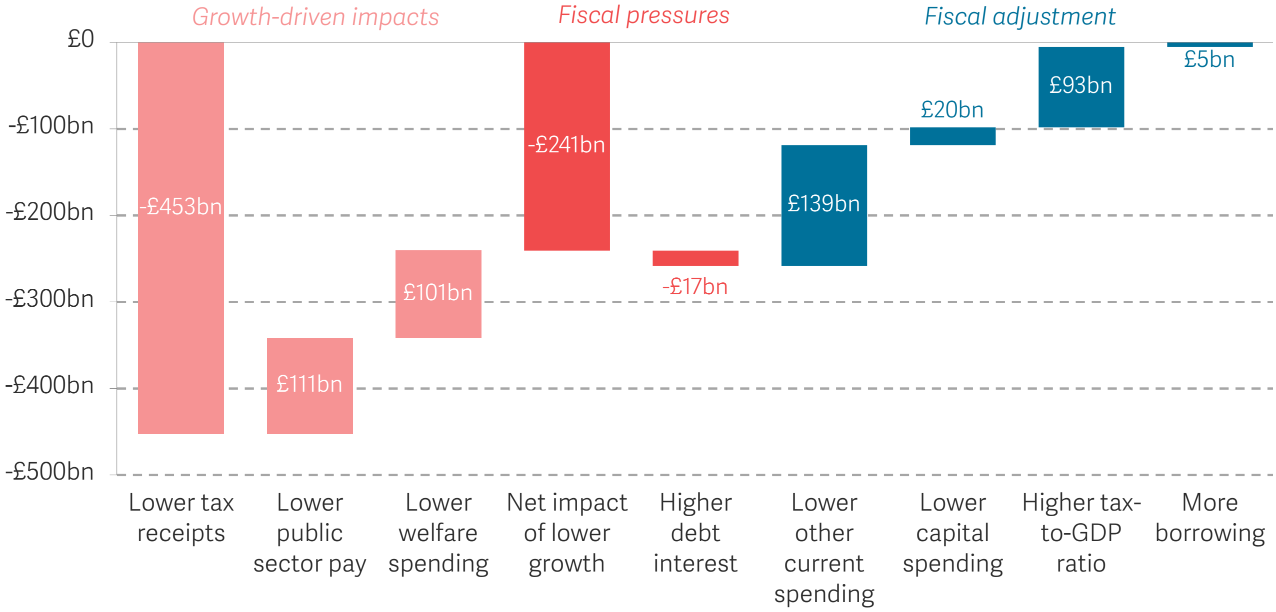
Squeezing public sector pay and holding down welfare spending have undoubtedly been politically painful. Yet they do reflect genuine savings in a low growth world. Had the economy continued to grow on its pre-crisis path, the government would need to pay its workers more to retain them and give more to welfare recipients, just to maintain the same relative level of living standards. Together, these combined savings of around £210 billion offset almost half of the £450 billion hit to tax receipts from lower growth – though this still leaves a substantial £240 billion shortfall in the public finances.

Figure 4 brings this all together and summarises the cumulative adjustment of the public finances to low growth. It extends the exercise shown for tax receipts in Figure 2 to the rest of the public finances, showing the difference between the 2025-26 outturn and a continuation of its pre-crisis trend for each component.[11] The red bars show the impact of lower growth on tax receipts, public sector pay and welfare spending, along with the impact of the sharp rise in interest rates that followed the pandemic.[12] The blue bars show how the state has compensated for the £240 billion shortfall via a combination of holding down spending, raising taxes and borrowing more.

7 A Clegg, Is welfare spending 'out of control'?, Resolution Foundation, November 2025.
8 M Brewer & A Clegg, Ratchets, retrenchment and reform: The social security system since 2010, Resolution Foundation, June 2024, https://doi.org/10.63492/gox251.
9 L Try, Money, money, money: The shifting mix of income sources for poorer households over the last 30 years, Resolution Foundation, February 2025, https://doi.org/10.63492/p3505p.
10 Great Britain only and excludes housing benefit spending. See Figure 1 in A Clegg, Is welfare spending 'out of control'?, Resolution Foundation, November 2025.
11 Pre-crisis trends are constructed by holding each element as a share of GDP at its 2007-08 level and growing this in line with a higher-growth counterfactual for GDP. This higher-growth path GDP combines the average rate of GDP per capita growth between Q1 1955 and Q1 2008 with outturns for population growth and the GDP deflator.
12 The fiscal hit from higher debt interest payments in Figure 4 is smaller than other measures of the impact – for example, debt interest payments rose by £53 billion in real terms between 2007-08 and 2025-26. This is because of a 'baseline effect' in the exercise presented in Figure 4. The debt interest bar in Figure 4 is the difference between actual debt interest payments in 20225-26 to a counterfactual where debt interest-to-GDP remains at its 2007-08 level and GDP had continued growing along its pre-crisis trend. This higher level of GDP raises the raises the counterfactual value of debt interest payments, and thus mechanically reduces the difference shown in Figure 4. Nonetheless, it does not change the overall story that the slowdown in growth has been a much larger fiscal pressure.

FIGURE 4: **Most of the public finances adjustment to low growth has come from less day-to-day spending and higher taxes**

Difference between public finance aggregates in 2025-26 relative to a continuation of pre-crisis trends: UK



NOTES: Shows the difference between 2025-26 outturns and counterfactuals for each element are constructed by growing its value in 2007-08 in line with higher-growth counterfactual for nominal GDP. This higher-growth path GDP combines the average rate of GDP per capita growth between Q1 1955 and Q1 2008 with outturns for population growth and the GDP deflator. For tax receipts, this is decomposed further into a 'pure' growth impact that is the difference between counterfactual receipts and 2025-26 tax receipts if the tax-to-GDP ratio had been held at its 2007-08 level, plus the impact of the change in the tax-to-GDP ratio between 2007-08 and 2025-26.
SOURCE: RF analysis of OBR, PSF aggregates databank; ONS, National accounts.

The first of these, lower non-wage current spending, has played a key role: other day-to-day spending (excluding debt interest) is £139 billion less than it would have been had budgets kept growing on their pre-crisis path. Investment spending is also £20 billion lower. This £159 billion squeeze reflects a constraint on the state's ability to deliver services and invest in its own capacity relative to a world of higher growth.

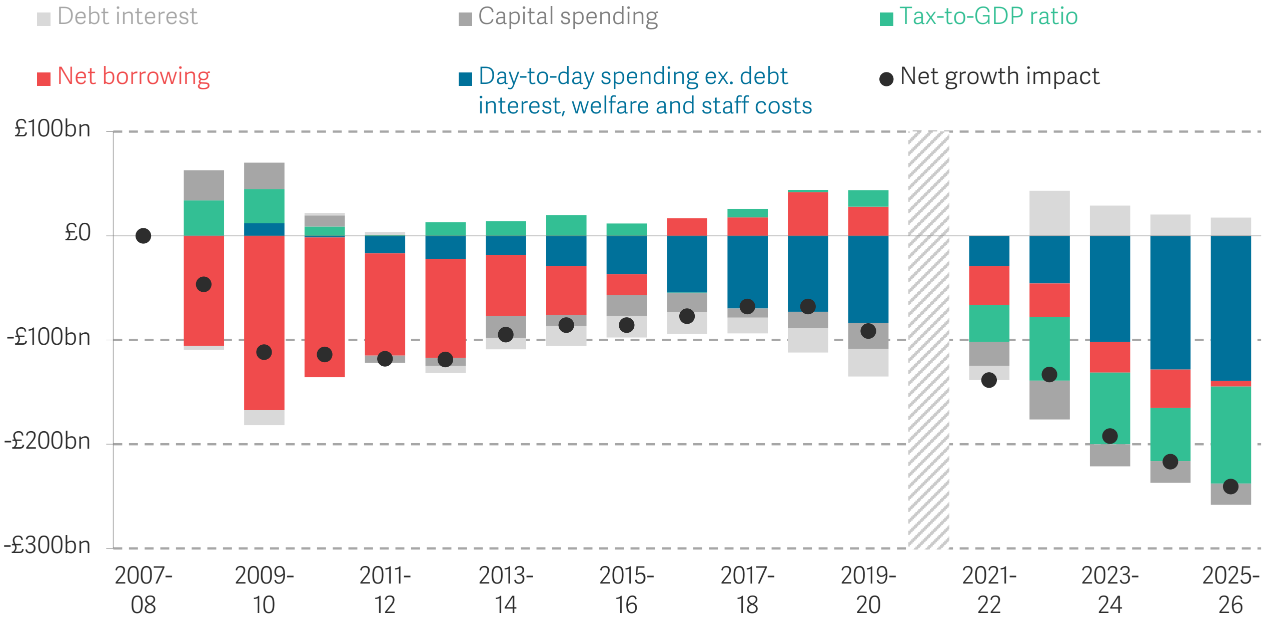
Yet even this £159 billion figure somewhat overstates the size of the hit to state capacity. This is because lower domestic wages reduce the real cost of some things that the state buys from the private sector. But this is only true in sectors where lower wages do not reflect lower productivity, mainly labour-intensive, hard-to-automate services such as private care provision.[13] In other sectors where lower wages do reflect lost productivity gains, or where the state directly or indirectly relies on imports, slower growth does genuinely constrain capacity. This is the squeeze that is most clearly felt in the deterioration in public services and state infrastructure over the past decade and a half.

13 In such sectors, workers are no less productive today than they would have been in a higher-growth world. But because wages are lower elsewhere in the economy, it is cheaper for firms in these sectors to employ workers, thus meaningfully reducing the cost of services bought by the state.

Tax rises are the final major margin of adjustment. The UK's tax-to-GDP ratio has risen by 3 percentage points since 2007-08, delivering a £93 billion boost to the public finances in 2025-26. This is a relatively new phenomenon. As Figure 5 shows – by repeating the exercise in Figure 4 for previous fiscal years and stacking the bars on top of one another – higher taxes were not part of Britain's fiscal adjustment to lower growth prior to the pandemic. Up to 2019-20, the tax-to-GDP ratio was slightly below its 2007-08 level.[14] With tax sidelined, borrowing took the strain of fiscal adjustment in the immediate post-crisis downturn, followed by a growing shortfall in day-to-day spending that remains a major part of the adjustment today.

FIGURE 5: **The adjustment to low growth started with more borrowing, shifted to lower day-to-day spending, with tax rises taking some of the strain post-pandemic**

Difference between public finance aggregates relative to a continuation of pre-crisis trends: UK



NOTES: See Figure 4 for definitions. 2020-21 is excluded due distortions of both GDP and the public finances due to the pandemic.
SOURCE: RF analysis of OBR, PSF aggregates databank; ONS, National accounts.

Adjusting to the post-financial crisis reality has contributed to Britain's failure to grow

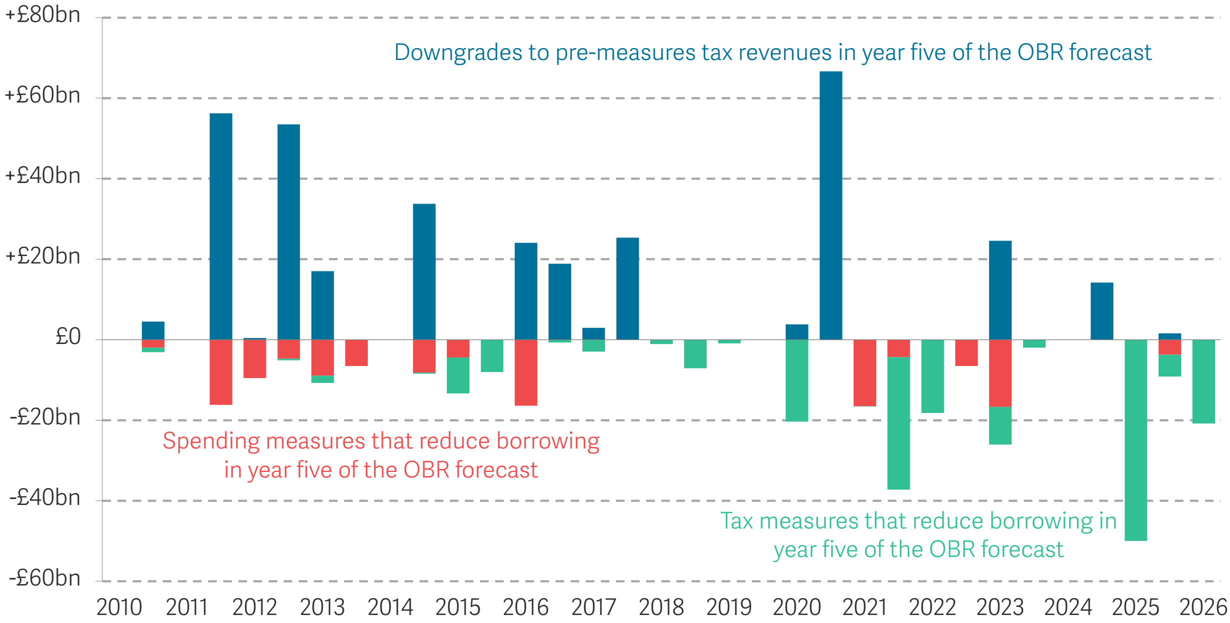
The process of adjusting to low growth has been reactive and inconsistent, leading to policy mistakes that have exacerbated our predicament. As shown in Figure 6, the full extent of the negative impact of low growth on tax receipts has emerged gradually over

14 In part, this was because the post-crisis increase in the standard rate of VAT was more than offset by structural hits to the tax-to-GDP, including the reversal of the pre-crisis boom in asset prices that pushed up revenue from related taxes.

time, through sporadic revisions to the OBR's fiscal forecasts. These have tended to be followed by a piecemeal tightening of tax and spending plans in subsequent fiscal events. This unstructured approach to reckoning with low growth has led to a number of key policy errors.

FIGURE 6: **There has been a sporadic realisation that tax revenues are weaker**

Changes in OBR pre-measures tax revenue forecasts in year five and announced tax and spending increases in year five: UK



NOTES: Positive value shows an increase in borrowing, negative values a decrease in borrowing in the fifth year of the forecast. Adjusted for GDP deflator inflation.
SOURCE: OBR, Forecast revisions database – March 2026.

An obvious example here is sharp cuts to public investment in the early 2010s, which was a first-order policy misstep that has had a lasting impact on our prosperity. In the three years between 2008-09 and 2011-12, public sector net investment was cut by more than a third (38 per cent) in real terms. While this was merely returning public investment to around its level prior to 2008, the real mistake was failing to take advantage of record-low interest rates to make up for prior decades of severe underinvestment.[15]

More recent policy mistakes have centred on the way the state taxes, rather than how it spends. Failure to face up to Britain's fiscal reality in the run-up to the 2024 General Election meant a Labour government came to power having ruled out raising Income Tax, employee National Insurance or VAT – the three biggest revenue-raisers in the UK tax system. And so hiking employer National Insurance was the main revenue-raising measure in the 2024 Autumn Budget, which further widened the economically damaging

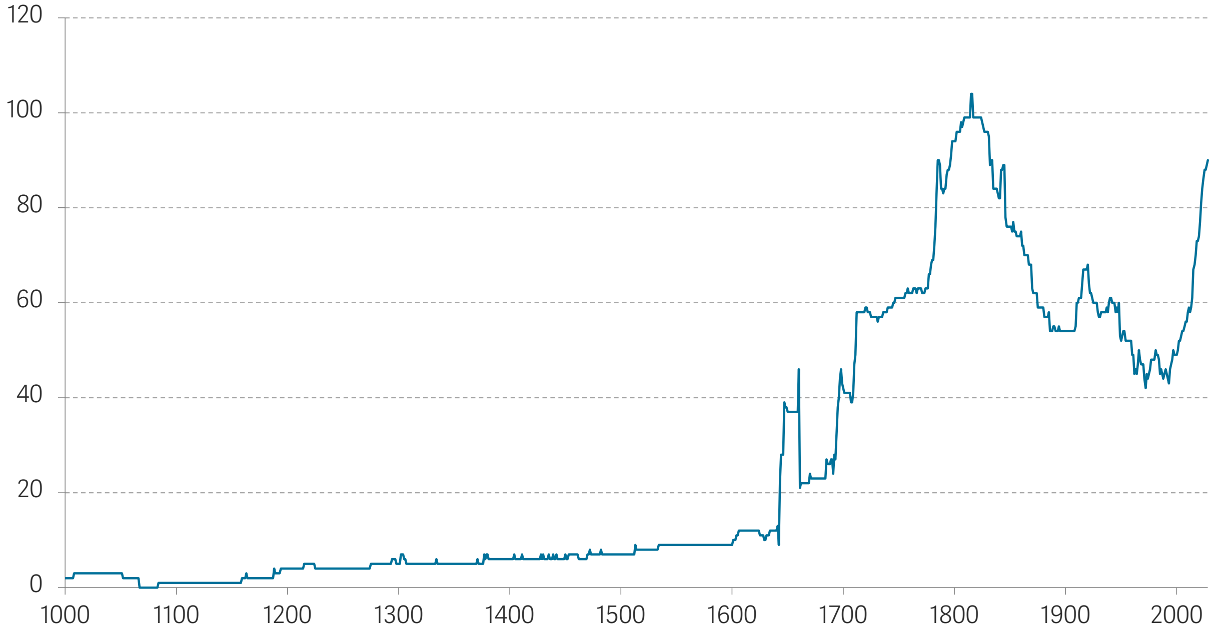
15 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023.

tax penalty on employee income.[16] Focusing that tax rise on lower-paid jobs meant its economic impact was more painful still.[17]

More broadly, tax rises in the 2020s have increased the complexity of the UK tax system. Analysis by Tax Policy Associates suggests that the number of taxes in Britain is at its highest level in almost 200 years (see Figure 7). And the recent pace of change has been historic: more individual taxes were added between 2020 and 2025 (14) than in any half-decade since the war-torn 18th Century. As well as the number of taxes, the overall complexity of the system has increased. In a recent review, the National Audit Office found that, although difficult to quantify, the cost of tax complexity on businesses is rising over time.[18] If tax rises are going to form part of Britain's fiscal adjustment to lower growth, it cannot afford an unduly complex system.

FIGURE 7: **A rapid rise in the number of UK taxes has added undue complexity to the system**

Number of active taxes: UK



SOURCE: D Neidle, Why does Britain have more taxes than at any time since 1834?, Tax Policy Associates, May 2026.

This painful process of cutting the state's coat to fit its smaller tax revenue cloth means that, despite cutting hundreds of billions of pounds from public services spending, the state is now actually larger as a proportion of national income than it was before the financial crisis. At the same time, tax revenues are higher relative to GDP. This is the

16 A Corlett, It's personal (taxation): Taxes on typical employees aren't unusually high, but the bias against them is, Resolution Foundation, October 2025, https://doi.org/10.63492/vzw6992.
17 N Cominetti & G Thwaites, Minimum wage, maximum pressure?: The impact of 2025's minimum wage and employer NICs increases, Resolution Foundation, March 2025, https://doi.org/10.63492/dxif445.
18 National Audit Office, The administrative cost of the tax system, February 2025.

process by which unexpected shortfalls in GDP growth have generated what we refer to in this paper as a 'fiscal funk' – the inability to stop a huge deterioration in the public finances despite painful cuts to spending and increases in taxes – that successive governments have been unable to escape.

Extra fiscal pressures have come from Britain's older and sicker population

But it is wrong to think that low growth is behind all of our fiscal woes. As we will show, even had UK remained on its pre-financial crisis growth path, it would still have had to contend with a severe demographic and ill-health challenge that has played out over the past two decades. This has raised demand for public services and increased welfare spending without a change in government policy on what the state aims to provide.

The UK population has aged since the financial crisis, but raising the State Pension age has offset most of the fiscal pressure created

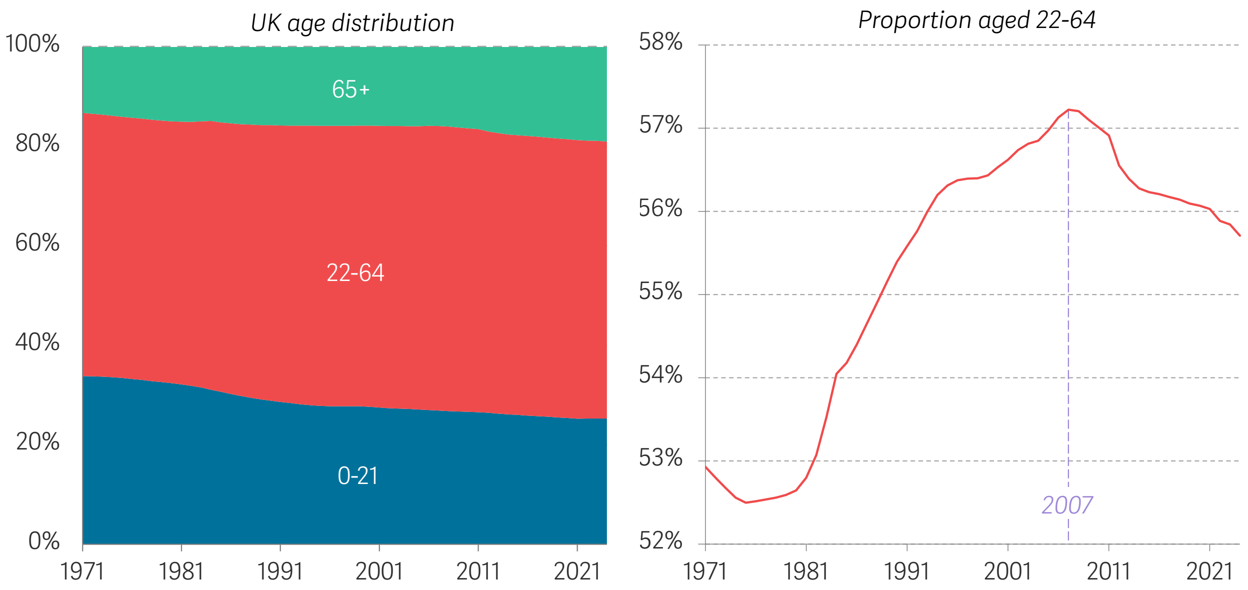
An older population is the first element of Britain's challenge. This dynamic is by no means new: the UK population has been ageing for decades, due to a combination of a lower birth rate following the post-war baby boom (which in Britain lasted through to the end of the 1960s) and longer life expectancies.[19]

But the change since 2007 has been particularly difficult for the public finances. As shown in Figure 8, before 2007 the slowly growing share of the population at older ages was more than offset by a falling share of fiscally costly young people – mitigating the overall impact on the public finances.[20] Then came a poorly timed turning point. Just as the financial crisis hit, baby boomers started to reach retirement age, and the share of people aged 65-plus rose rapidly. As a result, the working age share of the population (here proxied by those aged 22-64) began to fall for the first time in more than 30 years. On this metric at least, 2007 marked the onset of Britain's age-related fiscal pressures.

19 M Murphy, Projections for Assessing the Demographic Determinants of Population Ageing, European Journal of Population 37, September 2020, https://doi.org/10.1007/s10680-020-09567-9.
20 Here, we focus on underlying demographic pressure independent of policy changes. We therefore use the share of the population above 65 and below 22 as benchmarks that aren't affected by changes to the State Pension age and university access.

FIGURE 8: **The working age share of the population reached a turning point in 2007 and has been falling since**

Proportion of the population by age group (left panel) and proportion aged 22-64 (right panel): UK



SOURCE: ONS, Estimates of the population for the UK.

How much have growing age-related fiscal pressures cost in the post-crisis period? To answer this question, we make use of modelled age profiles for tax receipts and spending, published by the OBR in its 2026 Fiscal risks and sustainability (FRS) report.[21] Although these age profiles are used by the OBR in its long-run fiscal projections, because the distribution of tax and spending across ages hasn't changed much over time they also provide a useful guide for quantifying the impact of Britain's changing age structure to date.[22] Based on the UK's current age structure, the FRS age profiles imply that (if we abstract from cyclical tax and spending effects) Britons, on average, would have provided a net fiscal contribution (taxes paid minus spending received) of around £700 in 2025-26.[23] The same calculation with the 2007-08 age structure implies an average contribution of more than double that amount (around £1,500). Scaled up across almost 70 million people, that means the change in the UK's age structure since 2007-08 has cost the Exchequer £52 billion, due to higher spending needs and a smaller share of taxpaying workers.

21 OBR, Fiscal risks and sustainability, July 2026.
22 The OBR says that its latest age profile for spending is "very similar to the age profiles used in all [its] previous long-term projections, which were largely estimated in the mid-2000s." Its age profile for tax receipts has shifted a little due to an observed increase in the peak ages of employment, earnings and consumption, with a more significant departure from its previous age profiles coming from a methodological change regarding the distribution of inheritance tax receipts (rather than an actual change in the relationship between age and tax receipts). See Annex C in OBR, Fiscal risks and sustainability, July 2026.
23 As well as not accounting for cyclical effects, this number also differs from 2025-26 public finances aggregates because it does not account for spending related to debt interest or changes to tax and spending policy between now and the end of the OBR's medium-term forecast (2030-31).

Governments haven't stood still in the face of these growing age-related pressures – although not always to productive ends. Since 2010, the triple lock has raised the value of the State Pension above income growth. The cost of the triple lock has been exacerbated by population ageing, and costs £12.6 billion more today than if the State Pension had been updated in line with earnings since 2012 (or £9 billion after accounting for the offsetting impacts on income tax receipts and pensioners' means-tested benefits).[24] A more expensive State Pension has magnified the fiscal impact of an older population: the £52 billion cost of population ageing since 2007-08 is more than it would have been without the triple lock. A particularly important response to that pressure has been raising the State Pension age. Between 2010 and 2020, the State Pension age was first equalised at 65 for men and women (previously, it was 60 for women) and then raised to 66 for all.[25] As a result of these changes, there are 3.1 million fewer people of State Pension age today, saving more than £38 billion in 2025-26, thus offsetting around three-quarters (73 per cent) of the age-related fiscal pressure that has built up since the financial crisis.[26]

Over and above the impact of ageing, growing ill-health has piled pressure on to health-related spending

Unfortunately, ageing isn't the only demographic change that has added to public spending pressure since the financial crisis. As well as getting older, the UK population has got sicker – a trend that has accelerated since the pandemic.

There is much debate over the true picture of population health in Britain.[27] And plummeting response rates across UK household surveys since the pandemic makes it harder to resolve that debate.[28] More fundamentally, it is well-known that survey-based measures of self-reported health reflect cultural norms that can vary across countries and over time.[29] In particular, it is plausible that people are now more willing to describe and report symptoms of poor mental health than they were a few decades ago. However, if the same cultural factors that drive up rates of self-reported ill-health, such as greater awareness of certain conditions, also lead to more demand for medical attention and a greater willingness to claim health-related benefits, they should not be ignored when weighing up spending pressures.

24 R Curtice & A Clegg, What a ratchet!: Why it's time to stop being polite about the triple lock, Resolution Foundation, June 2026, https://doi.org/10.63492/xyv4302.
25 These changes were first set out in 1995 and 2007, respectively, with the timelines for both accelerated in 2011. For more, see: F Hobson & C Baker, State Pension age review, House of Commons Library, April 2023.
26 This figure scales up the annual value of the State Pension in 2025-26 across 3.1 million 'missing' people of State Pension age. It does not account for additional savings that stem from the greater generosity of other pensioner benefits compared to their working-age equivalents, or the impact of a higher State Pension age on retirement behaviour.
27 See, for example, J Burn-Murdoch, The problem with healthy life expectancy, Financial Times, May 2026.
28 Office for Statistics Regulation, State of the UK Statistical System 2025, July 2025.
29 For an international perspective, see: B Geiger & C Prinz, Measuring disability employment gaps: How to get robust comparisons across countries and over time, OECD Social, Employment and Migration Working Papers No. 314, December 2025, https://doi.org/10.1787/2d0be829-en.

Given all this, however, it's clear that there has been a meaningful deterioration in mental health since the early 2010s. Across a range of surveys, there is a consistent trend of worsening mental health in the working-age population, particularly among younger adults.[30] This self-reported data is corroborated by evidence from diagnostic tests and a rise in deaths that could plausibly be related to worse mental health (so-called 'deaths of despair' due to alcohol, drugs or suicide).[31]

The trend for physical health is less clear, with a mixed picture on self-reported physical health across surveys.[32] Clinical data is also mixed: cardiovascular health has improved significantly, while health across other major conditions has worsened (see Box 1).

But perhaps more consequential for the NHS has been the growing complexity of patients' needs, rather than simply the changing share of the population with some form of health condition.[33] As shown in Figure 9, between 2006-07 and 2020-21, a growing proportion of people admitted for acute hospital care had a pre-existing medical condition (relating to both mental and physical health). But there was a much more striking shift within this growing group. Across all age groups, the share that had at least three pre-existing conditions trebled between 2006-07 and 2020-21.[34]

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30 E Latimer, S Ray-Chaudhuri & T Waters, The role of changing health in rising health-related benefit claims, Institute for Fiscal Studies, October 2025, https://doi.org/10.1920/re.ifs.2025.0012; C Henking & B Baumberg Geiger, Population mental health in England, 2003–2022: Teasing apart psychological distress, mental illness and activity limitations, ESRC Centre for Society and Mental Health, King's College London, July 2026, https://doi.org/10.31235/osf.io/8ygrz_v2.

31 T Gagné et al., Mental distress among young adults in Great Britain: long-term trends and early changes during the COVID-19 pandemic, Social Psychiatry and Psychiatric Epidemiology 57, November 2021, https://doi.org/10.1007/s00127-021-02194-7; E Latimer, S Ray-Chaudhuri & T Waters, The role of changing health in rising health-related benefit claims, Institute for Fiscal Studies, October 2025, https://doi.org/10.1920/re.ifs.2025.0012.

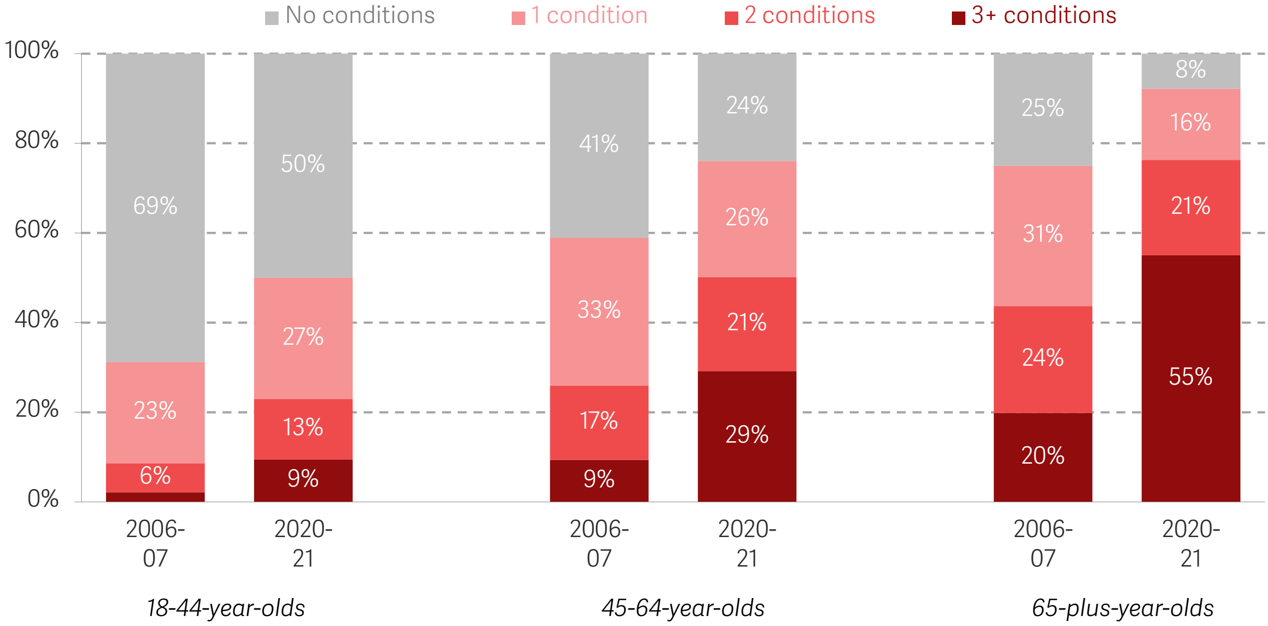
32 E Latimer, S Ray-Chaudhuri & T Waters, The role of changing health in rising health-related benefit claims, Institute for Fiscal Studies, October 2025, https://doi.org/10.1920/re.ifs.2025.0012.

33 In the context of health-related spending pressures, this trend has previously been discussed in: A Charlesworth et al., Securing the future: funding health and social care to the 2030s, Institute for Fiscal Studies, May 2018, https://doi.org/10.1920/re.ifs.2019.0143.

34 Although the most recent data point here was during the pandemic, there does not appear to be a pandemic effect on the distribution of morbidities among acute admissions. See Figure 1 in Faitna et al., Has multimorbidity and frailty in adult hospital admissions changed over the last 15 years? A retrospective study of 107 million admissions in England, BMC Medicine 22, September 2024, https://doi.org/10.1186/s12916-024-03572-z.

FIGURE 9: **A sharp rise in the share of patients with multiple conditions has increased the complexity of cases for the NHS**

Proportion of acute hospital admissions by age and number of pre-existing conditions: England



SOURCE: Faitna et al., Has multimorbidity and frailty in adult hospital admissions changed over the last 15 years? A retrospective study of 107 million admissions in England, BMC Medicine 22, September 2024, https://doi.org/10.1186/s12916-024-03572-z.

BOX 1: **In England, progress has been made on cardiovascular disease, but other major conditions have become more common in the past two decades**

This box summarises the clinical evidence on the prevalence of major physical health conditions in England. Following the OBR's 2024 Fiscal risks and sustainability report, we focus on three areas that are key drivers of health-related spending in Britain: obesity and diabetes, lung disease and heart disease.[35] We draw primarily on NHS England's Health Survey for England, which uses direct measurements rather than self-reporting to assess respondents' physical health, and patient data collected for the NHS Quality and Outcomes Framework.

- Obesity and diabetes. As in many rich countries, obesity rates have risen in recent decades. Between 2007 and 2024, the rate of obesity among adults in England rose by a quarter (from 24 per cent to 30 per cent) and, within that, the rate of severe obesity almost doubled (from 1.8 per cent to 3.4 per cent).[36] Obesity is a major risk factor

35 OBR, Fiscal risks and sustainability, September 2024.
36 NHS England, Health Survey for England. Obesity is defined as a BMI of at least 30; severe obesity is defined as a BMI of at least 40.

for many diseases, including heart disease, arthritis and diabetes.[37] On the latter, the share of British adults with diabetes has risen with obesity (from 7.1 per cent in 2012 to 9.3 per cent in 2024).[38]

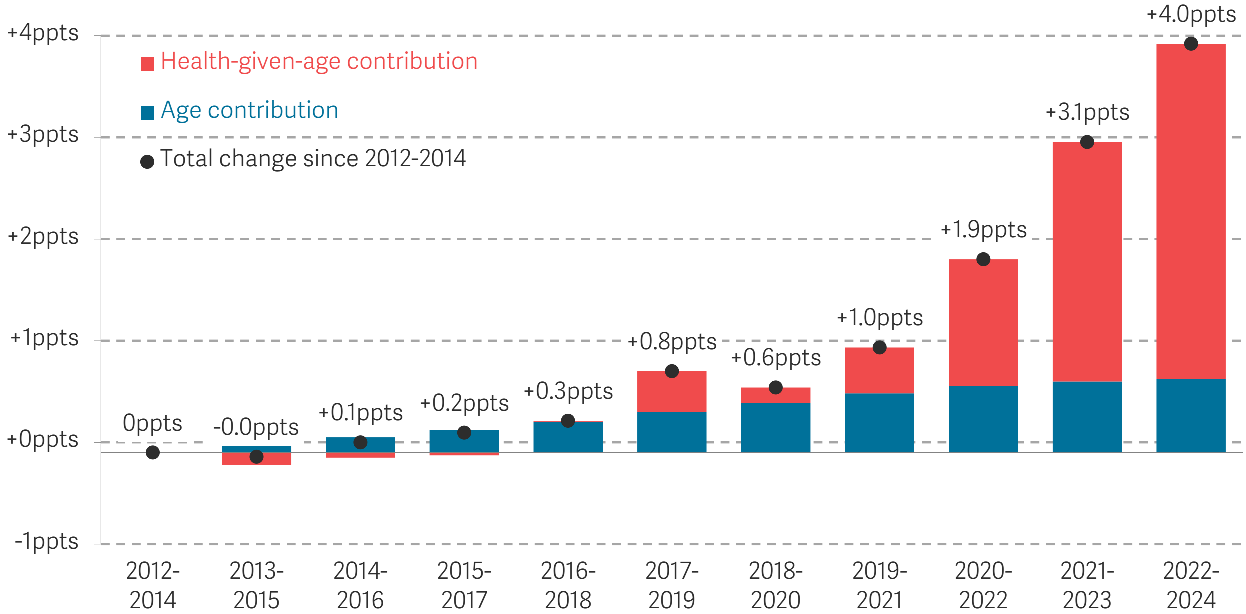
- Lung disease. As a proportion of all people registered with a GP in England, the prevalence of Chronic Obstructive Pulmonary Disease (COPD) rose by a fifth between 2009-10 and 2024-25 (from 1.6 per cent to 1.9 per cent).[39] In part, this likely reflects the lagged impact of historic rates of smoking. But the combination of rising prevalence with falling incidence (new cases) suggests improved longevity of those with COPD is playing a key role here.[40]
- Heart disease. Here, considerable progress has been made. The rollout of statins has reduced cholesterol levels across the country. This has helped both bring down the number of cardiac surgeries conducted each year and cut England's age-adjusted cardiovascular mortality rate by 40 per cent between 2006-2008 and 2022-2024.[41]

When quantifying the impact of rising ill-health on public spending pressures, care is needed. We have already seen that population ageing since the financial crisis has added £52 billion of spending pressure. In part, this figure reflects the fact that we tend to get sicker as we get older, and so an older population has higher health-spending needs. So, when sizing up the extra fiscal pressure from a sicker population, we must strip out the part driven by ageing. Figure 10 attempts to do that using the ONS' modelled prevalence of poor health by age.[42] In the decade up to 2022-24, the share of the population thought to be in poor health rose by 4 percentage points. Of this, population ageing accounts for only 0.7 percentage points, or about one-fifth (18 per cent) of the total. The remaining four-fifths can be attributed to declining health within age groups and is therefore additional to age-related spending pressure. Worse mental health – particularly, but not exclusively, among young people – has played an important role.[43]

37 STOP Obesity Alliance, Fast Facts – Obesity-Related Chronic Disease, February 2020.
38 NHS England, Health Survey for England.
39 NHS England, Health Survey for England.
40 H Whittaker et al., Incidence and prevalence of asthma, chronic obstructive pulmonary disease and interstitial lung disease between 2004 and 2023: harmonised analyses of longitudinal cohorts across England, Wales, South-East Scotland and Northern Ireland, Thorax (80), April 2025, https://doi.org/10.1136/thorax-2024-222699.
41 National Cardiac Audit Programme, National Adult Cardiac Surgery Audit: 2025 Annual Report; ONS, Preventable cardiovascular mortality (England).
42 These figures are ultimately based on the ONS Annual Population Survey, with some additional information provided by the Census. For more details on their construction, see: ONS, Healthy life expectancy quality and methods guide, April 2026.
43 C McCurdy & L Murphy, We've only just begun: Action to improve young people's mental health, education and employment, Resolution Foundation, February 2024, https://doi.org/10.63492/cxp2417.

FIGURE 10: **Most of Britain's rise in ill-health cannot be explained by an older population**

Change in the modelled proportion of the population reporting not being in good health since 2012-14: UK



NOTES: Based on a Das Gupta two-factor decomposition of the change between consecutive overlapping three-year periods.
SOURCE: RF analysis of ONS, Inputs for calculating healthy life expectancy, UK; ONS, Estimates of the population for the UK.

Putting a precise figure on the fiscal cost of a sicker population is extremely difficult, owing to the wide range of impacts on the public finances. Tax revenues are hit, as both those in ill-health and their carers are less able to take on paid work.[44] At the same time, spending pressures bubble up across the system – from more spending on special educational needs and disabilities (SEND) in schools to rising demand for Local Authority social care. But, to broadly quantify the fiscal impact of rising ill-health, we focus on central government's main spending items directly related to health: the Department of Health and Social Care (DHSC) budget and health-related benefits.

We focus on these two areas because of their size. In 2025-26, the Government spent an estimated £299 billion across DHSC and health-related benefits at today's prices (£218 billion of spending at DHSC and £81 billion of health-related benefits).[45] Together, they account for £1 out of every £4 (24 per cent) of government spending outside debt interest payments. This £299 billion of total spending works out at more than £10,000 per person in poor health, depending on how poor-health prevalence is measured.[46]

44 H Slaughter & I Stone, Don't forget about us: How disabilities and caring responsibilities affect low-to-middle income Britain, Resolution Foundation, July 2025, https://doi.org/10.63492/5pza71.
45 RF analysis of DWP, Spring Forecast 2026 Expenditure and Caseload forecasts; Scottish Fiscal Commission, Scotland's Economic and Fiscal Forecasts, various; OBR, Economic and fiscal outlook, March 2026.
46 See the notes to Figure 12 for details on the different measures of poor health.

As a rough guide to the fiscal cost of worsening health, we ask: if the prevalence of ill-health had not risen over time, how much less would the Government need to spend to maintain today's level of spending per person in poor health? This simple calculation is naturally imperfect. It implicitly assumes a baseline of flat real-terms spending per person in poor health, not accounting for other factors that affect demand for healthcare or the cost of providing it. These include the shifting nature of ill-health in Britain – both the growing importance of mental health problems and the rise in complex needs – and a higher relative price of healthcare services (see Box 2). Nonetheless, it is helpful for framing the magnitude of health-related fiscal pressure. If the prevalence of poor health had stayed at its 2007-08 level, the government would have saved £53 billion in 2025-26 alone, at today's level of per-person spending.[47] After accounting for the one-fifth of worsening health that was driven by ageing, that leaves £43 billion of spending pressure that is additional to the £52 billion of age-related pressure outlined above.

BOX 2: **As well as rising ill-health, growth in the relative price of health and care services has eroded 'real-terms' gains in health spending**

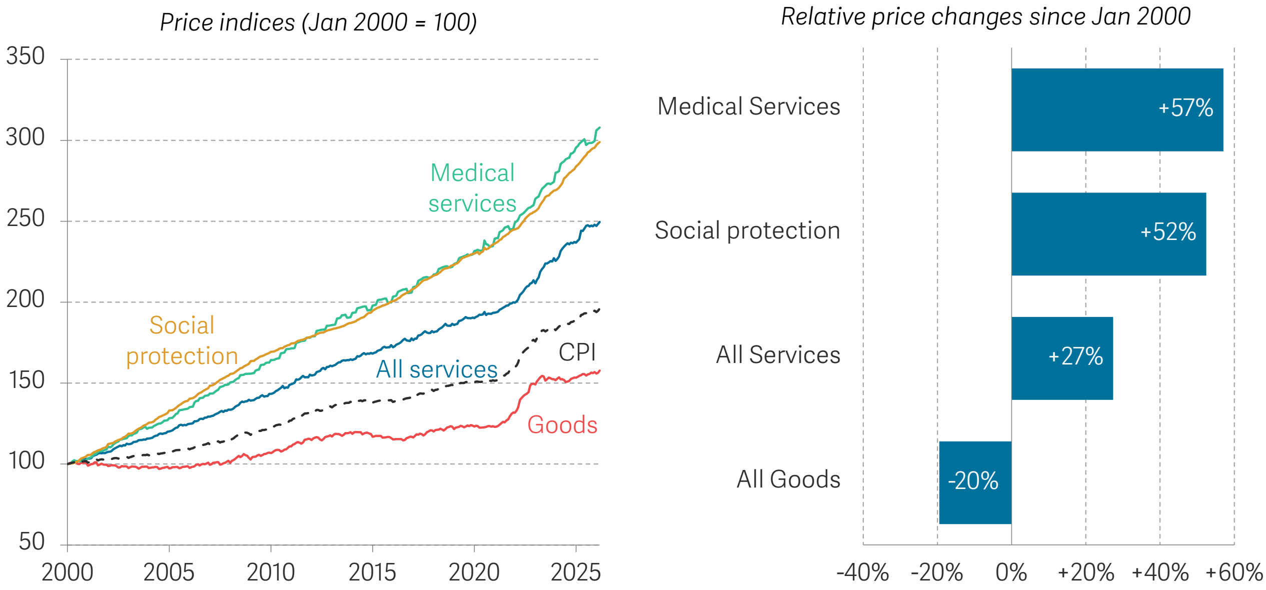
Throughout this report, we often refer to 'real-terms' changes in public spending totals. Typically, real-terms comparisons use the GDP deflator – an index of the average price of goods and services produced in the UK. But using an aggregate price index masks changes in relative prices over time that affect the Government's purchasing power in crucial ways.

This is especially important for health and care spending. As shown in Figure 11, price growth in healthcare and social care services (included in 'Social protection') has consistently outstripped overall inflation. Compared to January 2000, their relative prices have increased by more than 50 per cent. The price pressures facing public health and social care providers do not move one-for-one with market prices in Britain, but there has been an increase in the sectoral deflator for healthcare in recent years.[48] In the face of rising relative prices, flat 'real-terms' – that is, GDP-deflated – spending may in fact reflect an erosion in the state's true purchasing power.

47 This calculation uses 2024-25 estimates for the prevalence of poor health, as a range of estimates for 2025-26 is not yet available.
48 C Aref-Adib, E Fry & Z Leather, At your service?: Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025, https://doi.org/10.63492/zvyn2275.

FIGURE 11: **Like many services, health and social care have become relatively more expensive over time**

Consumer price indices (left panel) and relative price changes since January 2000 (right panel): UK



SOURCE: RF analysis of ONS, Consumer prices.

The trends in health and social care are particularly acute examples of a broader rise in the relative price of services, which tends to occur in growing economies (even those growing as slowly as post-financial-crisis Britain). The productivity gains that power economic growth are not evenly distributed across industries: typically, productivity grows faster in the production of goods than in services. But competition for workers across the economy bids up wages even in sectors where productivity hasn't grown, which is then passed on as higher prices. This phenomenon is known as a 'Baumol effect'.[49]

More spending on health and social care has meant sharp cuts to other public services

The British state has broadly accommodated this growing need for health-related spending. In real-terms, spending on the DHSC budget and health-related benefits grew by 58 per cent between 2007-08 and 2025-26 – or 40 per cent after accounting for population growth. While this is a very healthy growth rate (and, as we shall see, stands in stark contrast to the fortunes of other areas of spending), it turns out to have been only just enough to keep up with the declining health of the country. Here we focus on spending growth since 2012-13, as that

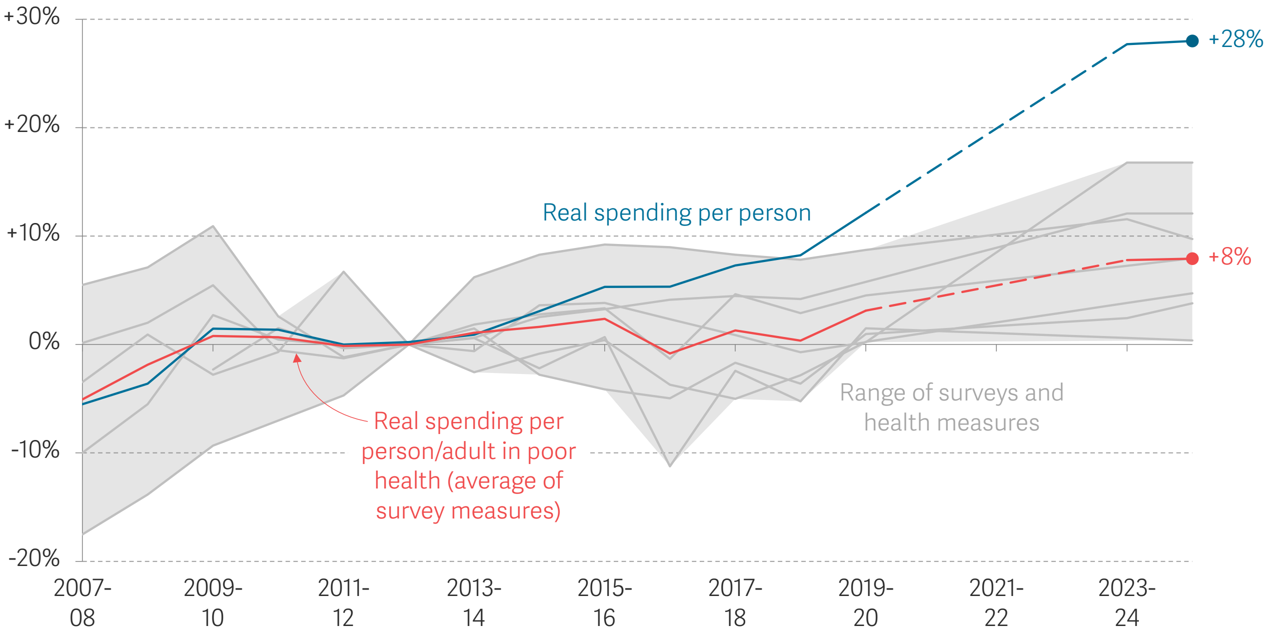
49 W J Baumol & W G Bowen, On the Performing Arts: The Anatomy of Their Economic Problems, The American Economic Review 55(1), March 1965.

allows for a comparison across the fullest range of health measures, while still capturing most of the total growth in spending since the financial crisis.

In Figure 12, we adjust the rise in health-related spending over this period not just for population growth, but also for the rising share of the population in poor health. Between 2012-13 and 2025-26, health-related spending per person grew by 28 per cent in real terms. But, when looking at per person in poor health, real-terms spending is only up by an estimated 8 per cent over the period (taking an average reading from multiple survey-based measures of ill-health). By no means is this a definitive answer on the evolution of health-related spending relative to need. But it does hint at one of the reasons why a significant increase in real per-person spending has not translated into greater satisfaction with healthcare services.

FIGURE 12: **Health-related spending has risen significantly since the financial crisis, but only by just enough to keep pace with rising ill-health**

Change in real health-related spending by central government since 2012-13: UK

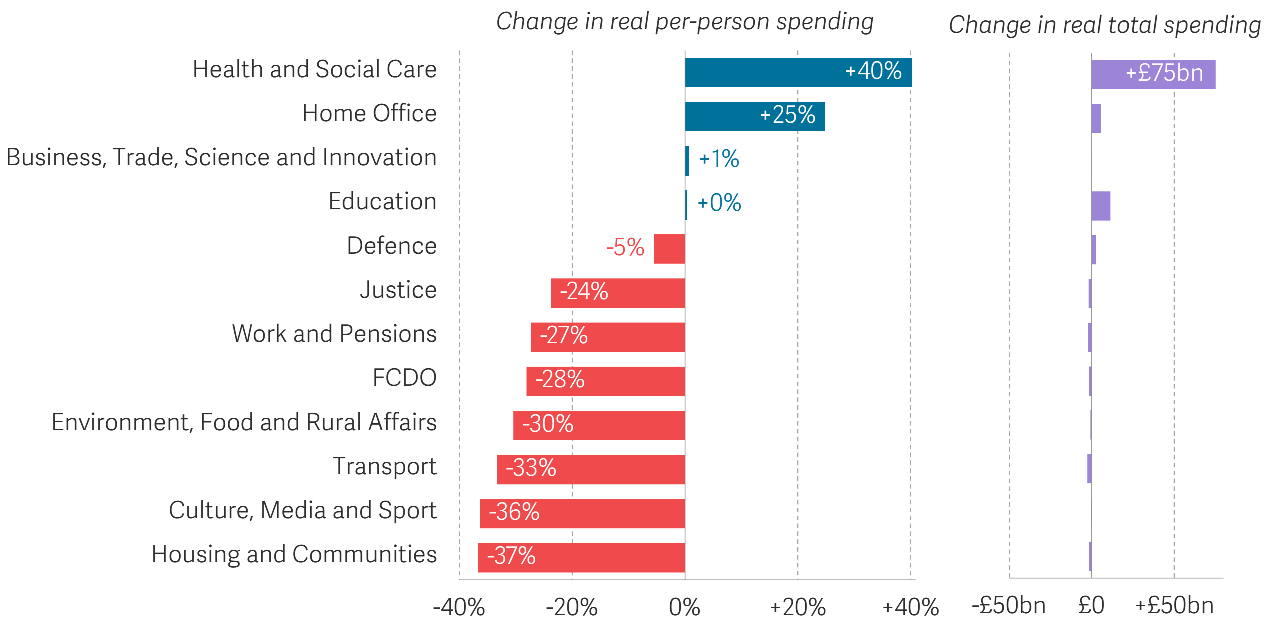


NOTES: Health-related spending combines DHSC TDEL and health-related benefits. Spending totals are for fiscal years. Data from Health Survey for England and the ONS healthy life expectancy inputs are for calendar years and three-year periods, respectively. They are aligned with spending and population totals from the fiscal year that most overlaps with the single calendar year or the middle year of the three-year period. The different measures of poor health represented by the grey swathe are the proportions of: people not in good health (ONS healthy life expectancy inputs, Health Survey for England), adults in bad or very bad health (Health Survey for England) and people (Health Survey for England, Family Resources Survey) or adults (Labour Force Survey, Understanding Society) with a longstanding illness. In all cases, the prevalence of ill-health is applied to the total or adult population at the UK level to estimate the number of people or adults in ill-health. Dashed lines smooth through 2020-21 to 2022-23, where health and social care spending was elevated due to Covid. To avoid changes to the survey average due to missing data in 2024-25, we assume that the prevalence of ill-health in Understanding Society and the ONS healthy life expectancy inputs is unchanged from their levels used in 2023-24.
SOURCE: RF analysis of ONS, Labour Force Survey; ONS, Inputs for calculating healthy life expectancy, UK; ONS, Estimates of the population for the UK; NHS England, Health Survey for England; ISER, Understanding Society; DWP, Family Resources Survey; OBR, Economic and Fiscal Outlook, March 2026; DWP, Benefit expenditure and caseload tables, Spring Statement 2025; Scottish Fiscal Commission, Scotland's Economic and Fiscal Forecasts, various; HM Treasury, Budget and Spending Review documents, various.

Looking at day-to-day budgets for central government departments, a big rise in real per-person spending at the biggest department has meant swingeing cuts in most others (see Figure 13). This trend is set to continue in the coming years, as Labour has continued to prioritise health spending as it has raised day-to-day spending since coming into power. The 2025 Spending Review set out plans for overall day-to-day spending to rise in the coming years, but with £9 out of every £10 in higher spending going to health and social care.[50]

FIGURE 13: **Protecting health spending has meant sharp real-terms cuts in many departments**

Percentage change in real per-person RDEL spending (left panel) and absolute change in real total RDEL (right panel) between 2007-08 and 2025-26: UK



NOTES: Does not include spending by devolved governments. Adjustments have been made to spending totals to track departmental budgets consistently over time. Real-terms spending is expressed in 2025-26 using the GDP deflator.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various; ONS, National accounts.

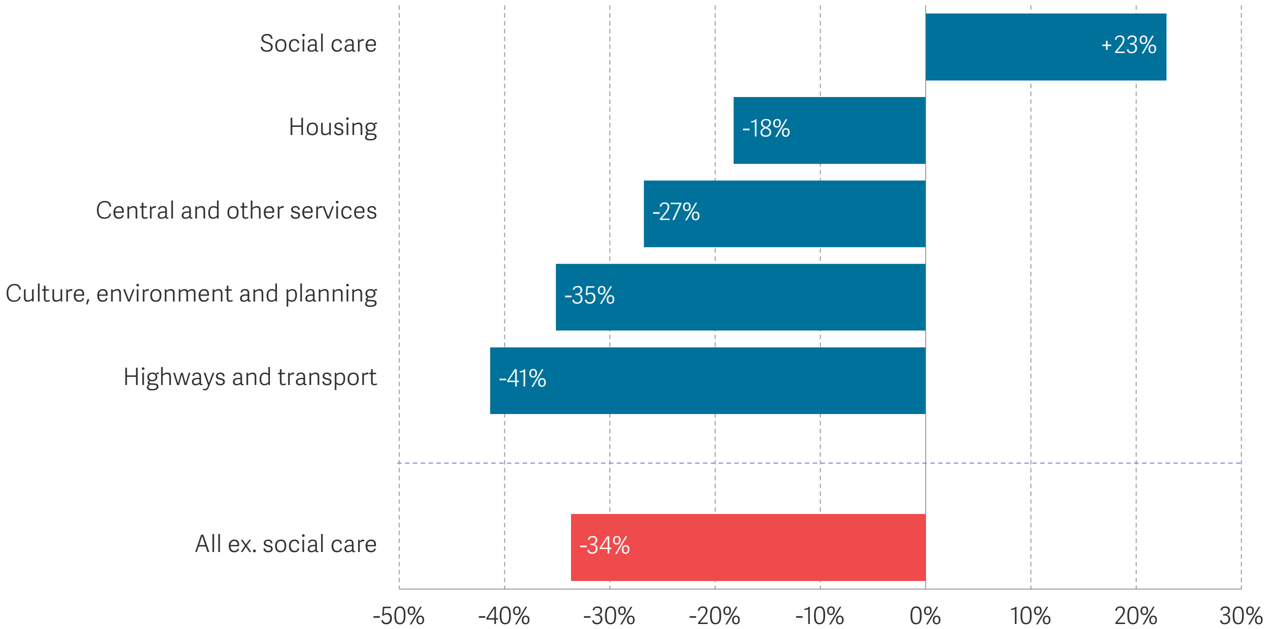
The picture is even bleaker in local government. Many of the services provided by Local Authorities have been hit by a double whammy of squeezed Local Authority budgets and a shift towards social care, mirroring the growth of health-related spending at the national level. According to the OECD, local government spending in Britain fell by 15 per cent between 2007 and 2024 after adjusting for inflation and population growth (over the same period, central government spending rose by 21 per cent on the same basis).[51] And, within those smaller budgets, a growing share has gone to fund social care. Outside of

50 C Aref-Adib et al., A healthy State?: Putting the 2025 Spending Review into context, Resolution Foundation, June 2025, https://doi.org/10.63492/pfg738.
51 RF analysis of OECD, Annual government expenditure by function (COFOG); ONS, National accounts.

social care, in spending areas that can be tracked consistently over time, real per-person spending by Local Authorities fell by a third (34 per cent) between 2007-08 and 2025-26.[52] This shift has been attributed to a combination of higher demand for social care, higher costs and Local Authorities' statutory duties for providing social care.[53]

FIGURE 14: **Since the financial crisis, Local Authorities have increased spending on social care and cut funding for other services**

Change in real per-person Local Authority spending between 2007-08 and 2025-26, by service area: England



NOTES: Chart follows K Ogden & D Phillips, How have English councils' funding and spending changed? 2010 to 2024, Institute for Fiscal Studies, June 2024 in only tracking spending in areas that can be compared consistently over time. Compares 2025-26 Local Authority budgets with 2007-08 spending outturns. Housing excludes mandatory housing benefits administered by Local Authorities. Social care excludes Sure Start and services for young people, which prior to 2015-16 were included in Local Authorities' education budgets. Real-terms spending measured using the GDP deflator.
SOURCE: RF analysis of MHCLG, Local authority revenue expenditure and financing in England, various; DfE, Planned LA and school expenditure: 2025 to 2026 financial year; ONS, National accounts.

In the years since the financial crisis, running fiscal policy in Britain has got a lot harder. We have seen earlier that the true fiscal cost of Britain's post-crisis growth slowdown is around £240 billion – not quite the headline £450 billion hit to tax receipts, but still huge. It has deprived the Exchequer of much-needed revenues to cope with growing fiscal pressure from Britain's changing population. £52 billion of that pressure has come from the well-known impact of an older population. But deteriorating health – a much less discussed driver – has been just as important. Keeping central government's health-related spending in line with growing ill-health means spending £43 billion more than

52 In defining these spending areas, we follow K Ogden & D Phillips, How have English councils' funding and spending changed? 2010 to 2024, Insitute for Fiscal Studies, June 2024, https://doi.org/10.1920/re.ifs.2024.0318.
53 S Hoddinott & A Dellar, Performance Tracker 2025: Local government, Institute for Government, October 2025.

in the early 2010s. Together Britain's ageing and ailing population has added around £90 billion of additional fiscal pressure.

In the absence of the revenues that growth would have provided, and despite rises in both taxes and the State Pension age, the cost of meeting health-related spending pressures has been borne by nearly every other public service, with the deepest cuts falling on the local services that people see and use every day. Regardless of whether this was the right decision in a tough spot, no government has ever admitted that this is the choice it has been making.

But understanding how Britain got into this bind is only half the story. In the next section, we show how fiscal pressures are set to continue in the years to come.

Section 3

Fiscal pressures in the 2030s and beyond

The previous section showed how low growth and an older, sicker population have driven Britain's fiscal deterioration to date. This section looks forward, using long-term projections built on the OBR's approach to show that the pressures of the past two decades are set to intensify. In the baseline, primary spending rises from 40 per cent of GDP in 2030-31 to 49 per cent by 2075-76 while receipts stabilise at 41 per cent, putting public debt on course to rise beyond 300 per cent of GDP. Such projections conceal the tough choices to come, as they rely on the Government delivering a flurry of pre-election tax rises. The path of debt also varies depending on key assumptions regarding policy 'defaults' – such as dragging ever more workers into higher tax brackets, and letting benefits fall ever further behind earnings – that no political party has proposed and that carry profound costs for living standards.

The drivers of these mounting pressures are clear. An ageing population will keep weighing on the public finances – with the average person set to become a net recipient from the state by mid-century – even after sensible rises in the State Pension age. Health spending is projected to climb from 8 to 13 per cent of GDP, propelled by demographics, rising ill-health and cost pressures, while a new cross-party consensus on defence points to a growing share of national income going on our collective security for the first time in decades. Simply hoping that these pressures ease will not cut it: the next section sets out a strategy for achieving fiscal sustainability by design.

The public finances are on an unsustainable trajectory...

In this section we use long-term projections of the public finances to illustrate the path of fiscal pressures going forward. We have built these on the approach of the OBR, which projects receipts and spending over a 50-year horizon. The baseline takes the most recent OBR five-year forecast as its jumping off point, and projects forwards based on projections of demographics, economic growth, and other structural shifts that affect the public finances in the long run.[54]

54 OBR, Fiscal risks and sustainability, July 2026.

On the economy, the OBR assumes that growth can be sustained at rates that are slightly higher than those since the financial crisis but well below pre-financial-crisis averages. Specifically, the projections embody the assumption that real GDP growth hovers around 1.5 per cent (with nominal growth of around 3.7 per cent), underpinned by baseline annual productivity growth of 1.4 per cent and demographic assumptions taken from the ONS population projections.[55] The OBR assumes that inflation is consistent with the Bank of England's target of 2 per cent and that the growth-corrected interest rate (R-G) is assumed to converge to 0.5 percentage points.

On spending, upward pressure from demographics, cost pressures and stated government policy ambitions in areas such as defence and net zero are projected to push primary spending from 40 per cent of GDP in 2030-31 to 49 per cent by 2075-76. Primary receipts, in contrast, are forecast to stabilise at 41 per cent of GDP, only slightly above the medium-term level. The upshot from these diverging paths is that over the long run public sector net debt will begin to increase rapidly, heading beyond 300 per cent of GDP by the end of the forecast period.

In interpreting such debt-sustainability analysis, it is important to keep in mind how the projections are constructed. The framework is essentially one of accounting, with no feedback from policy to the state of the economy. As such, there is no allowance for an unsustainable fiscal position to affect economic outcomes.

Fiscal consolidation plans are built on pre-election tax rises

The starting point for these long-term projections is crucial. Specifically, the outlook depends on the Government delivering ambitious plans for fiscal consolidation ahead of the next election. The OBR has projected that public sector net borrowing will fall from 4.3 per cent of GDP in 2025-26 to 1.6 per cent in 2030-31. But there's a sting in the tail: this relies on big tax rises being imposed before the next election, including higher rates of property, savings and dividend income tax; a removal of the national insurance exemption from pension salary sacrifices above £2,000; and a high value Council Tax surcharge on properties worth more than £2 million. In cash terms, the full suite of announced but unimplemented tax rises add up to £43 billion a year, over three-fifths of the total this Parliament. As noted above, this leaves the tax take at least at an 80-year high by 2029-30.[56]

Whether the new Prime Minister and Chancellor will feel compelled to stick to Rachel Reeves' tax commitments the year before an election matters a lot for the starting point of any long-term projections. The OBR estimates that if the primary balance in 2030-31

55 OBR, Fiscal risks and sustainability, July 2026.
56 H Aldridge et al., Understatement of the year: Putting the 2026 Spring Forecast in context, Resolution Foundation, March 2026, https://doi.org/10.63492/ofq8241.

remains at its 2025-26 level of -1.4 per cent instead of rising to a 1.5 per cent surplus, debt will begin exploding almost immediately and hit 200 per cent of GDP by 2050.

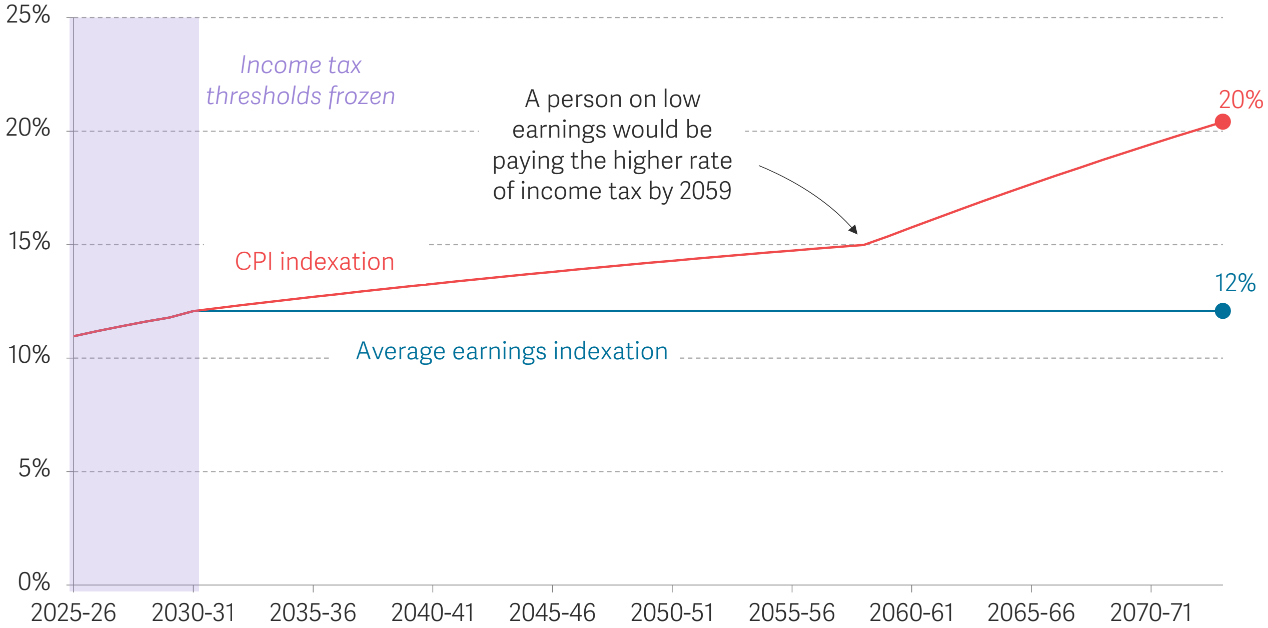
...but which policies are unsustainable depends on the assumptions made

The importance of the 'starting point' for the path of the public finances raises a deeper point about these longer-term projections. Five-year forecasts produced by the OBR are based on stated government policy. But, beyond that official forecast horizon, there is ambiguity about what constitutes unchanged policy. Perhaps the most important example of this is the assumed default policy for adjusting the thresholds for paying Income Tax. As things stand, Government policy is for these thresholds to be frozen in cash terms over the forecast period. In the absence of such deliberate freezes, the assumed default policy is that thresholds are indexed to consumer prices. This default leads to 'fiscal drag' over time: as earnings growth typically exceeds inflation over the long run, more and more workers will be dragged into higher tax brackets and their effective rate of income tax will increase. Over time, this fiscal drag reaches levels that, as we shall see, seem implausible. Therefore, beyond the five-year horizon, the OBR's projections assume that these thresholds are uprated in line with earnings. This assumption matters a lot for the long-run path: if Income Tax thresholds are CPI-indexed, debt will rise to 'only' 150 per cent of GDP, rather than 300 per cent under the baseline.[57] But this approach simply hides the unsustainability. The counterpart of a healthier path for public debt is a significantly higher Income Tax burden, rising from 12 to 18 per cent of GDP by 2075. By this point, someone on two-thirds of average earnings – the government's preferred benchmark for being considered 'low-pay' - would be paying the higher rate of income tax (see Figure 15). It would be unrealistic to present such a reimagining of the UK's tax system as the default scenario.

57 C Giles, To stop UK's debt fatalism, look past charts of doom, Financial Times, Mar 2026; J Sousa, 'How far away is the UK from fiscal sustainability?', Fraser of Allander Institute, Jan 2026.

FIGURE 15: **Fiscal drag would eventually turn low earners into higher rate taxpayers.**

Effective income tax rate paid by a worker on two-thirds of average earnings under different indexation scenarios: UK



NOTES: Low earnings are defined as earnings below two-thirds of median hourly pay.
SOURCE: RF analysis of Fraser of Allander Institute, 'How far away is the UK from fiscal sustainability?', Jan 2026.

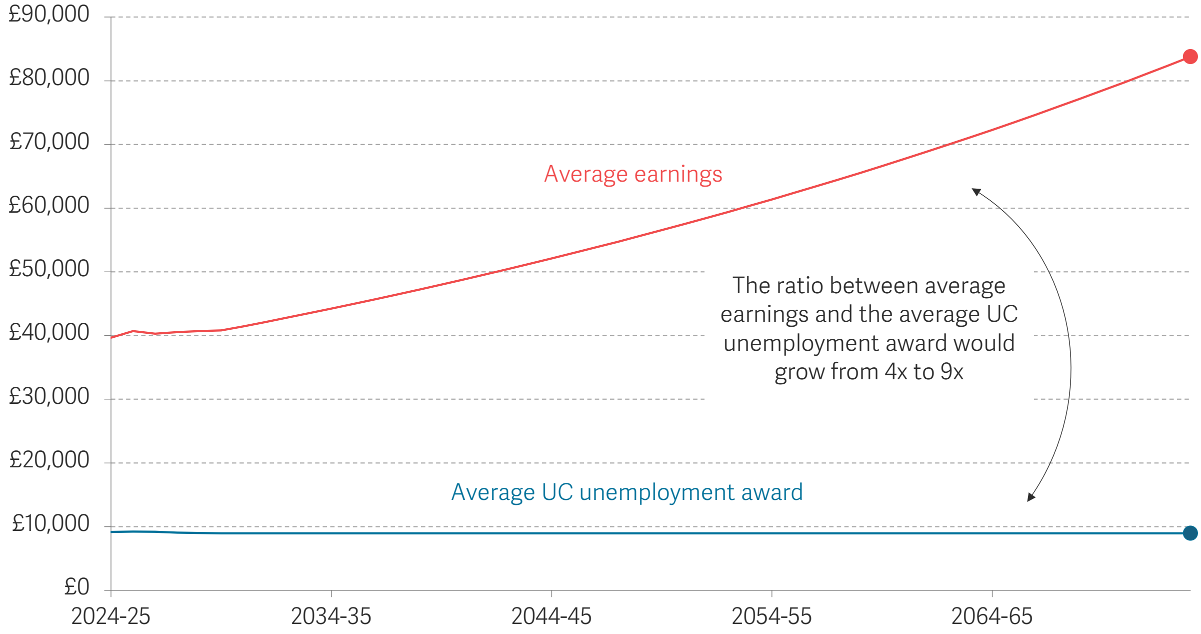
There are similar issues on the spending side. Most obviously, the OBR departs from stated government policy by assuming that non-state pension welfare payments are uprated each year in line with average earnings rather than consumer price inflation. Again, no political party has adopted such a policy.[58] And between 2016 and 2020 working-age benefit levels were repeatedly frozen in cash terms, and only more recently uprated with CPI.[59] Assuming that working-age welfare is uprated in line with consumer-price inflation would save an estimated £7.2 billion annually in today's money by 2075 in these long-term projections. But what this would mean in practice is a growing gap between benefits and labour market income, with the ratio between average earnings and the average Universal Credit award doubling from 4.3x to 9x (see Figure 16) and working-age welfare shrinking from 6.3 to 3 per cent of GDP. This higher level of inequality would not be desirable, and history suggests it is not a politically sustainable option, as welfare spending has tended to rise with GDP growth, not inflation.

58 In our view this is mistake and the absence of earnings uprating hardwires relative poverty for UK families. See Resolution Foundation and Centre for Economic Performance, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023, Ch.7, which provides further detail on this and proposes a 'smoothed' earnings link between benefits and earnings.

59 The different uprating regimes since 2010 were as follows: RPI uprating (2011); CPI uprating (2011-13); 1 per cent cap (2013-14 to 2015-16); cash freeze (2016-17 to 2019-20); £20 uplift (2020-21); CPI uprating resumed (2022-26); above inflation uprating (2026-27).

FIGURE 16: **Uprating welfare by CPI will widen the gap between workers and non-workers**

Long run projection of the real terms value of annual average earnings and the average award under CPI uprating: UK



NOTES: The average UC unemployment award is calculated by dividing unemployment benefits spending by the unemployment benefits caseload.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook 2026; Fraser of Allander Institute, 'How far away is the UK from fiscal sustainability?', Jan 2026.

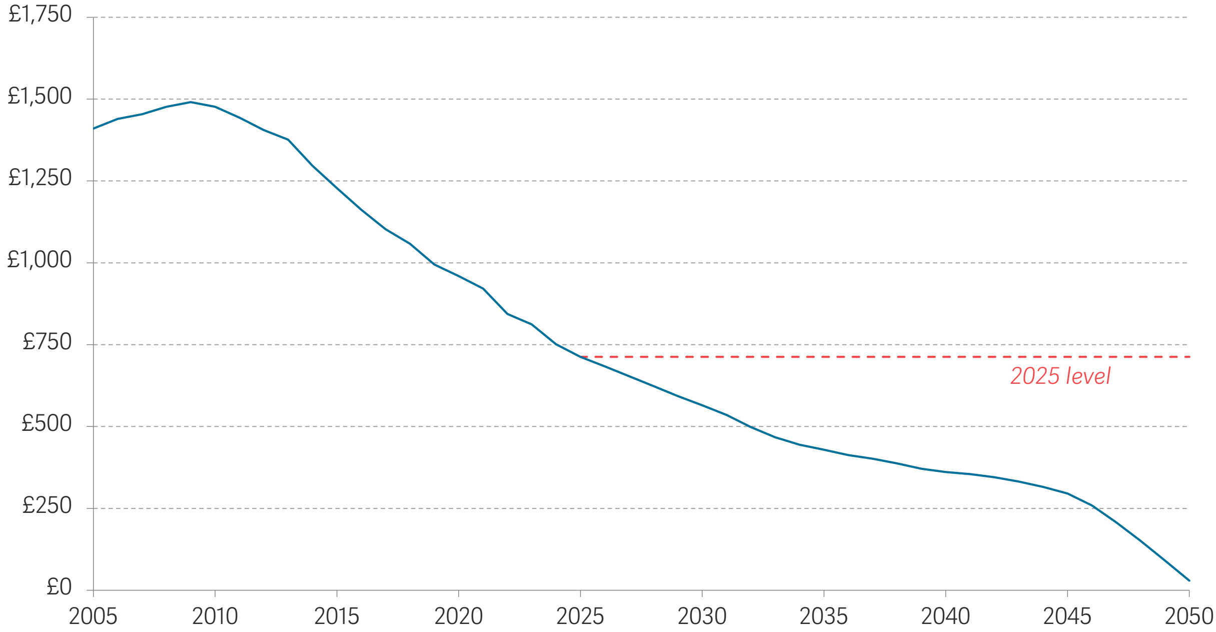
The key takeaway here is that it is simply not realistic to assume government policy remains static, and therefore the uncertainty in long-run projections is larger. In any case, the OBR's fifty-year projections are not intended as a forecast – the government is unlikely to be able to continue to borrow at the rates envisaged given the path for debt implied. The point is rather to illustrate that some adjustment will be forced. The good news is that some of that adjustment can come naturally – simply leaving welfare and tax policy at their default does improve the public finances over time provided earnings grow faster than inflation. The bad news is sticking to those defaults is profound, rather than costless, when it comes to living standards. In this sense the adjustment will be harder than it first appears because policy defaults contain this hidden unsustainability. So, the OBR is correct to use earnings indexation in its baseline scenario, and we should not expect adjustment to happen by default.

An ageing population will continue weighing on the public finances, even with rises in the State Pension age

As the UK continues to grow older, the average annual contribution of a representative citizen will continue to shrink. To make things clear, we again use the OBR's age profiles for spending. Based on these the average net individual contribution to the state is set to shrink because of ageing by 21 per cent between 2025 and 2030. The rate of change is projected to level out in the 2030s, as the large 1960s-born cohort fully retires and the fertility rate remains low, before accelerating again in the late 2040s. By mid-century it will fall below zero, meaning the average person will be a receiving rather than contributing to the exchequer (remember that these profiles only capture taxes paid by households and spending directly on them so are not a direct read on the broader fiscal position). The relative calm of the 2030s is therefore a crucial opportunity in which to get the public finances into shape before demographic pressures intensify sharply once more.

FIGURE 17: **Age-related fiscal pressures will only grow**

Age-weighted average of the OBR long-run estimates for the annual fiscal impact of a representative resident, based on population estimates and the ONS's principal population projection: UK



NOTES: The annual fiscal impact of a representative resident is calculated by taking a weighted average of the OBR's long-run fiscal impacts by single year of age, with the weights based on the actual or projected UK age structure in a given year. For details on the underlying tax and spending profiles, see Annex C in OBR, Fiscal risks and sustainability, July 2026.
SOURCE: RF analysis of OBR, Fiscal risks and sustainability, July 2026; ONS, Estimates of the population for the UK; ONS, National population projections: 2024-based.

This forms part of a wider turning point: from 2026, deaths are projected to permanently exceed births in the UK for the first time in over a century, meaning future population growth will come from migration.[60] These demographic projections are not destiny, however. Demographers have repeatedly undershot the recent fall in fertility rates, and fewer children than expected could provide some (temporary) relief to the exchequer.[61]

60 C. McCurdy & E. Christensen, The UK's demographic squeeze, Resolution Foundation, Apr 2026
61 ONS, Comparing national population projections to estimates report, Jan 2025.

But as things stand, we are clearly inadequately prepared for the fiscal effects of the demographic train coming down the tracks.

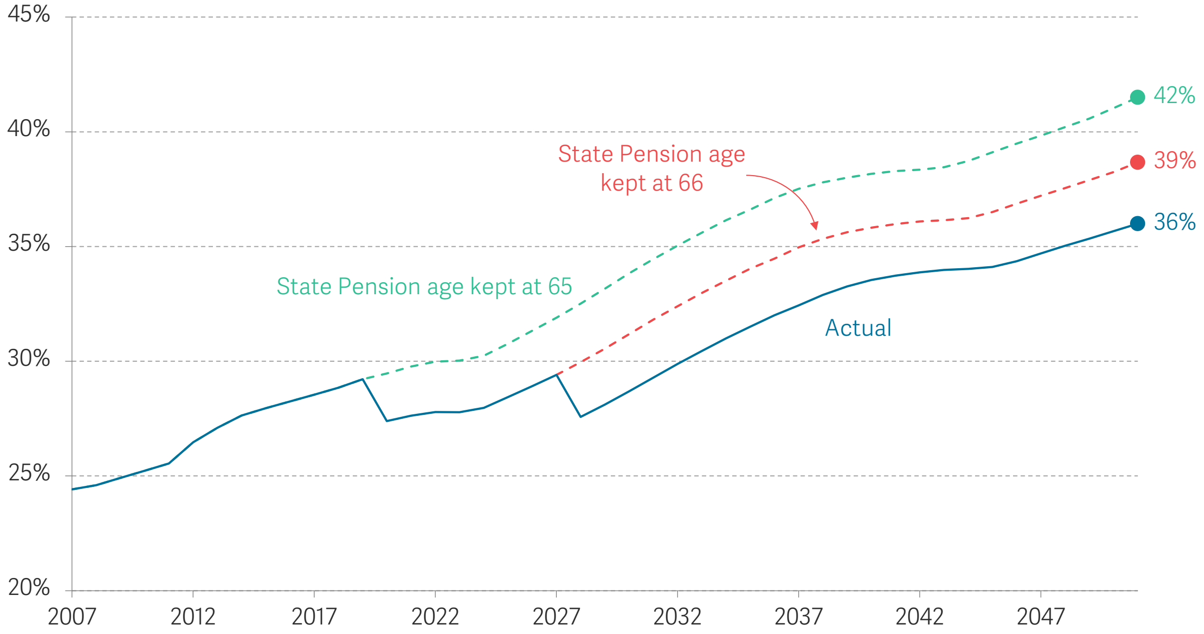
Even so, when it comes to pressures from higher pension spending, policy is set to do much to offset these pressures. The SPA was equalised at 65 for men and women in 2018 and subsequently raised to 66 by 2020. From April 2026 onwards, the SPA is gradually rising from 66 to 67, and while a further rise to 68 is planned, the exact timing of this remains uncertain.[62] These rises were sensible considering longer life expectancies and the acute fiscal pressures involved, and have done much to offset the impact of an ageing population.[63] The old-age dependency ratio, measuring the number of people over the SPA as a proportion of the working-age population, is not expected to return to its 2019 level until 2027 (see Figure 18). By 2050, the annual cost of the state pension is estimated to be £11 billion lower in real terms relative to the counterfactual where the SPA remained at 65, even after accounting for the effect of the triple lock (and before any further age rises).

While serious consideration should be given to additional rises in the SPA, the marginal benefits from such rises will be smaller: many people in their late 60s may struggle in the labour market; there may be an increasing reliance on working age welfare (such as UC or incapacity benefits) as a replacement source of income; and life expectancy is no longer rising, particularly for less affluent people.[64] But the government's commitment to a 10-year notice period for any further rise leaves room for a well-managed transition to our new demographic reality.

62 F. Hobson, State Pension age review, House of Commons Library, Apr 2023.
63 C McCurdy, L Murphy & D Willetts, Revisiting the State Pension Age: Resolution Foundation submission to the 2025 State Pension age review, Resolution Foundation, November 2025, https://doi.org/10.63492/fps744
64 C McCurdy, L Murphy & D Willetts, Revisiting the State Pension Age: Resolution Foundation submission to the 2025 State Pension age review, Resolution Foundation, November 2025, https://doi.org/10.63492/fps744.

FIGURE 18: **Raising the State Pension has bought us some time**

Old-age dependency ratio under different State Pension age scenarios



NOTES: Old-age dependency ratio is calculated here as the number of people aged above 65 or from 2020 onwards above the equalised State Pension age as a proportion of the working-age population.
SOURCE: RF analysis of ONS, Population Estimates by Single Year of Age; National Population Projections, 2024-based.

Despite these changes, pension spending continues to climb. The State Pension now costs the government 5 per cent of GDP, almost a quarter more than in 1978-79, despite the rise in the state pension age. Nor will this let up any time soon: in the short term, increased State Pension spending accounts for almost half of the projected real-terms rise in welfare spending by 2029-30, while in the long run the OBR projects the State Pension to rise to 9 per cent of GDP, even while non-pensioner welfare stays flat at around 6 per cent.[65] The triple lock's inherent volatility also means that future pension spending could vary by tens of billions depending on the relative performance of prices and earnings.[66] It may be natural to spend more on older people as the population ages, but that doesn't mean we have to inject such uncertainty into our spending plans.

Health spending pressures are expected to build in the coming years

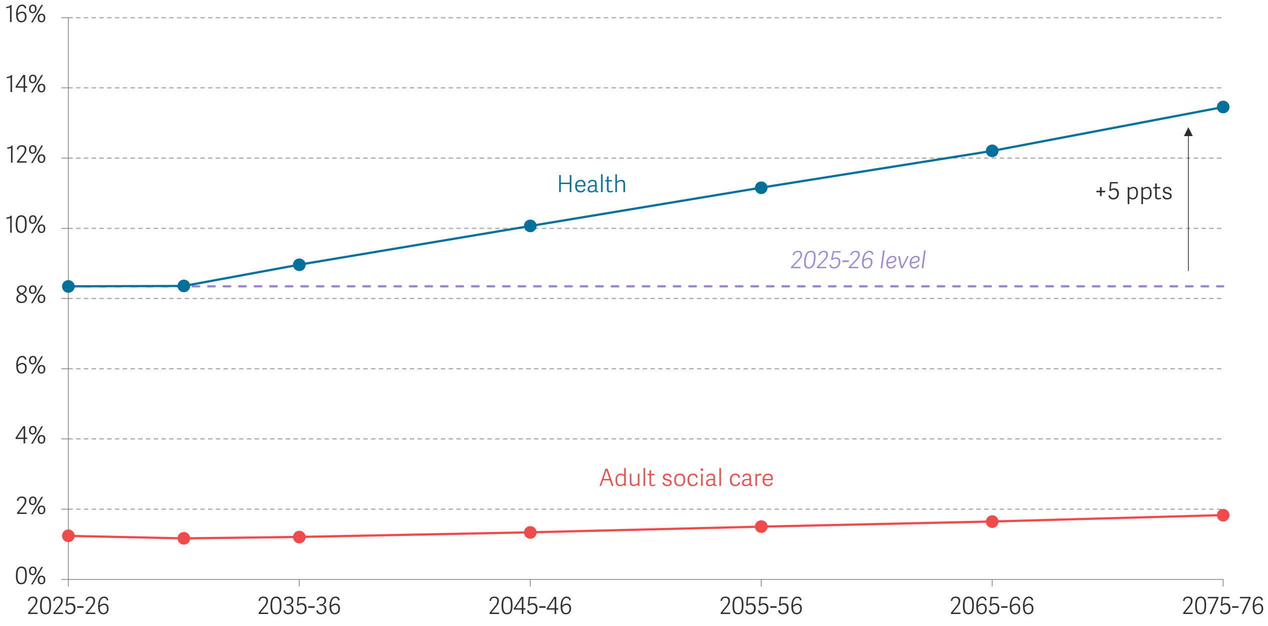
Spending on health is set to rise even more dramatically, from 8 per cent to 13 per cent of GDP across the forecast period. It will remain by far the single largest component of primary spending, rising due to several factors. First, demographics: an older, sicker and longer-living population will almost inevitably consume more healthcare. The optimistic angle is that these age pressures are set to peak in the 2030s, as the 'baby boom' generation are in their 80s. But secondly, richer societies also typically place more

65 OBR, Fiscal risks and sustainability, July 2026.
66 R Curtice & A Clegg, What a ratchet!: Why it's time to stop being polite about the triple lock, Resolution Foundation, June 2026, https://doi.org/10.63492/xyv4302.

emphasis on health – the OBR judges the income elasticity here to be 0.8, meaning that a 1 per cent rise in real GDP translates to a 0.8 per cent rise in health spending. Finally, there are also 'cost pressures' built into the health sector, which includes Baumol effects (see Box 2 above) and the non-age-related rise in ill health (for example, the recent decline in mental health among the working-age population). Taken together, these pressures will boost health spending by an enormous 2.5 per cent a year in real terms. A smaller version of this story will play out in the adult social care sector as an ageing population pushes this up from 1.2 to 1.8 per cent of GDP, but as this increase only reflects demographics and not cost pressures, the risk here is likely to the upside.

FIGURE 19: **Health and social care spending will continue to grow**

Long-run projections for health and adult social care as a proportion of GDP: UK



SOURCE: RF analysis of OBR Fiscal Risks and Sustainability report, July 2026.

Defence spending will take up a growing share of national income for the first time in decades

The other key area where spending pressures are set to grow is on defence. Here there is strong consensus that the UK needs to spend more on our collective security given an uncertain and polarised geopolitical outlook. Indeed, for the first time since the Korean War, there is agreement from the main parties that defence spending needs to rise. The Government has in principle signed up to the new NATO target of defence spending at 3.5 per cent of GDP by 2035. This would represent a big jump from the average spend of just 2.2 per cent over the past three decades, and would require an additional £25 billion a year compared with the 2.7 per cent of GDP projected for 2030 in the recently published

Defence Investment Plan, which itself has a funding gap of around £2 billion by the end of the decade.[67]

Spending on an older and sicker population, and a commitment to greater defence, come with a hefty price tag. To make matters worse, the near-term pressures of delivering a flurry of tax rises that have already been pencilled in for the back end of the Parliament looks daunting. The good news is that fiscal sustainability can be achieved through a deliberate and strategic approach. We turn to that in the next section.

67 Ministry of Defence, Defence Investment Plan, 2026.

Section 4

A strategy for ending Britain's fiscal woes

The previous two sections have shown how the shocks and policy mistakes of the past have combined with an older and sicker population to deliver extremely tight public finances, and how those pressures are set to intensify in the decades ahead. In this final section, we set out a strategy for performing a 'great escape' from these fiscal pressures and gloomy projections.

The starting point is to dispense with wishful thinking. Faster growth is vital for living standards, but it is not a fiscal strategy: our projections already assume a doubling of productivity growth, and, if faster-than-expected growth turns up, history shows that governments have tended to use the proceeds to expand what the state does rather than reduce borrowing and shrink the state. Quick fixes – such as tweaking the fiscal rules to create room for more borrowing – should also be resisted, as they are not a serious response to the predicament that Britain finds itself in and risks higher borrowing costs that would make matters worse.

The playbook for a 'great escape' from our fiscal funk is simple. The starting point is addressing clearly unsustainable policies. Most obviously we must find a route to end the triple lock and to put in place a plan to offset the impending loss of Fuel Duty receipts. We must get more bang for our buck by boosting public services productivity, at least back to pre-pandemic levels. To help with this the Government should invest more in those services and focus on generating cash gains through a focus on delivery – rather than expansion – of public services. These measures will help but won't go far enough to put the public finances on a sustainable footing. Looking further ahead, then, we need to increase our ambition, recasting the fiscal rules so that we run a current budget surplus of at least 1 per cent of GDP in normal times.

Delivering surpluses is made harder by an ageing and ailing population. The tax take is likely to remain at historic highs for the foreseeable future upping the ante on finding ways to reform the system to facilitate growth. On spending, governments will need to be strategic in prioritising what the state does. Tackling ballooning health costs through new NHS kit and a rollout of a preventative approach. Future election campaigns should not be fought on promises that fail to recognise the existence of sharp trade-offs in public spending. Publishing a medium-term fiscal strategy, alongside improving the information available on parties' fiscal plans, would allow voters to better judge the sustainability of manifesto plans.

So far, so bleak: the shocks and policy mistakes of recent decades have combined with demographic change and worsening health to deliver extremely tight public finances. This has contributed to a fraught public policy discourse and a fracturing of our politics. Looking ahead, structural pressures will continue to intensify, albeit at a slower rate. Adjusting to this fiscal reality will be hard. The challenge is to do so in a way that limits, rather than enhances, the pain. So, in this section we discuss the ingredients of a policy agenda that will achieve just that. We build on the simple accounting framework from Section 2, as well as the long-term modelling in Section 3. We start by discussing why we shouldn't simply hope that growth rides to the rescue and why the siren calls of quick fixes should be resisted.

Faster economic growth would help the public finances, but only if the historic link between output and public spending is broken

It is tempting to think that faster growth will solve all our fiscal woes. Indeed, parties across the spectrum seem to view this as the way to break the cycle of difficult decisions and deteriorating public finances.[68] But politicians must recognise that faster growth alone – while vital for raising the living standards of British families – does not constitute a strategy for putting the public finances on a sustainable long-term footing.[69] Higher productivity is important because it makes us all richer, not because it makes the government's job of balancing the books easier.

Apart from anything, it's important to keep in mind that the long-run projections we have shown so far are already conditioned on a growth recovery. They assume that from the 2030s onwards, UK productivity grows by 1.4 per cent a year – almost treble the average rate of growth seen over the past two decades.[70]

More fundamentally, even a stronger growth recovery would not – on its own – be enough to stabilise the public finances in the long run.

There are two reasons for this. The first is that the boost to tax revenues from faster growth overstates the extra resources available to improve public services. In a reversal

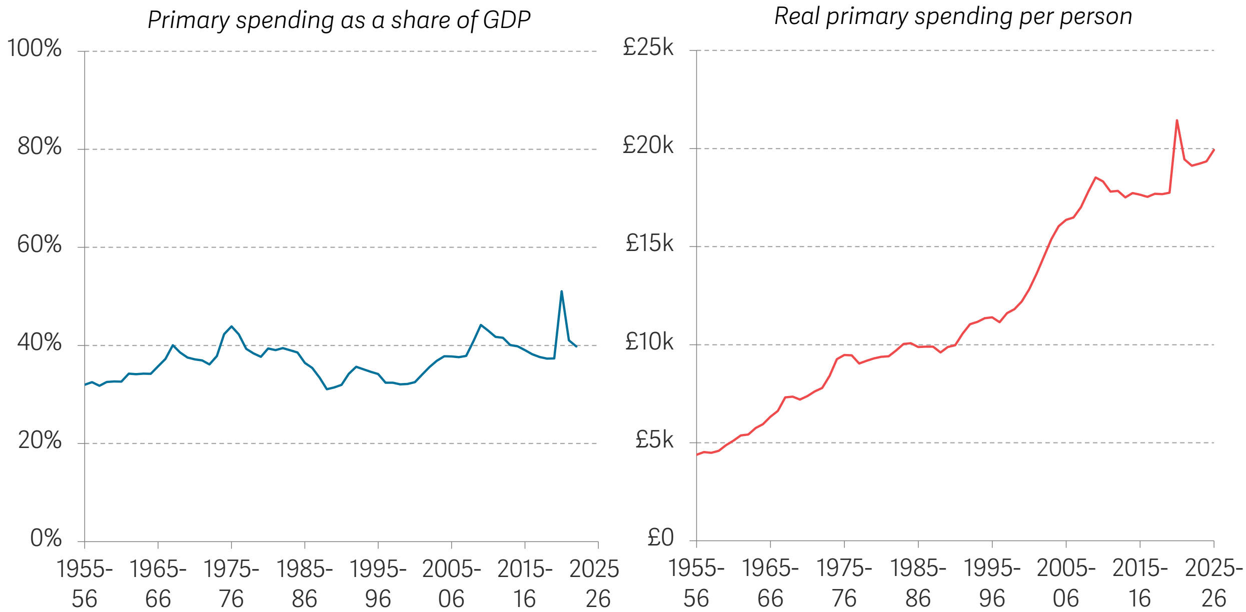
68 See, for example: HM Treasury & R Reeves, Chancellor Rachel Reeves is taking immediate action to fix the foundations of our economy, July 2024; M Stride, Why we Conservatives are the serious party of change, Conservative Home, January 2026.
69 For more on the centrality of growth to progress on living standards, see: Resolution Foundation and Centre for Economic Performance, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
70 RF analysis of ONS, Output per job, UK.

of the impacts of the post-crisis growth slowdown discussed in Section 2, faster growth means higher private-sector wages spilling over into public sector pay, pushing up the cost of delivering the same level of services. Nor is the effect confined to public sector pay. Higher wages also push up the cost of labour-intensive services that the state buys from the private sector, while also raising the amount that needs to be spent to maintain the relative living standards of welfare recipients (including pensioners). These offsets are not one-for-one, though, so faster growth does create some genuine capacity to expand what the state can do.

The second reason can be seen in the history of the modern British state. The UK experienced consistent growth between the Second World War and the financial crisis, with GDP per person more than tripling over the past 70 years. Over that period, as shown in Figure 15, the size of the state as a proportion of national income has waxed and waned. It increased to a sustained level of around 40 per cent in the 1970s, as successive governments 'banked' the proceeds of growth as an expansion of what the state provides. But during the 1980s the expansion of public services slowed in some areas and reversed in others (most obviously following a programme of privatisation), allowing the state to shrink given continued growth. Since the financial crisis, however, the size of the state has once again increased. Rather than reflecting an expansion in what the state does, as discussed above, this time it reflects an increase in demands on public services, with some services actually shrinking. Put simply, weak growth and fiscal pressures mean that the state has expanded but is actually doing less.

FIGURE 20: **History suggests economic growth leads to more real-terms public spending, leaving spending as a share of GDP broadly flat**

Total managed expenditure excluding debt interest, as a proportion of GDP (left panel) and in real per-person terms (right panel): UK



NOTES: Debt interest is central government debt interest, net of the Asset Purchase Facility. Real-terms spending totals are expressed in 2025-26 prices using the GDP deflator.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026

So the fiscal gains from faster growth are likely to be eaten up by continued pressures on the state. Locking in any significant fiscal benefit would require governments to cut the scope of public services to offset the higher cost of providing existing services to the increasing numbers of older and sicker people that need them. With the exception of the 1980s, when a shrinking state was facilitated by privatisation and assets sales (and favourable demographics), governments have proved unable, or unwilling, to use the proceeds of growth to shrink the state. These pressures mean the state must spend more to stand still. And higher defence spending will make matters worse. As discussed in Box 3, a further risk is that fiscal gains from faster growth are also partly offset by higher interest rates, increasing debt-servicing costs. There are, however, good reasons for thinking this won't happen as a matter of course.

BOX 3: **Although uncertain, it is reasonable to assume that higher growth won't be matched by a higher interest rate on government debt**

The secular stagnation literature emphasises the role of slowing productivity growth in pushing down real interest rates.[71] Sustained weak growth will tend to put downward pressure on interest rates, including

71 L Rachel & L H Summers, On Secular Stagnation in the Industrialized World, Brookings Papers on Economic Activity, Spring 2019.

by reducing demand for investment. A growth turnaround, then, would likely put this mechanism into reverse, pushing up investment and interest rates and (at least partially) undoing the fiscal benefit of higher growth.

But this shouldn't be overstated. The secular stagnation literature tends to quantify the impact of lower growth in structural models. But the long-run correlation between growth and interest rates is weak.[72] Moreover, there are several conceptual reasons for thinking that strong growth may not lead to higher interest rates. For example, although an AI-driven growth might normally be thought of as increasing investment demand, thereby pushing up on longer-term interest rates, it could also increase inequality which would tend to act in the opposite direction.[73] Also, changes in growth for a medium-sized open economy like the UK are likely to have only a marginal impact on our longer-term interest rates which tend to be driven by global factors given open capital markets.[74] Finally, much of the recent rise in gilt rates is accounted for by increases in the expectation of future interest rates, which would probably fall if the UK's growth prospects improved.

'Siren calls' for quick fixes should be resisted

Other than waiting and hoping for growth to ride to the rescue, another line of wishful thinking comes from those who would say that it is merely a question of tweaking the fiscal rules to find a way to borrow more. For example, there have been recent calls for some or all defence spending to be exempted from the rules.[75] This sort of approach fails to fully recognise our predicament: destabilising the fiscal framework and attempting to increase borrowing comes with a serious risk of market volatility and higher borrowing costs, which would eat directly into the resources available for improving public services.

A related proposal is to extend the horizon for the fiscal rules well beyond the five-year forecast period. While superficially attractive, doing so risks translating forecast uncertainty into incentives for bad policy.[76] Although ten-year projections can be useful for showing the longer-term effects of some policy choices, such as public investment, they are a poor basis for a fiscal target. The reason is that the conclusions drawn from a ten-year forecast would depend on the uncertain assumptions used to construct

72 J D Hamilton et al., The Equilibrium Real Funds Rate: Past, Present, and Future, IMF Economic Review 64, November 2016, https://doi.org/10.1057/s41308-016-0015-z; K G Lunsford & K D West, Some Evidence on Secular Drivers of US Safe Real Rates, American Economic Journal: Macroeconomics 11(4), October 2019, https://doi.org/10.1257/mac.20180005; K S Rogoff, B Rossi & P Schmelzing, Long-Run Trends in Long-Maturity Real Rates 1311-2021, NBER Working Paper 30475, September 2022, https://doi.org/10.3386/w30475.

73 L Fornaro & M Wolf, Macroeconomic Policies for AI, BSE Working Paper 1576, May 2026.

74 A Cesa-Bianchi, Richard Harrison & Rana Sajedi, Decomposing the drivers of Global R, Bank of England working papers 990, 2022.

75 Unite the Union, Defence spending: Fiscal rules should be relaxed for defence investment, February 2026, accessed 10 July 2026.

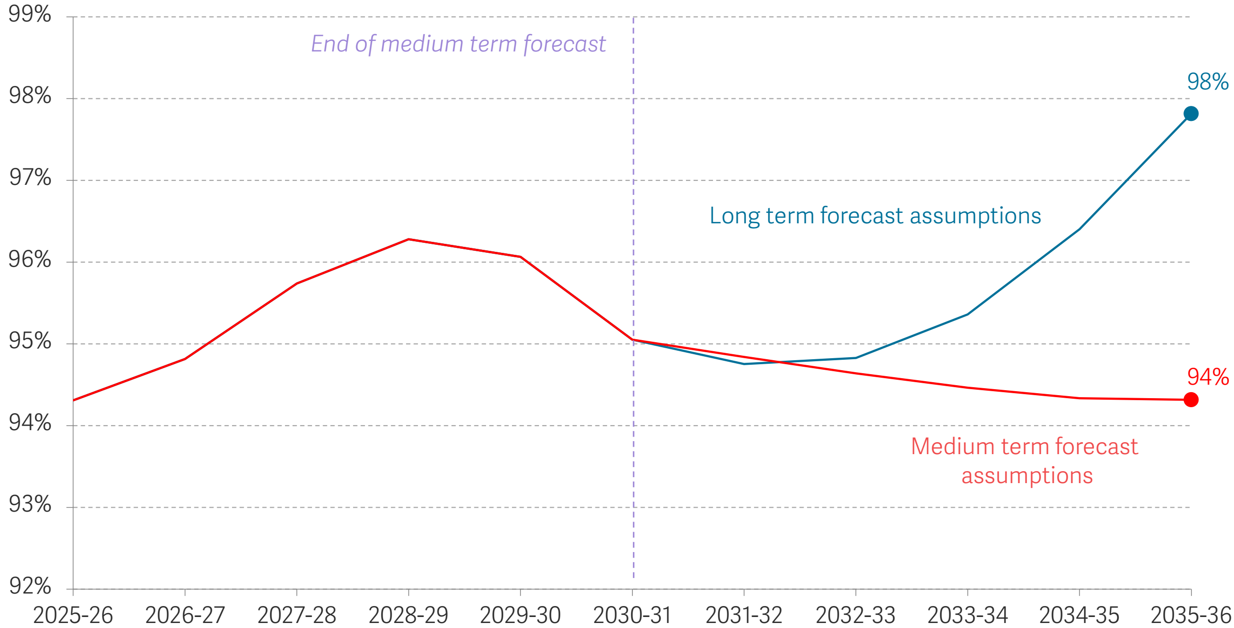
76 One example of such a proposal is given in L Haigh, A new fiscal framework to renew Britain, Renewal, vol. 34, May 2026 although it is important to note that the proposal here is to change the rules only after current budget balance is achieved.

it. Such forecasts bridge medium-term and long-term projections, making it unclear which modelling approach should apply. Under medium-term projection assumptions, for example, so-called 'fiscal drag' (i.e. uprating tax thresholds using consumer price inflation) would lead to unsustainably high tax rates but would make the projections for debt look more favourable. While if longer-term assumptions were adopted, the forecast would be produced based on policy assumptions that do not reflect those likely to be under consideration by the government of the day. If the Government were to supply the assumptions here, it could 'game' the rules by setting implausibly tight policy paths for the period beyond five years.

Figure 21 illustrates some of the difficulties with setting up such a forecast. Extending today's policy beyond 2030 (the red line) produces a markedly different fiscal outlook from reverting to the OBR's long-run default policy assumptions (the blue line). This demonstrates why, among other reasons, switching to fiscal rules that bite in ten years will not reliably put you on a path to sustainability.

FIGURE 21: **Extending the fiscal forecast to 10 years would not necessarily create more space for borrowing**

Ten-year forecast for public sector net debt as a percentage of GDP under different scenarios: UK



NOTES: The red line is our attempt to approximate the continuation of a medium-term forecast out to ten years. Key assumptions here include welfare and income tax thresholds uprated with CPI; defence held at its 2030-31 share of GDP; other spending grown at 1 per cent annually in real terms; and productivity growing at its medium-term average. The long-term assumptions scenario follows the first five years of the OBR's long-term debt forecast from its Fiscal risks and sustainability report.
SOURCE: RF analysis of OBR, Fiscal Risks and Sustainability report, July 2026.

The new leadership must reckon with unsustainable tax and spending plans, as well as stagnating public services productivity

Instead of simply hoping that the good times will appear, the route to a 'great escape' from our fiscal malaise starts with grasping the nettle on some of the key areas in which policy is currently unsustainable. The good news here is that longer-term modelling shows clearly where action is needed.

On spending, the triple lock stands out. Increasing the State Pension by the highest of 2.5 per cent, consumer price inflation, and the growth in average earnings has led to a ramping up of pension spending without a clear impact on pensioner poverty.[77] Because there are years in which earnings grow by less than inflation or 2.5 per cent – and these episodes of above-earnings growth are never unwound – the triple lock means that the value of the State Pension outgrows earnings over time. The OBR thinks that the long-run wedge between growth in the State Pension and average earnings is 0.6 percentage points. But the wedge depends crucially on the volatility of earnings growth: the more volatile earnings growth is, the faster spending increases. This ineffective, arbitrary and unsustainable policy should end. The Pensions Commission provides a vehicle for doing this and should set out the right level of the State Pension relative to typical earnings (our view is that level has already been reached). The State Pension should then be kept at that level via a 'smoothed' earnings link that includes short-term inflation protection.

Likewise on tax, there are some clear examples of unsustainable policy. Most obviously, there is a growing and as-yet-unfilled loss of motoring tax receipts due to the ongoing transition to electric vehicles (EVs). Today, the majority of such receipts are collected via Fuel Duty, which raised £24 billion in 2025-26. This revenue is expected to fall away entirely over the coming decades as the nation transitions to driving cars that run on electricity, not petrol and diesel. It is to the Government's credit that it has started to address this issue through a per-mile Electric Vehicle Excise Duty (eVED) announced in the 2025 Autumn Budget.[78] That said, only around a half of the decline in Fuel Duty revenues will be offset. The blight of road congestion means there is a strong case for going further, albeit at a pace consistent with delivering against the government's legally-binding net zero targets.[79]

It would be naïve to suggest that reforming the triple lock and Fuel Duty are straightforward and politically costless. But there are ways to find political consensus to deliver at least incremental reform in these areas, for example through a more

77 R Curtice & A Clegg, What a ratchet!: Why it's time to stop being polite about the triple lock, Resolution Foundation, June 2026, https://doi.org/10.63492/xyv4302.
78 H Aldridge et al., Stairway to headroom: Putting the Autumn Budget 2025 decisions on tax, spending and borrowing into context, Resolution Foundation, November 2025, https://doi.org/10.63492/gad912.
79 A Corlett & J Marshall, Where the rubber hits the road: Reforming vehicle taxes, Resolution Foundation, June 2023.

technocratic 'commission' process, as is already happening on pensions, or by packaging reforms in a way that emphasises that the changes will reduce the constraints elsewhere in the public finances.[80] Given the alternative is continuing to lurch between difficult fiscal events, there is a strong case for pushing for reform in these areas.

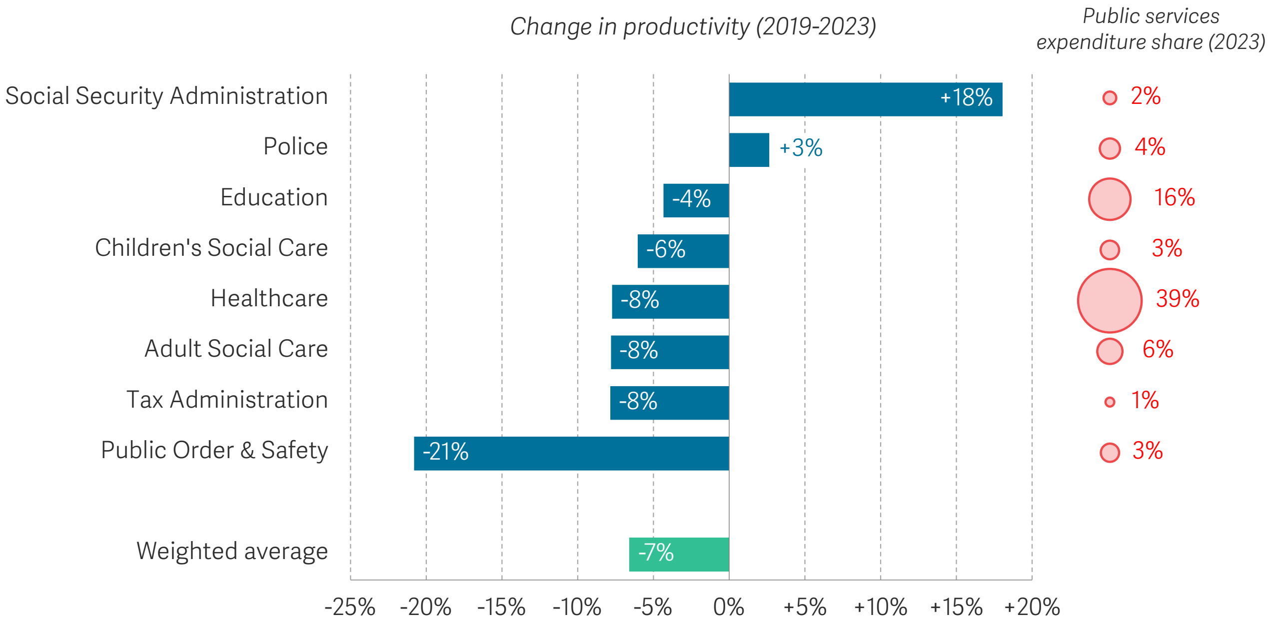
There should be a strong focus on increasing public sector productivity

Beyond fixing these unsustainable plans, another source of repair looks to the recent past rather than the future: namely, undoing the decline in public services productivity. There has been a dramatic fall in public services productivity since the pandemic. In 2025, the ONS's headline measure of quality-adjusted public services productivity was 3.2 per cent lower than in 2019.[81] This is a larger sustained fall than anything seen prior to the pandemic: the previous worst six-year period for public services productivity was a 2.3 per cent fall between 1998 and 2004. It also understates the scale of lost productivity in key sectors. Because the ONS effectively assumes flat productivity in some areas, which together account for a quarter of public services spending, this moderates changes in the headline measure.[82] Looking only at areas measured by the ONS, we estimate that productivity fell 5.3 per cent between 2019 and 2025 overall.[83] Figure 22 breaks this down by service area, using the latest comprehensive data from 2023. Worryingly, productivity fell in more than half of service areas. In 2023, the worst affected sector was Public Order & Safety, reflecting major backlogs in the justice system. But productivity had also fallen significantly in the three largest sectors of healthcare, education and social care.

80 G Tetlow et al., Overcoming the barriers to tax reform, Institute for Government, April 2020.
81 RF analysis of ONS, Public service productivity, quarterly, UK: October to December 2025.
82 These are Immigration and Citizenship, Defence and 'Other' service areas.
83 This assumes that 2023 expenditure weights apply in 2024 and 2025.

FIGURE 22: **In the latest comprehensive data, public services productivity was below pre-Covid levels for almost all departments**

Change in quality-adjusted productivity and expenditure weights, by public service area: UK



NOTES: Excludes service areas where the ONS does not estimate productivity, namely Immigration and Citizenship, Defence and 'Other' service areas. These areas have a combined expenditure weight of 27 per cent, which means the shares in the chart do not sum to 100 per cent.
SOURCE: RF analysis of ONS, Public service productivity.

So there is certainly scope for productivity to improve. Making this happen means a focus on delivery, as well as some extra money up front. In the past we have called for increased investment in social infrastructure – physical and intangible assets such as equipment and technology used in the process of delivering public services – that will boost the efficiency of public services.[84]

One challenge is that productivity improvements do not automatically translate into fiscal savings. A more efficient hospitals, for example, might carry out more procedures, leading to better services and lower waiting lists for the same cost. Although the service is demonstrably better no money has been saved. Delivering cash gains, then, requires productivity improvements that reduce the cost of delivering a given level of service, rather than simply expanding output. This should be a key focus of efforts in this area.[85]

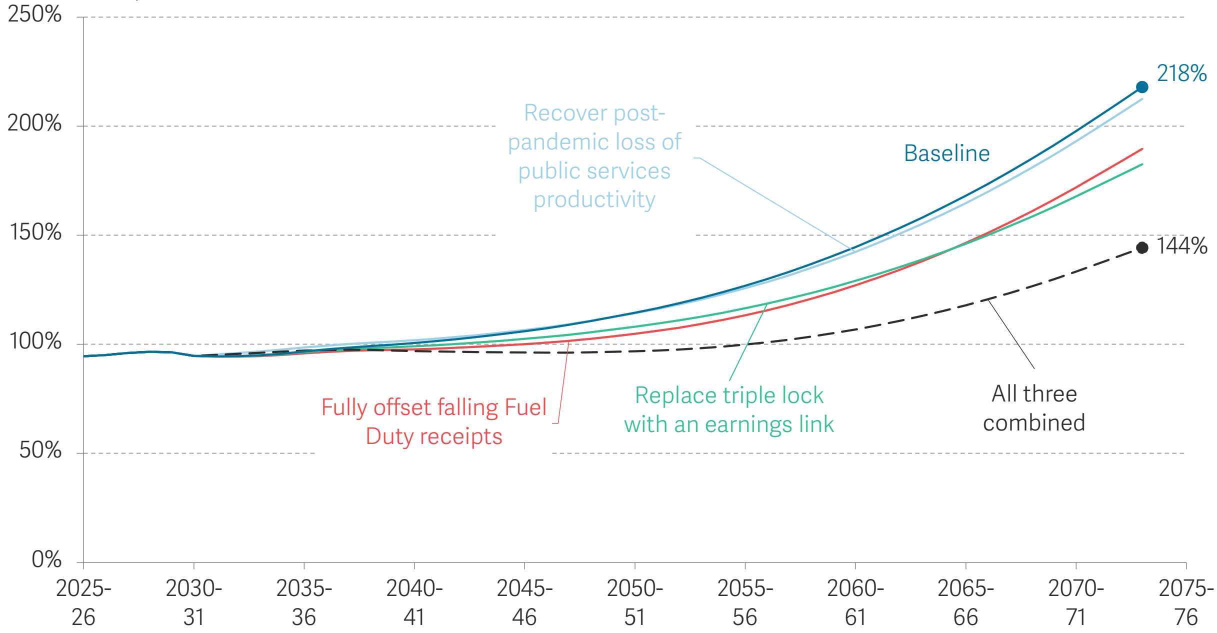
Figure 23 shows the modelled impact of addressing unsustainable spending and improving public sector productivity. We also show separate projections for the debt-to-GDP ratio if the State Pension triple lock is replaced with an earnings link, if motoring taxes are kept at their 2030-31 share of GDP, or if an unwind of the 3 per cent hit to

84 Z Leather et al., Capital gains: Public investment priorities for the 2025 Spending Review, Resolution Foundation, April 2025, https://doi.org/10.63492/135lcek.
85 B van Ark, Making Public Sector Productivity Practical, The Productivity Institute & Capita, August 2022.

headline public services productivity allows for a 3 per cent cut in public spending – as well as a combination of all three.[86] Together, their impact is significant. 50 years out, public debt is still projected to rise (by 50 percentage points, to 144 per cent of GDP) but by less than half as much as in the baseline (a rise of 123 percentage points).

FIGURE 23: **Half the long-term rise in the debt-to-GDP ratio can be mitigated by addressing public services productivity, the triple lock and lost motoring tax receipts**

Long-term projections for public sector net debt as a proportion of GDP under different assumptions: UK



NOTES: The red line shows a scenario in which falling fuel duty receipts from the transition to electric vehicles are fully offset. The green line shows a scenario in which the State Pension triple lock is replaced with a smoothed earnings link. The light blue line shows a scenario in which a 3 per cent fall in public services productivity is reversed.
SOURCE: RF analysis of OBR, Fiscal Risks and Sustainability report, July 2026.

Tighter tax and spending plans could have a double boost for the public finances

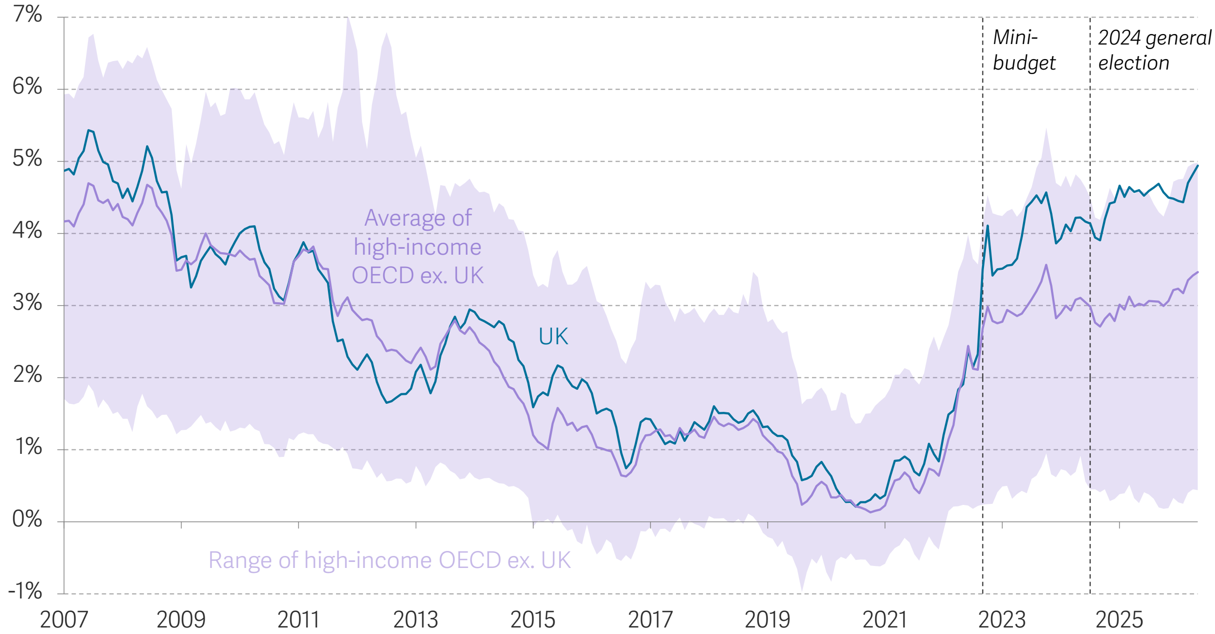
While these measures will contribute to more stable public finances, the modelling above suggests that they are not enough to stabilise debt-to-GDP on their own. To pull down Britain's public debt path even further, tighter policy is required – either in the form of higher taxes or less spending. Such an approach would reduce the Government's need to borrow, mechanically reducing the amount by which the stock of public debt rises each year, albeit at the likely cost of somewhat slower growth. On top of that, there is likely to be an extra benefit from a lower cost of borrowing. In recent years, yields on UK

86 These long-term projections implicitly assume some public services productivity growth in the baseline. We model an additional, persistent boost on top of that, which kicks in after the current Spending Review period ends in 2028-29.

government debt (gilts) have risen by more than yields in comparable countries. Indeed, Figure 24 compares 10-year gilt yields to a broad group of peers (selected high-income OECD members). Before 2022, gilt yields tracked the peer average closely. But, following the ill-fated mini-budget, a persistent wedge has since emerged. As of May 2026, gilt yields were 1.5 percentage points above the peer average – a gap worth £44 billion in debt interest payments if applied to the entire UK debt stock.[87]

FIGURE 24: **Yields on UK government debt have risen by much more than peer countries since 2022**

10-year yields on government debt: UK and high-income OECD members



NOTES: High-income OECE countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and the United States. The average is an unweighted mean across peer countries.
SOURCE: RF analysis of OECD, Long-term interest rates.

This divergence reflects both higher expected policy rates from the Bank of England and the extra risk premium (often referred to as the 'term premium') market participants demand for lending to the Government. Other things equal, running tighter fiscal policy will mean lower interest rates from the Bank. It can also lead to a lower term premium if investors view it as signalling a more sustainable future path for the public finances. Another factor that can affect the term premium is quantitative tightening (QT) – that is, the Bank of England selling its stock of government debt, which it is doing more rapidly than other central banks.[88] Recent research shows that, by expanding the supply of gilts to the market, QT pushes up on the cost of borrowing for the government.[89] In this

87 Based on 2025-26 public sector net debt. RF analysis of OBR, Economic and fiscal outlook, March 2026.
88 D Aikman, What next for Quantitative Tightening?, National Institute for Economic and Social Research, September 2025.
89 W Du, K Forbes & M N Luzzetti, Quantitative Tightening Around the Globe: What Have We Learned?, NBER Working Paper 32321, April 2024, https://doi.org/10.3386/w32321.

context, one policy change that would contribute to lower borrowing costs is for the Bank of England to end its active QT sales, coming more into line with the practice of other central banks by allowing gilts to 'run off' its balance sheet as they mature. While there is a strong case for doing so, given that monetary policy decisions can spill over into tighter fiscal policy – making it harder for both to achieve their primary objectives – any such change needs to be handled carefully to preserve the independence of monetary policy.[90]

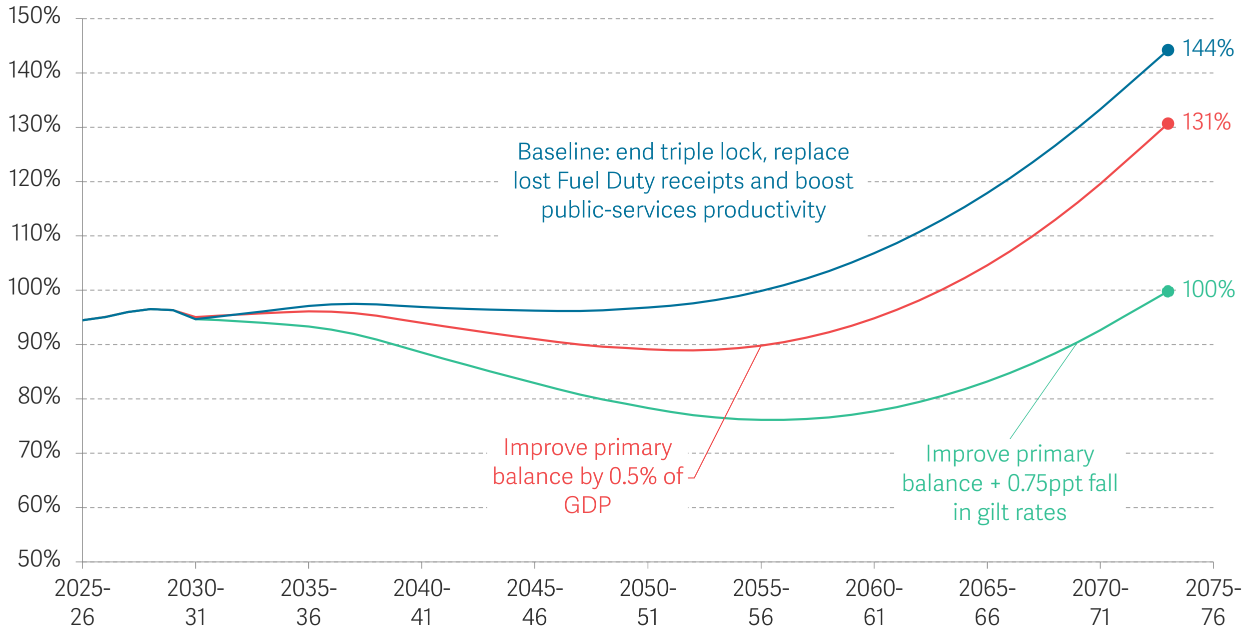
Asset sales from the Bank of England are exacerbating a more structural decline in the demand for gilts from the UK's large defined benefit (DB) pension funds as they mature and higher interest rates reduce the need for such funds to hold gilts.[91] Although difficult to quantify precisely, it is plausible that around half of the 1.5 percentage point gap between gilt yields and the peer average can be explained by QT and lower pension fund demand.[92] The remaining half (0.75 percentage points) is plausibly related to the UK's fiscal outlook and fiscal management. But it could also reflect other factors, including an inflation risk premium if investors have become more sceptical about the ability of the Bank of England to meet its 2 per cent inflation target.

Figure 25 models the impact of a tighter policy stance on the long-run projections (which is broadly equivalent to adopting a tighter starting point, as discussed in Section 2). Ending the triple lock, replacing lost Fuel Duty receipts, and recovering lost public services productivity on their own would not be enough to fully stabilise debt. But a further fiscal tightening of just 0.5 per cent of GDP would be sufficient to stabilise debt for the foreseeable future – keeping public debt-to-GDP below its 2030-31 level for the subsequent 40 years. In this long-term projection, then, this implies maintaining primary deficits of less than 0.1 per cent of GDP in the 2030s and 2040s – effectively running a balanced primary budget over time before debt interest costs are paid. Because debt interest payments over this horizon (at roughly 3.5 per cent of GDP) are larger than public investment (which remains at 2.5 per cent of GDP), this is equivalent to running a current budget deficit of around 1 per cent of GDP.

90 For a discussion of how this might be achieved, see: D Aikman, We need a new monetary-fiscal settlement, National Institute for Economic and Social Research, October 2025.
91 OBR, Fiscal risks and sustainability, July 2025.
92 Cross-country evidence suggests that QT announcements in the UK have added 0.7 percentage points to 10-year yields in the UK, compared to around 0.2 percentage points in other advanced economies – a difference of 0.5 percentage points. The OBR estimates that a reduction in pension funds' holdings of gilts that is worth 19 per cent of GDP could increase gilt yields by 0.8 percentage points, with a proportion of that already priced in by the market. We therefore judge that it is reasonable to assume that 0.75 percentage points of the gilt premium could be attributed to these two factors. For more, see: W Du, K Forbes & M N Luzzetti, Quantitative Tightening Around the Globe: What Have We Learned?, NBER Working Paper 32321, April 2024, https://doi.org/10.3386/w32321; OBR, Fiscal risks and sustainability, July 2025.

FIGURE 25: **Assuming it lowers gilt rates, tightening fiscal policy by 0.5 per cent of GDP would be enough to stabilise debt for the foreseeable future**

Long-term projections for public sector net debt as a proportion of GDP under different assumptions: UK



SOURCE: RF analysis of OBR, Fiscal Risks and Sustainability report, July 2026.

For the sake of illustration, Figure 25 also shows that if that tighter and more credible policy such a tightening reduced the gilt premium by 0.75 percentage points, around half of the current excess premium, then debt would be on a decisively downward path in this long-term forecast.

This is somewhat tighter fiscal policy than Britain has become accustomed to in recent years. Our last year without a primary deficit was now almost a quarter-century ago (2001-02). In the run-up to the pandemic there were several years in which we ran a current budget deficit of less than 1 per cent (with a small surplus in 2018-19), albeit during a period in which debt interest payments were significantly below levels envisaged in our long-run modelling.

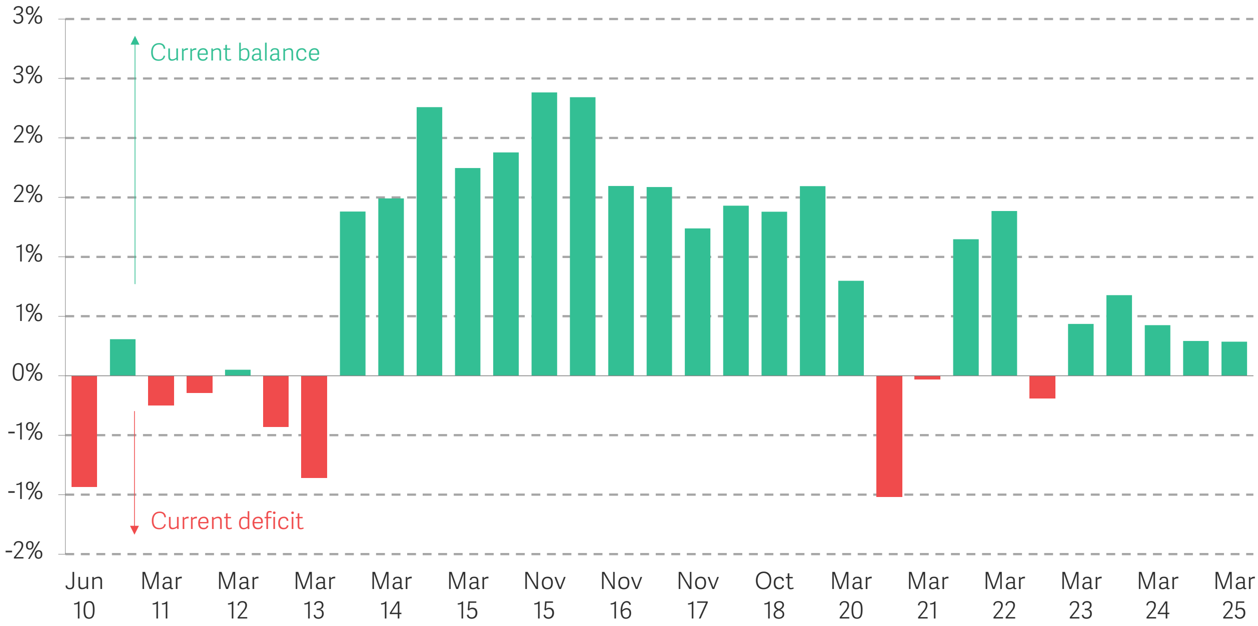
This is, however, not enough to put us on a path towards fiscal sustainability, as it makes no allowance for extra borrowing in the face of economic shocks. We have previously argued that targeting a more ambitious primary surplus of 1 per cent in normal times – equivalent to the current budget balance – would create enough space for fiscal support when shocks hit without raising debt, provided changes are made to improve the functioning of monetary and fiscal interventions.[93] Making more significant progress in reducing debt would require even larger surpluses.

93 S Pittaway & J Smith, Built to last: Towards a sustainable macroeconomic policy framework for the UK, Resolution Foundation, October 2023.

Getting to that point doesn't require a change in the Governments' stated ambitions. As shown in Figure 26, other than during the height of the pandemic and the immediate aftermath of the financial crisis, every OBR forecast since its inception in 2010 has ended with a current budget surplus. What needs to change is for governments to start delivering on those plans. Doing so requires a strategic approach that grapples with fundamental questions about the size and shape of the state, a question we turn to next.

FIGURE 26: **Almost every OBR forecast since its inception in 2010 has forecast a current budget surplus in the final year**

Current budget deficit/surplus in the final year of the OBR forecast as a proportion of GDP: UK



SOURCE: OBR, Historical forecasts database.

A more strategic approach to the size and shape of the state and a more transparent debate are badly needed

The reactive and inconsistent nature of the adjustment since the financial crisis makes clear that we need a more strategic approach to managing the public finances. Fiscal events have become a hurdle to be overcome with increasingly narrow buffers against the fiscal rules and 'fiscal fictions' that postpone the necessary adjustment. All this, as discussed above, has led to policy missteps and reversals that have deepened the crisis and exacerbated the deterioration in the public finances. Cutting investment and adding complexity and distortion into the tax system to avoid raising broad-based taxes are the clearest examples of this. This has further weakened the economy, at least to some extent, feeding back into a need for governments to go somewhat further in cutting their cloth than would otherwise have been necessary.

How can we avoid repeating these mistakes? The problem here is one of political economy: governments face little penalty for promising the impossible before elections, or for claiming in Budgets that they will pay for near-term giveaways with 'fiscal fictions' about future tightening. And there is no mechanism to force honesty at the point where voters can act. Whether it is manifestos or Budgets, part of the 'original sin' here is successive governments making unrealistic claims about how much public spending can be delivered, while committing neither to tax ordinary voters more heavily or to borrowing more. That was as true in Jeremy Hunt's final Budgets, when taxes were cut on the promise of implausible spending cuts, as it was for the current Government's election manifesto, with its 'tax lock' that made rewriting those implausible spending plans so difficult.

The tendency towards over-promising and relying on medium-term fiscal fictions can be seen across the political spectrum, suggesting the solution must lie in strengthening our institutions. Spending Reviews work well for the years they cover, but they invite fiscal fictions thereafter. Manifesto tax locks are a product of 'tax bombshell' campaign attacks. They combine to play their part in our repeated failure to deliver the fiscal plans laid out in Budgets. We need an institutional set-up that raises the returns to honesty about medium-term challenges and the costs for over-promising and resorting to fiscal fictions. A starting point would be for governments to provide a medium-term strategy for the size, shape and role of the state, along with how taxes will be raised to finance it.

Such a strategy would need to address the ballooning costs of our healthcare services. That is because, as discussed in Section 2, the key area in which spending is rising faster than economic growth is health. We leave setting out a plan for delivering sustainable health services to future work. For now, we note that increasing efficiency – including improved NHS kit – must be part of the answer here. But governments must also get serious about addressing the long-term deterioration in the nation's health. This means rolling out a more preventative approach to delivering health services.

In addition, to improve the quality of fiscal debate during election campaigns, more information and transparency is required. Greater scrutiny of manifesto plans would certainly help here. OBR costing of manifestos, as the Australian equivalent does, could provide some useful information here, though it would require political parties to cooperate and provide the level of information required for such assessments.[94] This would not address the main culprit of fiscal fictions – plans for public spending. Here, any of the political parties could lead by example by setting out the broad scope of their spending plans over the Parliament. The medium-term strategy mentioned above would put a sitting government in a natural position to do so and allow them to challenge others to follow.

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94 Parliamentary Budget Office, About election commitments reports, accessed 10 July 2026.

Governments cannot continue to ignore questions about the size and shape of the state

So, what does all this mean for a new Chancellor? The good news is that it is not far-fetched to believe we can escape our fiscal funk, reduce market pressure and move to a less fraught fiscal debate.

The 'head in sand' approach of successive governments has been counterproductive and has to stop. So, yes – growth should remain the top priority. But it should not be expected to fix the public finances. It does help, but not as much as suggested by the impact on tax revenues. Economic growth is crucial for family finances, rather than for the public purse.

Likewise, wheezes that loosen the fiscal rules and increase borrowing – exempting defence spending from the fiscal rules, for example, or extending the forecast horizon to ten years – are not serious and fail to recognise the predicament we are in, risking a destabilising rise in borrowing.

Instead, the good news for the new residents of Downing Street is that the fiscal escape plan is surprisingly simple. Specifically, our long-run modelling shows that balancing the current budget on average would mean lower debt in 30 years than now. So, all the Government needs to do is deliver what it has already promised.

Actually doing so is harder than it sounds, however. Long-run modelling shows that simply promising to balance taxes and day-to-day spending is not enough in the face of inevitable future downturns. Stabilising the current budget on average means running a current budget surplus of at least 1 per cent of GDP outside those recessions.

The starting point for running surpluses is to recognise that our long-term fiscal challenges do not just come from a lack of growth but also from structural challenges like demographics and ill-health. Addressing clearly unsustainable policies that are baked into existing plans should be a priority. Failing to address these would imply an implausibly large consolidation worth nearly 2 per cent of GDP between now and 2050. Most obviously we need a route to replace the triple lock with an earnings link, and a credible plan to replace Fuel Duty revenues, which raised £24 billion in 2025-26, but is being hollowed out by the switch to electric vehicles.

Improving the trade-offs facing the Government when it comes to public services means increasing the bang for our buck with a laser focus on productivity. The ONS's headline measure of public services productivity was 3.2 per cent below its 2019 level in 2025, a worse sustained fall than anything recorded before the pandemic. So getting public sector productivity back to pre-Covid levels, at the very least, is a realistic goal, including by investing more in the physical and intangible capital used to deliver those public services. It is crucial that improved productivity leads to cashable savings in the cost of running services, resisting the temptation to expand what the state does rather than lower the cost of providing it.

Tighter and more credible fiscal policy could not only act to lower deficits and ultimately debt but also act to lower borrowing costs. UK gilt yields are around 1.5 percentage points above the average of our rich country peers at the time of writing, having decoupled them around the time of the disastrous mini-budget in 2022. Part of the UK's elevated yields also reflects the decision by the Bank of England to sell down its stock of gilts more quickly than elsewhere. Stopping or reducing active sales would reduce the spillovers from monetary policy which are making the fiscal adjustment even more challenging. The macroeconomic framework should allow for appropriate consideration of these effects.

Our long-run modelling shows that, even after doing all of the above, a significant further adjustment of 0.5 per cent of GDP is needed to deliver stable public finances.

Delivering surpluses is genuinely challenging against the background of an ageing and ailing population. The reality of less borrowing is fewer public services in return for the taxes we pay. That requires a serious conversation about what it would take, and how the state is going to adjust. On tax, that means we are unlikely to see a falling tax take anytime soon. That puts the emphasis on reforming the system so that it facilitates growth and prosperity, rather than being a barrier to it. A starting point for achieving this would be for governments to provide a medium-term strategy for the size, shape and role of the state, along with how taxes will be raised to finance it. This must include a plan for containing the pressures from an ageing and ailing population, particularly from health and disability benefits spending, likely covering significant NHS investment and the rollout of a preventative approach to the nation's health.

Improvement to the institutional framework should be made to ensure all this actually happens. The 'original sin' of manifestos and fiscal events failing to survive contact with reality is a political economy problem: governments face insufficient penalty for promising the impossible, or for dressing up near-term giveaways as 'fiscal fictions' about future restraint. This is as true of the previous Government's implausible spending cuts as of the current Government's manifesto tax lock. Remedies should include institutional reform, building on the requirement for a medium-term strategy and, for example, by increasing the transparency and scrutiny of party manifestos, including with OBR costings of the kind used in Australia.

Nihilism about our strained fiscal position is, perhaps, understandable. The fiscal funk of recent years has led some to describe the UK as ungovernable. But this is not inevitable. As new leadership prepares to take up residence in Downing Street, now is the time to proactively set out plans that put us back on track for stable public finances, a more efficient tax system, and a more productive and prioritised state.

Annex 1 : Data citations

- Labour Force Survey (summary page here):
    - Office for National Statistics, released 19 May 2026, ONS SRS Metadata Catalogue, dataset, Labour Force Survey Household - UK, https://doi.org/10.57906/kpcj-gt08
- Understanding Society (series page here):
    - University of Essex, Institute for Social and Economic Research. (2024). Understanding Society. [data series]. 12th Release. UK Data Service. SN: 2000053, DOI: http://doi.org/10.5255/UKDA-Series-2000053
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    - Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: http://doi.org/10.5255/UKDA-Series-200017

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The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

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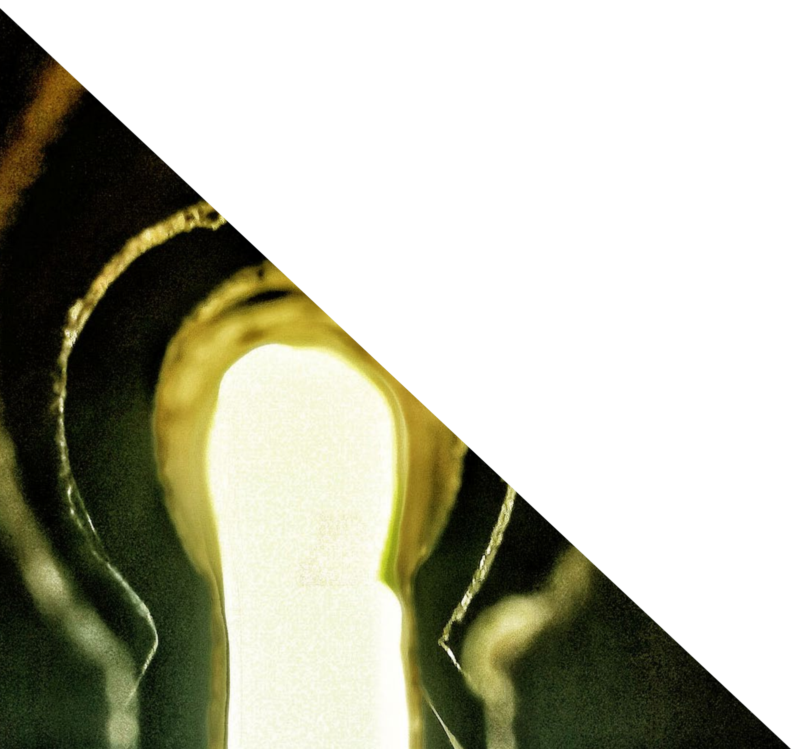

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