# Britain's Broken Budgets

## By Daniel Herring


### Summary

- The 2025 Budget process has been absurd. But absurdity is built into the system, driven by a narrow obsession with hitting a particular level of headroom in five years' time.
- It is only the latest example of how the system of fiscal rules, introduced by Gordon Brown in 1997, has failed to improve Britain' public finances.
- Since Brown's first rules, there have been nine further iterations, with no rules surviving the Chancellor that created them. Over that time, there have only been three years where a government surplus was run, and debt has increased from 36.7% of GDP to 93.7%.
- There are several reasons the rules do not work:
    1. They embed 'deficit bias', meaning that while Chancellors are happy to run deficits during a downturn, they are unwilling to run a surplus when economic times are better.
    2. Hard decisions are put off, with loose fiscal policy in the early years of the forecast 'paid for' by spending cuts in future years that Chancellors have no intention of actually delivering. CPS analysis shows that since 1990, the state has *always* ended up spending more money than it originally predicted: actual spending in the final year of the forecast was an average of 3.5% of GDP higher (the equivalent of roughly £100 billion today) excluding the pandemic, or 4.7% of GDP including Covid.
    3. Policy is designed specifically to meet the fiscal rules, rather than what is optimal for economic growth.
    4. The rules are based on a forecasting exercise that is, by its nature, hopelessly inaccurate – most recently obsessing about £14 billion of 'headroom' on a £1.5 trillion budget, five years out.
    5. By focusing solely on the next few years, the fiscal rules fail to take account of Britain's long-term position – in particular, the cavernous gap that is set to open up between spending and revenue.
- We argue that Britain should learn from countries such as Singapore, Sweden, Switzerland and Germany and move towards a fiscal framework that is long-term and properly comprehensive, and which imposes greater accountability and greater discipline on policymakers, rather than letting them always put off the day of virtue.

## Introduction

On Wednesday, Rachel Reeves will deliver her second Budget. It will be shaped and constrained, as she will doubtless tell the House of Commons, by an 'iron-clad' adherence to her fiscal rules, which are designed to demonstrate fiscal credibility and ensure markets trust that the government's sums add up.

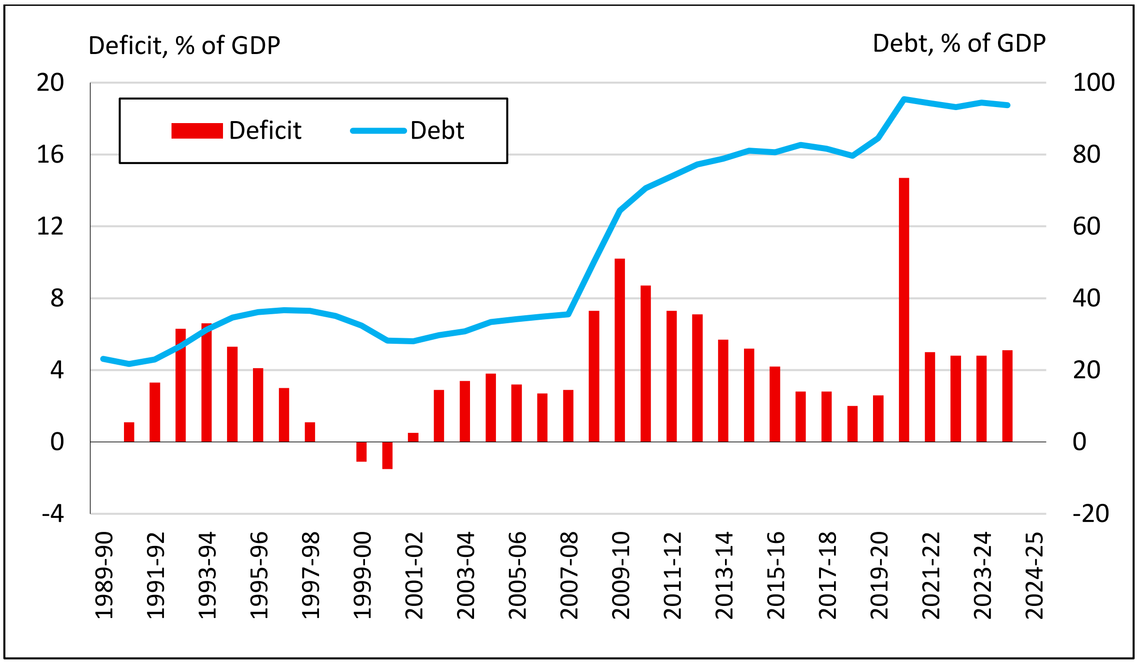
Both politically and economically, the situation for the Chancellor is grim. But there is a broader problem, which affects not just Reeves but every Chancellor. Our current system of economic management – including the fiscal rules which Chancellors set themselves – simply isn't working.

Since Gordon Brown introduced the idea of fiscal rules in 1997, there have been ten sets, with the latest having been introduced by Reeves in 2024. In that time, the state's financial health has got far worse.

No Government since Brown was Chancellor has delivered more revenue than expenditure. Every Chancellor has failed to balance the budget. Public sector net debt has risen from 36.7% of GDP in 1997 to 93.7% in 2025.[1]

Meanwhile, even as Chancellor after Chancellor pronounces that they have made the numbers add up, the longer-term prognosis for the public finances is relentlessly grim: without either major tax rises or major spending cuts, current spending will become unsustainable.

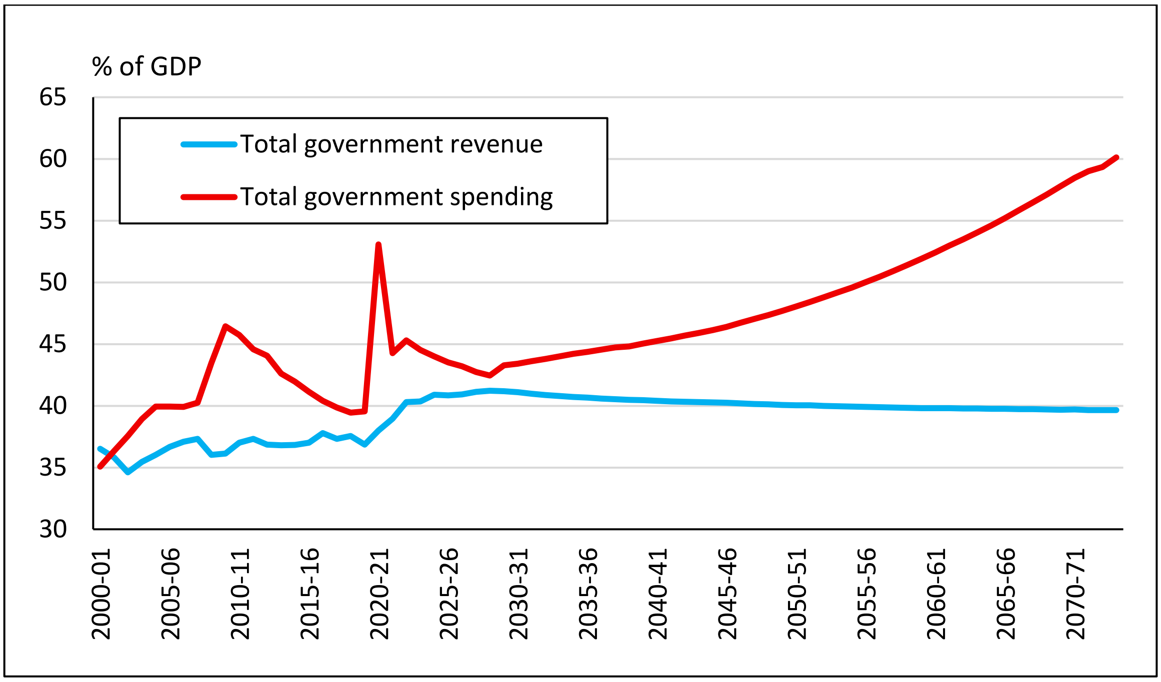
**Debt and deficits as % of GDP**




*Source: ONS, 'Public sector finances, UK: September 2025'. [Link](#)*

[1] Public Sector Net Debt is the total liquid financial assets of the government minus all government and public sector debt.

**Long-term projections for spending and revenue**




*Source: OBR, 'Fiscal risks and sustainability – September 2024'.* Link

Britain's fiscal problems are often blamed on three big shocks the UK has faced in the last 20 years: the 2008 financial crisis, Brexit, and Covid.

However, as Gerard Lyons spelt out in his recent CPS paper 'Breaking the Cycle', these are poor excuses: crises are inevitable, and the purpose of fiscal policy is to prepare for them and give yourself room to respond.[2] Plenty of countries, especially in the G7, are in a version of Britain's position. But others (as shown on the next page) have not just held their debt steady but actually improved their position.

The argument of this paper is that the UK has managed its finances poorly in recent decades, because our system of fiscal management not only permits but encourages poor management. In particular, there are five core flaws in the current regime:

1. *Chancellors do not pay down debt when times are good*
2. *Hard decisions are put off*
3. *Policy decisions are made to meet arbitrary fiscal rules*
4. *The forecast process is both inaccurate and over-optimistic*
5. *Long-term measures of fiscal health are ignored*

[2] G. Lyons, 'Breaking the Cycle', Centre for Policy Studies, 15 Oct 2025. Link

## General government debt since 1990 (selected OECD countries)


*Source: IMF, 'Global Debt Database'. [Link]*

## What are the fiscal rules?

Since 1997, the UK's economic policy has centred around 'fiscal rules'. Gordon Brown, on introducing them, stated that they would 'ensure an historic break from the short-termism and expediency that have characterised the recent fiscal policies of our country'.[3]

Brown introduced two rules. The first, his 'golden rule', stated that over the economic cycle government would only borrow to invest, not for day-to-day spending. His second was that over the economic cycle, public debt would average no more than 40% of GDP.[4]

In 2011, the Conservative Government introduced the Budget Responsibility and National Audit Act 2011. This established the Office for Budget Responsibility (OBR) and created a duty for the Treasury to prepare a 'Charter for Budget Responsibility', setting out its objectives for fiscal policy and for the management of the national debt and how these objectives are to be met (called the fiscal mandate).[5]

Labour in 2024 amended the Act to include a requirement for the OBR to make an independent assessment of any 'fiscally significant' measures.[6]

The current Charter sets out the Government's objectives:[7]

- To take decisions that support fiscal sustainability and safeguard intergenerational fairness through a strong balance sheet
- To prioritise investment to support long-term growth and fund high-quality public services while delivering value for money for the taxpayer
- A clear commitment to fiscal transparency and strong institutions through affirming the independence of the OBR and ensuring that fiscal policy is supportive of monetary policy

The principles for fiscal policy are:

- To move towards only borrowing for investment
- To keep debt on a sustainable path

Even though not required by the Act, the Government has – like most of its recent predecessors – chosen to express this fiscal mandate in terms of fiscal rules. These hold that the current budget (which excludes capital spending) will be in surplus in five years' time, or three years' time as of 2026, that net financial debt will be falling as a share of GDP on the same timescale, and that welfare spending is capped.[8]

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[3] G Brown, Budget Statement, HC Deb 02 July 1997 vol 297 cc303-16. Link
[4] IFG, 'Fiscal rules in the UK since 1997', 26 November 2024. Link
[5] Budget Responsibility and National Audit Act 2011, Link
[6] Budget Responsibility and National Audit Act 2011, s4A. Link
[7] HM Treasury, 'Charter for Budget Responsibility: Autumn 2024', 30 October 2024. Link
[8] The welfare cap is set by Treasury at £194.5 billion in 2029-30. The cap excludes some benefits including the state pension and UC. Roughly half of welfare spending falls within the cap.

## Why the system of fiscal rules has failed

*1. Chancellors do not pay down debt when times are good*

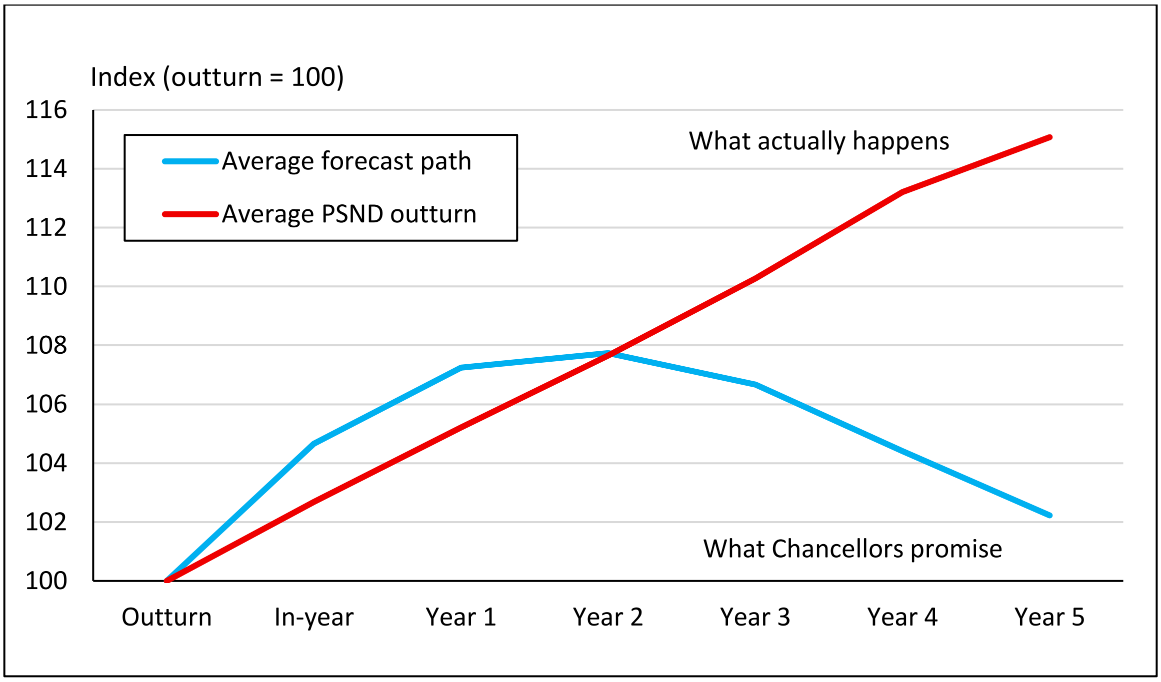
Ideally, fiscal policy should smooth spending throughout the economic cycle. That means running a surplus when times are relatively good and using it to pay down debt. Conversely, during a recession, the state runs a deficit (i.e. borrows money) to prop up demand and avoid excessive spending cuts or tax rises.

The reality is different. In the UK, Chancellors spend through downturns but rarely pay down debt on the other side. Any revenue above what was forecast is largely spent, rather than saved.

In 2023, the Institute for Fiscal Studies calculated that on the 12 occasions since 2010 when economic conditions were worse than forecast, 27% of the borrowing increase was offset by spending cuts or tax increases. But when conditions were better than forecast, Chancellors spent 60% of the windfall, either through higher spending or tax cuts.[9]

The OBR must make forecasts based on government spending intentions. Based on those expectations, the OBR consistently forecasts that debt will increase in years one and two of the forecast period, and then decline by year four. In reality, the debt grows and grows.[10]

**Comparing average PSND forecast and outturn profile**

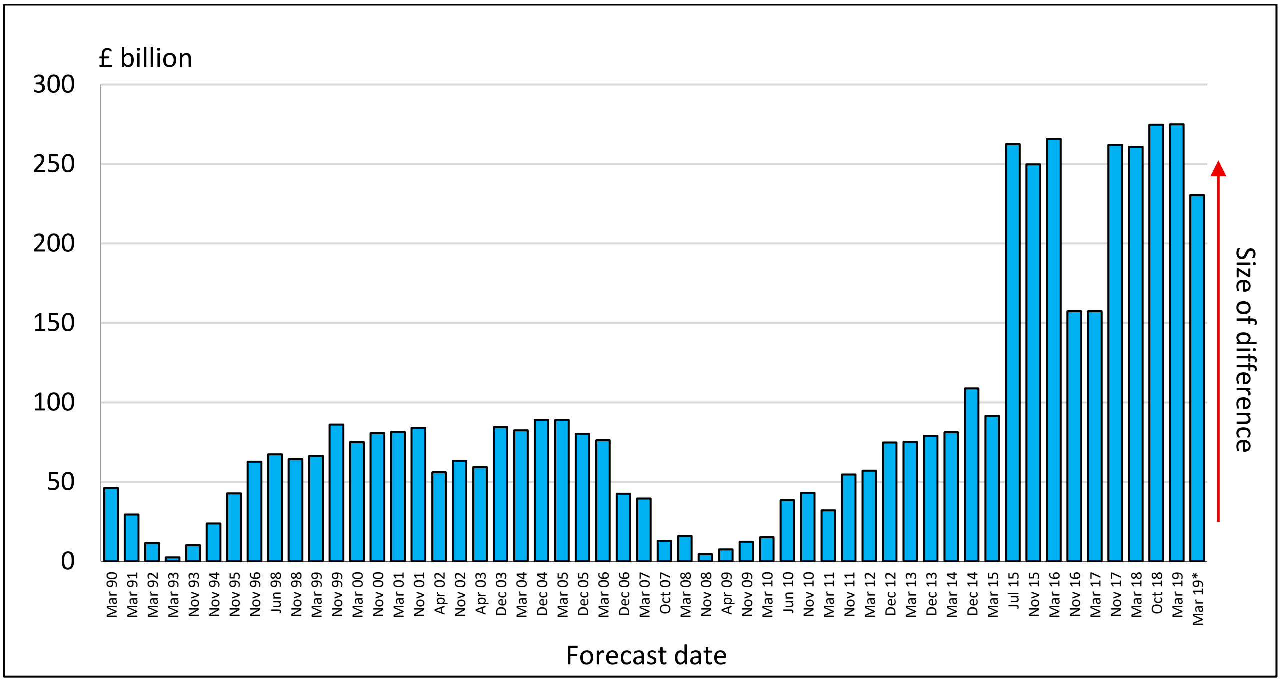



*Source: OBR, 'Fiscal risks and sustainability – July 2025'. [Link](#)*

[9] IFS Chancellors' responses to economic news Green Budget 2023 – Chapter 5. [Link](#)
[10] OBR, 'Fiscal risks and sustainability report – July 2025', 8 July 2025. [Link](#)

These problems precede the OBR. The OBR's database of historical forecasts goes back to 1990. It shows that, out of 54 medium-term forecasts[11] from 1990 to 2019, actual managed expenditure was *always* above what was forecast. Even setting aside the impact of the pandemic, or the financial crisis, there was not a single example of the Government spending less than it originally forecast. On average, excluding the pandemic, the government ended up spending 3.5% of GDP more than predicted in the final year of the forecast, or the equivalent of £100 billion today. Including Covid, the average was 4.7%.

**Total Managed Expenditure, difference between final year forecast and actual outturn**




*Source: OBR, 'Historical official forecasts database – March 2025', 3 April 2025. The forecast for March 2019 was restated.* [Link]

Because the fiscal rules are forward-looking and usually based on balancing a future value, they do not reward Chancellors for ensuring that, when a year finally rolls around, they have actually managed to deliver the spending that was forecast. This is in sharp contrast to a country such as Singapore, where each administration is constitutionally obliged to balance the books over each parliamentary term.

[11] OBR, 'Historical official forecasts database – March 2025', 3 April 2025. We have defined medium-term forecasts as those more than two years out. Link

*2. Hard decisions are put off*

The current fiscal rules depend on forecasting whether there will be a deficit in four years' time. Yet when that time finally rolls around, there is no reward for actually delivering a surplus in that year – instead, the Government will again be looking four years ahead.

This has the effect of Chancellors pencilling in future policies that are forecast to save money, but which they have no intention of actually implementing.

For example, Rachel Reeves' spending plans currently incorporate some highly optimistic assumptions about spending restraint. Departmental spending (RDEL) is forecast to grow by 2.7% above inflation in 2024-5 and 4.0% in 2025-6. But from the third year of the forecast period, the growth rate shrinks to 1.9%, 1.0%, 1.0% and 1.0%.[12] Given that this includes a guaranteed 3% a year increase for the NHS, this is effectively a promise of renewed austerity that, given both the Government's track record and the views of the Parliamentary Labour Party, is highly unlikely to materialise.

But Reeves is not alone. Jeremy Hunt's 2024 Budget included future cuts to government spending (including real-terms cuts to capital spending) that enabled him to meet his fiscal rules and also cut National Insurance. It is questionable whether he would have pencilled in such cuts if he had thought that he would actually have to deliver the savings after the 2024 election.[13]

Meanwhile, fuel duty, which is supposed to rise in line with inflation, has been frozen since 2011-12 at 59.5p in the litre, and was even cut by 5p in 2022-23.[14] This policy has remained 'temporary' for several years, yet the final year of the forecast always assumes that it will be unfrozen, which never happens. The IFS has said this policy 'stretches credulity to breaking point'.[15]

*3. Policy decisions are made to meet fiscal rules*

As we have seen in recent months, one of the main problems with our system of fiscal management is that policy decisions are often made to meet the fiscal rules, or in response to small shifts in the OBR's medium-term forecasts. This means that, in response to extremely fine-grained changes in projected spending or tax revenues, the Chancellor announces policy designed purely to meet these fiscal objectives.

At the 2025 April Spring Statement, for example, Rachel Reeves announced a series of welfare policies which appeared designed to restore the exact headroom she had before. Yet as many commentators pointed out, this was a ludicrous exercise – the entire British media and political class spending weeks debating £14 billion in spending changes, five years out, on a budget that is expected to stand at roughly £1.5 trillion.

[12] OBR, 'Economic and fiscal outlook – March 2025', 26 March 2025. Link
[13] See, for example, B Boileau, 'Public service spending', IFS, 7 March 2024. Link
[14] OBR, 'Fuel duties'. Link
[15] IFS, 'Policy risks to the fiscal outlook Green Budget 2023 - Chapter 4', 17 October 2023. Link

This results not just in bad policy, but obvious distortions. Consider the introduction of full expensing for certain types of capital spending by businesses, long advocated by the Centre for Policy Studies. The purpose of the policy was to incentivise business investment in machinery, which then improves productivity. This was introduced as a temporary measure, even though the evidence suggested that doing so would lead to firms bringing investment forward, rather than increasing it over the long term. As the Institute for Government and others noted, this was done purely to meet fiscal rules – though thankfully, the policy has since been made permanent.[16]

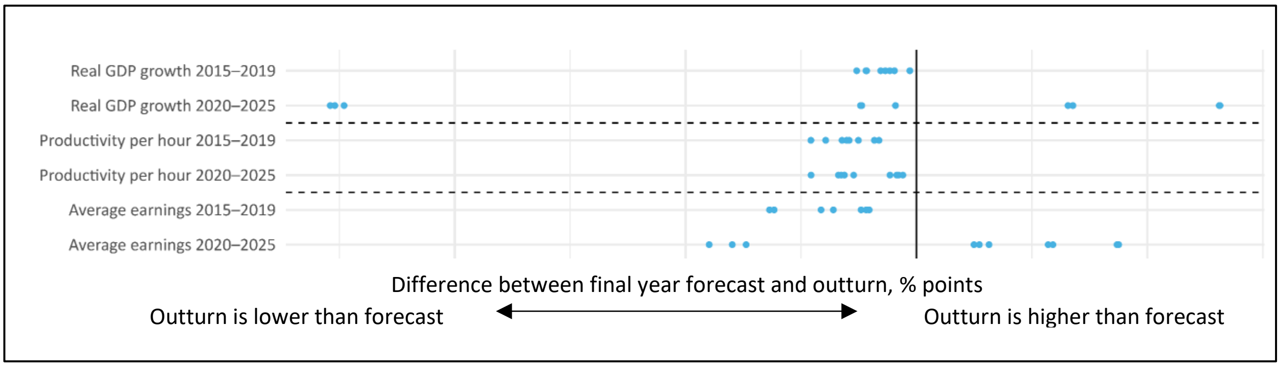
*4. The forecast process is both inaccurate and over-optimistic*

We noted above that the OBR and its predecessors have consistently underestimated both the future size of the British state and the scale of its debts. But these are not the only failures of forecasting. The OBR has got all sorts of things wrong, all the time.

This is not a criticism on the quality of the OBR's personnel, or methodology. It is simply impossible to predict the precise state of the British economy, across a five-year horizon, with the kind of spurious precision that our current system of fiscal management demands. And the impact of the pandemic in particular means that the accuracy of forecasts has been getting worse rather than better.

Here, for example, are the OBR's predictions for the path of certain fundamental economic variables, followed by its estimates of what that would mean for the public finances.

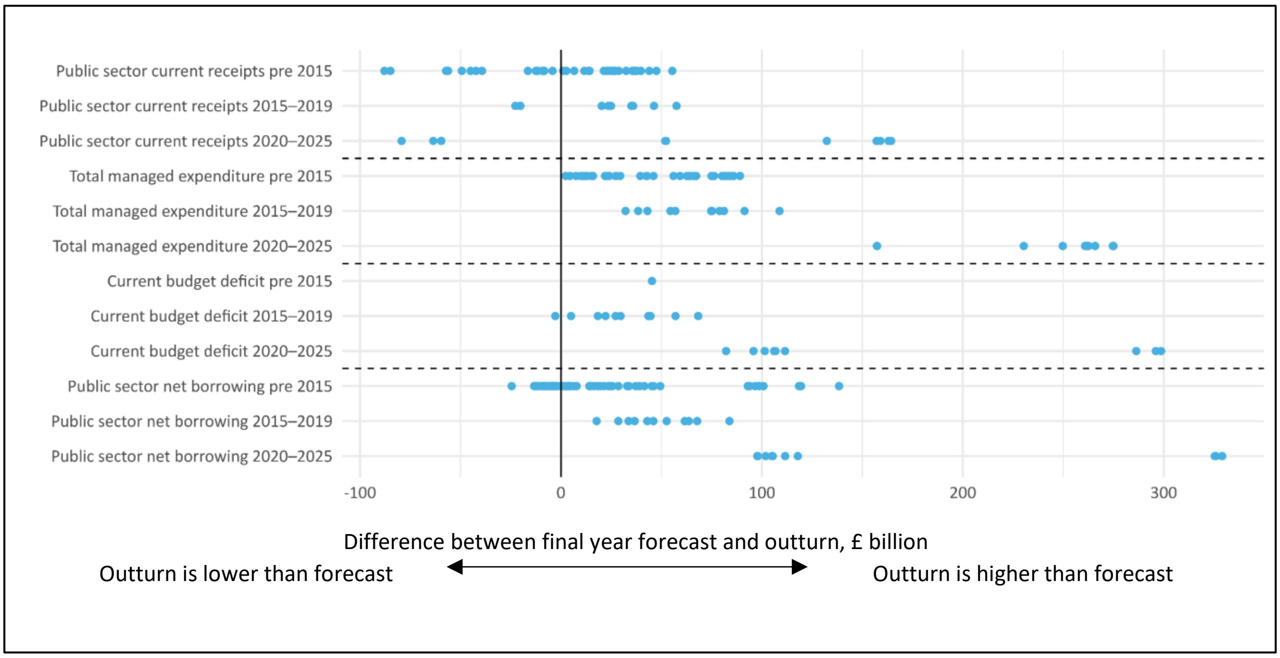
**OBR final year forecast v reality: selected economic variables**




*Source: OBR, 'Historical official forecasts database – March 2025'. [Link]*
*Note that the year range refers to the outturn year. For example, 2015-2019 refers to forecasts made for the years 2015-2019.*

[16] IFG, 'Strengthening the UK's fiscal framework: Putting fiscal rules in their place', 29 February 2024. Link

**OBR final year forecast v reality: aggregate measures**




*Source: OBR, 'Historical official forecasts database – March 2025'.* [Link]

The chart on the next page shows the OBR's estimates for the main taxes the Government collects. Again, there is a picture of wild variation – though less of a clear pattern, with the exception of corporation tax where the OBR has consistently underestimated receipts.

Taken together, these charts show that our current fiscal rules are an exercise in trying to impose artificial precision on a wildly uncertain reality – and if there is a consistent bias, it is towards underestimating both the size of state spending, and the level of borrowing and deficits that will be required to finance it.

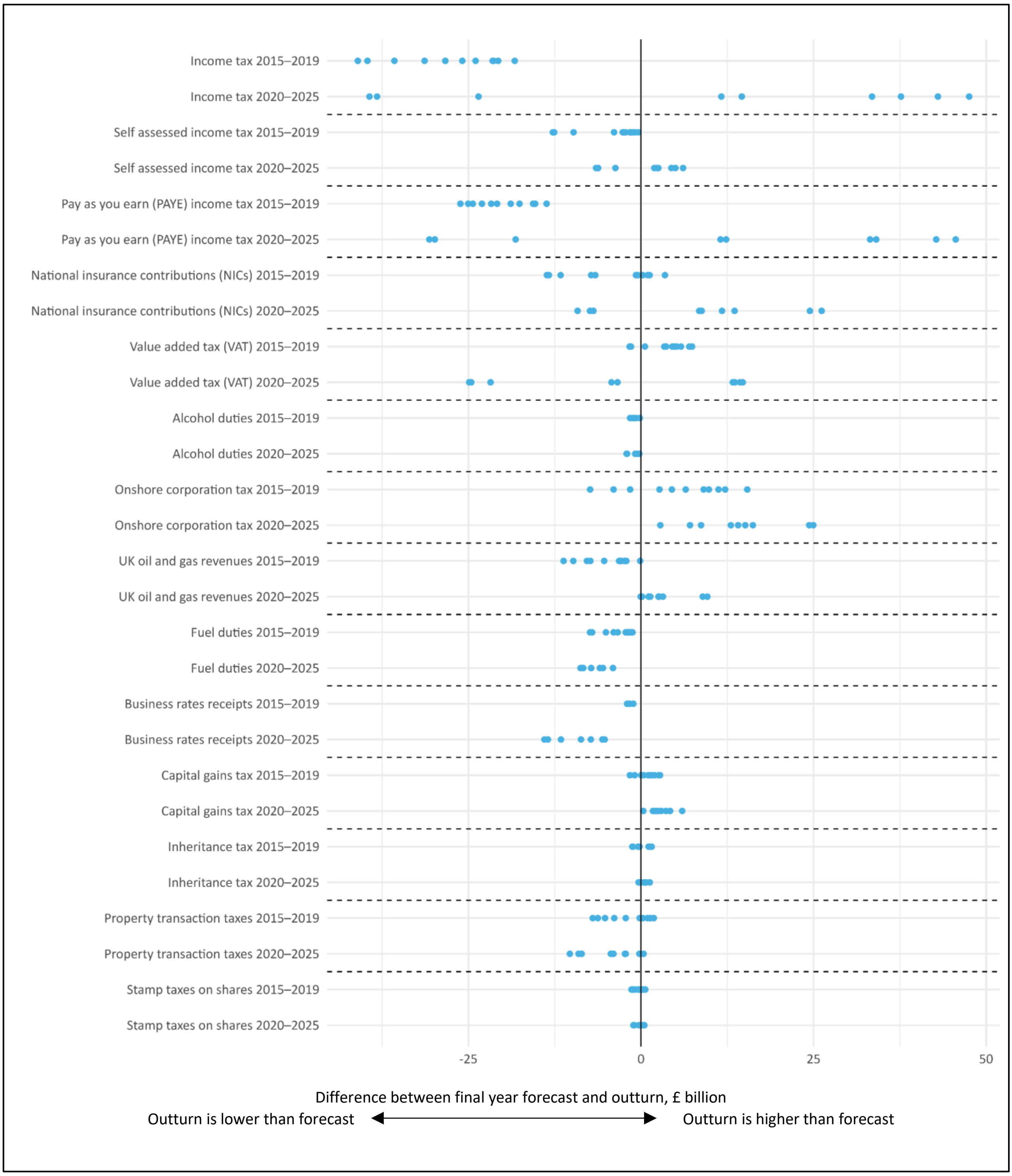
*5. Long term measures of fiscal health are ignored*

As with the Spring Statement, this year's Budget speculation has been dominated by whether or not Rachel Reeves will have enough 'headroom' in the forecast. This is a reference to the size of the surplus that she will have in 2029-30, which most recently was estimated to be £9.9 billion.

Leaving aside the dependence on forecasts that are highly uncertain, this headroom is largely irrelevant. As mentioned above, it is pocket change in the context of government spending that could be approaching £1.5 trillion by the end of the decade.

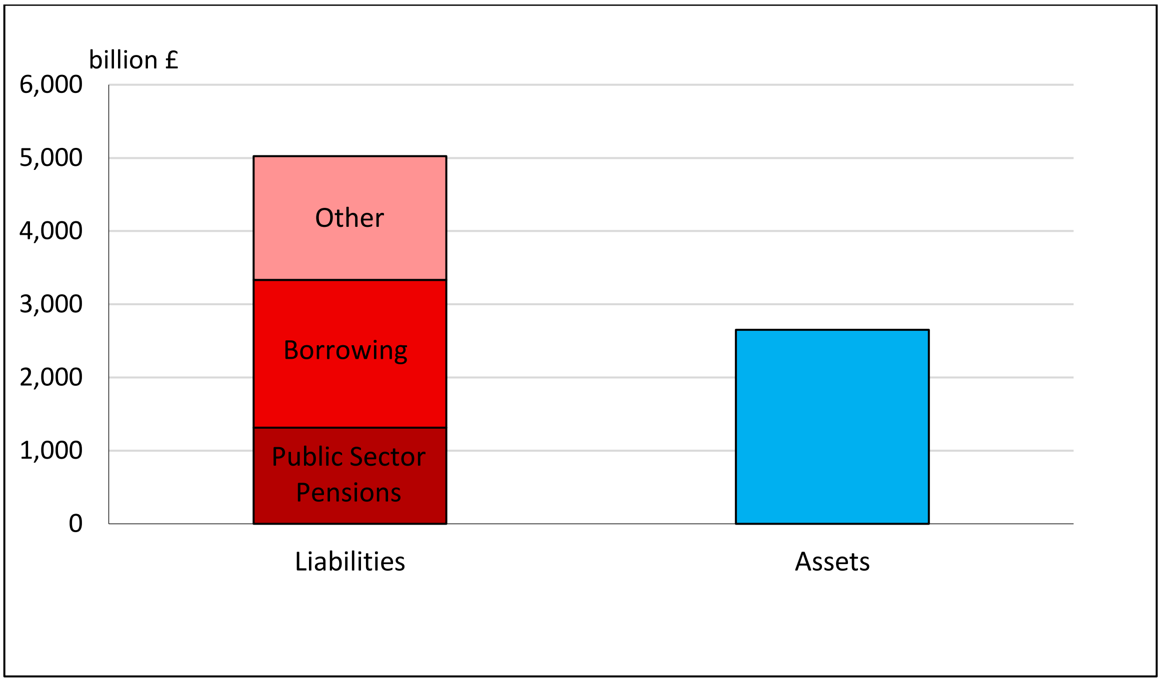
The obsessive focus on the current rules (and many previous rules) obscures what should be the focus: the fiscal health of the British state and its long-term sustainability.

**OBR final year forecast v reality: tax receipts**




*Source: OBR, 'Historical official forecasts database – March 2025'. Link*

**Total UK assets and liabilities, 2023-24**




*HM Treasury, 'Whole of Government Accounts, 2023-24', 17 July 2025.* Link

The information required to assess the long-term fiscal health of the state already exists. The government publishes its annual Whole of Government Accounts, which shows the overall financial position of the government, including its assets and liabilities. In particular, this document shows that the two largest liabilities are the national debt and public sector pensions.

The OBR also publishes its 'Fiscal risks and sustainability' report. This outlines future fiscal risks and models long term spending and tax. While long term models are highly uncertain, they are useful in showing the broad direction current policy settings will take us. This assessment of fiscal solvency, however imprecise, is a much more important indicator for the Chancellor to consider than her headroom in four years' time.

Both of these documents show enormous challenges for future generations of taxpayers – just look at the chart with which we began this briefing. Yet both are routinely ignored not just by Chancellors, but MPs and much of the media.

Neither of the current fiscal rules comprehensively addresses the long-term challenges the country faces. Yes, the second of the current rules includes debt, but there are other features of the Government's balance sheet that are ignored, such as public sector pensions, or physical infrastructure. Furthermore, neither fiscal rule sets out a sustainable path for public finances beyond 2030.

## What would a better fiscal framework look like?

Britain's fiscal rules and its wider fiscal framework are – as Gerard Lyons warned in his CPS paper earlier this year – failing to create a political culture that values fiscal sustainability.

We believe there are two key features of a better fiscal framework. The first is that it must be comprehensive, in that it takes greater account of the whole government financial position. Second, it must make governments accountable for their financial management.

*Comprehensive measures of fiscal strategy*

First, the government's fiscal strategy ought to be comprehensive. The current Budget Charter (which expresses the Government's fiscal strategy) includes references to 'fiscal sustainability', 'intergenerational fairness', 'strong balance sheet', 'long-term growth' and 'value for money'. Additionally, the Charter specifies that the OBR should monitor a range of important balance sheet metrics, including public sector net worth.

However, these words in the Charter do not translate into active management of all elements of the Government's financial performance. We think, at a minimum, the Government should be required to express its strategy for each of the following:

1. **Expenditure:** Plans for how much the government is planning to spend in the coming years.
2. **Tax revenue:** How much the government plans to raise in revenue.
3. **The surplus:** How the government plans to deliver an operating or total surplus.
4. **Public Sector Net Debt:** Debt remains an important concern, as the interest on debt is a continued drag on the public finances.
5. **Public Sector Net Worth (PSNW):** PSNW (see box) includes all assets owned by a government, including its physical infrastructure, and all liabilities, including unfunded public sector pension liabilities[17] and Public Finance Initiatives (PFIs).
6. **Addressing long-term spending pressures identified in the OBR's fiscal risks reports**: The OBR's annual publication identifies risks to the government finances and long-term spending pressures. The CPS's Director has suggested that there should be an annual parliamentary debate on its contents – perhaps even replacing the Spring Statement.

New Zealand is an example of a country that has moved away from hard fiscal targets, and instead focuses on fiscal objectives and intentions. There, the government must present a fiscal strategy annually that states its short-term intentions and long-term objectives (more than 10 years) across five variables: total operating expenses, total operating revenues, the balance between operating revenues and expenses, the level of debt, and total net worth.[18]

[17] Does not include state sector pensions. Note that the European Accounting Standards to not include unfunded liabilities in their measure of PSNW.
[18] Section 26K and 26J. Other variables are total operating expenses, total operating revenues, the balance between total operating expenses and total operating revenues, and the level of total debt.

Many of these objectives are implicit in current spending plans of the government. However, expressing these as targets or objectives could explicitly show the government's medium and long-term intentions for the size of the state, the tax burden, debt and PSNW.

Of course, any long-term models of spending and debt should be treated with caution, and not used to replace today's arbitrary targets with even hazier ones decades hence. Their usefulness lies in that they show broad trends and can indicate whether current tax levels are adequate for projected levels of spending, and force politicians to confront those choices.

*Accountable for past performance*

The second core principle is that the Government should be accountable for its past financial performance.

This is particularly important in running genuinely counter-cyclical fiscal policy. As noted above, there is an asymmetry in most Chancellors' responses to good and bad economic news. During an economic downturn, politicians run deficits as tax revenues fall, but they do not exercise spending restraint on the other side. Britain has, in other words, adopted a system of one-way Keynesianism: doing the stimulus in the bad times, but not the retrenchment in the good.

A key reason that this happens is that, under the current model, the Chancellor is not accountable for past deficits. One option, which is perhaps quite stringent, would be a 'spending cap' which forces a government to run a balanced budget on average. While in any given year a government may need to run a deficit so that it does not have to sharply raise taxes, it must also run surpluses in other years to offset the deficit.[19]

The value of such a rule is that, if adhered to, it guarantees that debt will fall over time.

We mentioned Singapore above, but perhaps the best example from an economy comparable to the UK's is the Swiss 'debt brake', which operates as a spending cap. It was introduced in 2003 following a 2001 referendum and is part of the constitution. Under the debt brake, the ceiling for expenditure is capped by the expected receipts after accounting for the economic situation (receipts are adjusted by a cyclical factor).[20] This means that when the economy is strong, expenditure is lower than receipts (creating a surplus).[21] It has generally been regarded as successful: certainly, Switzerland saw its general government debt as a percentage of GDP fall from 57% in 2003 to 38% in 2024.[22] A slightly looser model was adopted by Germany in 2009, which resulted in its debt falling from 81% in 2010 to 63% in 2024.

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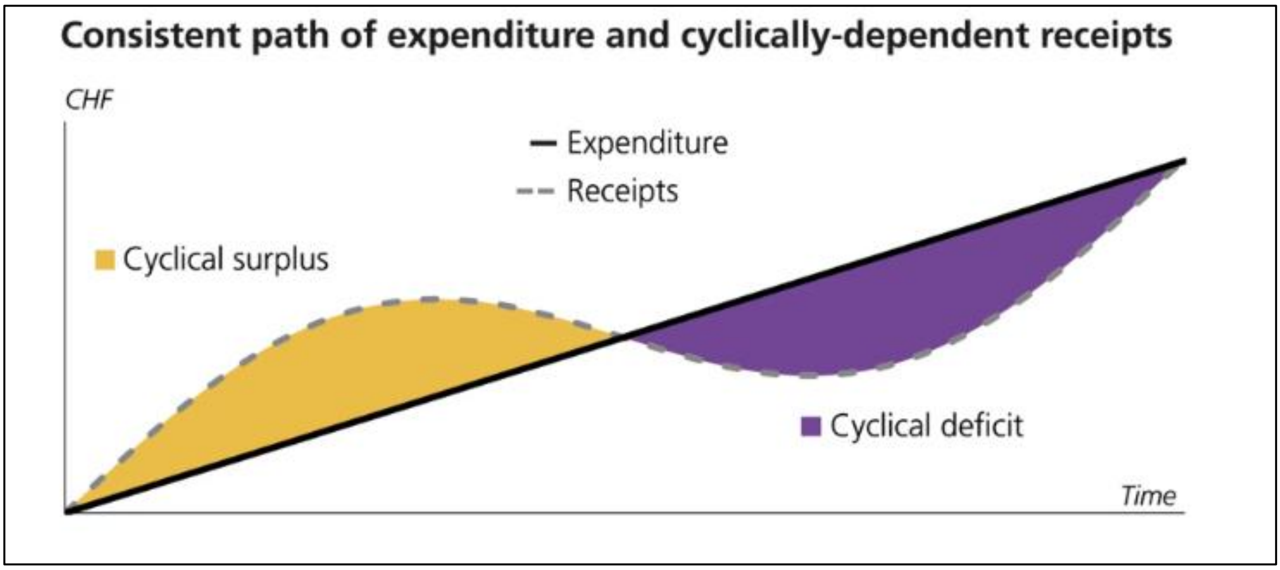
[19] Ryan Bourne, 'Fiscal Rules That Work', Cato Institute, 2022. Link

[20] Swiss Federal Authorities, 'Debt brake (Financial policy, foundations)' 25 June 2025. Link

[21] If there are exceptional requirements (such as war or during Covid), this ceiling may be raised. However, if total expenditure exceeds the ceiling set, the deficit is debited to a 'compensation account', which must be paid for in future years. The compensation account is also debited or credited for forecasting errors. 'Automatic stabilizers' such as unemployment insurance, are not included in the Swiss debt brake.

[22] C. Pfeil & L. Feld, 'Does the Swiss Debt Brake Induce Sound Federal Finances? A Synthetic Control Analysis', Public Finance Review, 6 Sept 2023. Link




*Source: Swiss Federal Department of Finance, 'Debt Brake', 10 April 2024. Link*

Another core function of the fiscal framework is to ensure that there is clear accountability to Parliament when a government spends more than it says it will, or debt rises above a target. For example, in Sweden, the government must report annually to Parliament on how debt has grown or shrunk. If debt deviates by more than 5 percentage points of GDP from the official 35% target, ministers must give an additional report.[23]

*Implementing these in the UK context*

There are many options for fiscal frameworks in the UK, and we don't seek here to describe exactly what a better framework could or should look like. Any one of the above models, or a combination of them, could usefully be adopted in the UK.

However, there are three crucial points to make.

First, a robust fiscal framework does not stop a government pursuing its political objectives. The Swedish government, for example, spends a larger share of GDP than the UK, but does so in a fiscally sustainable way.

[23] The Swedish fiscal policy framework consists of four budget policy targets: a surplus target (also called a net lending target), a debt anchor for the entire government sector (local and central), an expenditure ceiling, and balanced local government budgets. The surplus target has been set at an average of 0.33% of GDP over the business cycle. The debt anchor is set at 35% of GDP. The expenditure ceiling must be set three years ahead, which is the upper limit that spending cannot exceed. In addition to the rules there is a disciplined budget process, ensuring that sums always add up. There are also agencies which monitor the government's finance, the most notable being the Swedish Fiscal Policy Council. The Council is made up of independent experts and publishes annual reports assessing whether the Government has met its fiscal targets. See Government Offices of Sweden, 'About the Swedish fiscal policy framework'. Link

Second, the government should still have some freedom in setting its own fiscal targets. The key difference we are proposing is that, unlike now, governments should be held to account throughout the parliamentary term for whether those targets are met or not.

Furthermore, the government should be forced to set targets for a range of measures. It cannot be allowed to ignore metrics it finds inconvenient, such as non-debt liabilities on the government balance sheet. (Of course, there does need to be appropriate flexibility for unforeseen economic events, and this would need to be designed into the overall framework.)

Third, the government needs to review and update its accounting practices. Much of this is simply about ensuring the government uses the same standards as the private sector. But the key change would be to have a much more up-to-date view of the whole government balance sheet, rather than one (the Whole of Government Accounts) that is produced more than a year out of date.

*Public Sector Net Worth*

PSNW is the 'broadest balance sheet aggregate that can be produced under existing statistical accounting frameworks'. The balance sheet shows the government's assets and liabilities. The assets a government owns include financial assets, such as stocks, shares or loans, and non-financial assets such as roads, land or buildings.

Different parts of the balance sheet have been used in different versions of the fiscal rules. Under Jeremy Hunt, Public Sector Net Debt (PSND) was used as a measure. Under Reeves, a wider measure is used: Public Sector Net Financial Liabilities (PSNFL).

Public Sector Net Worth is the most comprehensive measure available, which includes all assets and all liabilities of the government. In the UK, the two largest liabilities are the debt and public sector pensions.

Moving to a PSNW target would require an accurate valuation of non-financial assets. In particular, the government owns a lot of land that may or not be able to be utilised properly.

One of the critiques of using PSNW is that many non-financial assets are never intended to be sold, such as roads, hospitals or schools.[24] But, as the authors of *Public Net Worth* point out, there are two big advantages to including non-financial assets.[25] The first is that it gives a better overview of what the government owns, and how to get the best out of it. The second is that many of the Government's non-financial assets are able to be sold. The most obvious is land – which in the most recent Whole of Government Accounts is valued at just over £400 billion.[26] This could be a significant underestimate. Government accounting standards may be undervaluing these significantly – and there have been other

[24] B Zaranko, 'Public sector net worth as a fiscal target Green Budget 2023 - Chapter 6', 7 October 2023. Link

[25] I Ball et al, 'Public Net Worth,' Palgrave MacMillan, 2024.

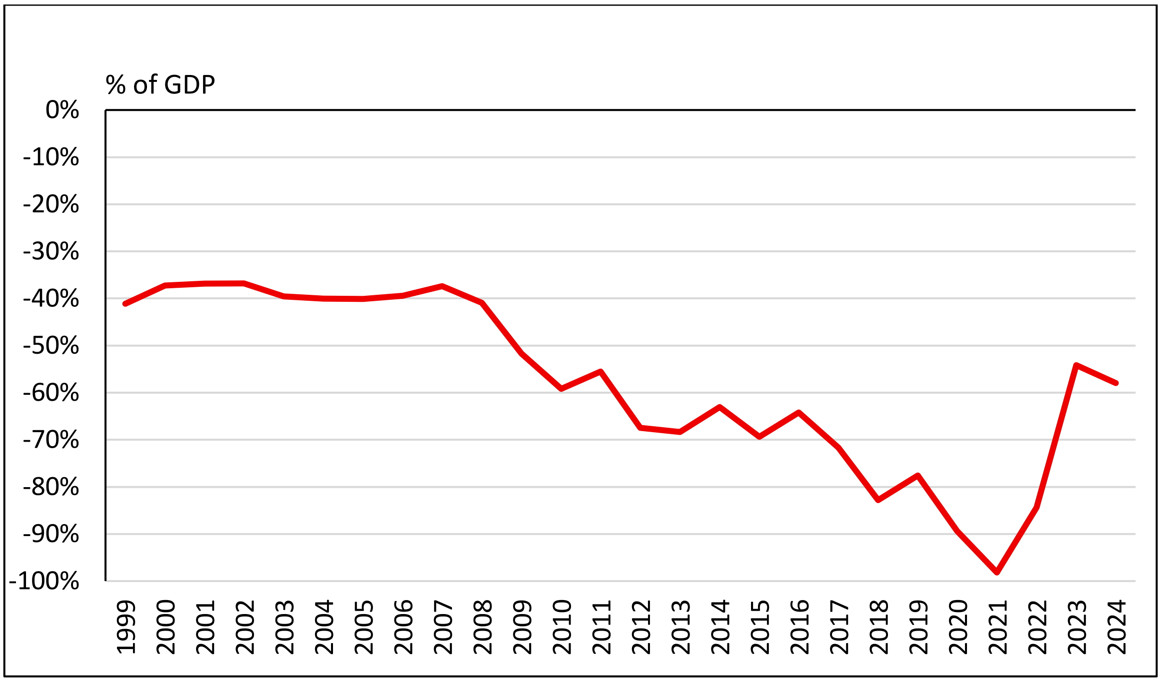
[26] HM Treasury, 'Whole of Government Accounts, 2023-24', 17 July 2025. Link

contexts where national or local governments have discovered that they own much more land than they originally thought.[27]

PSNW also, as mentioned above, gives a more accurate picture of non-debt liabilities. The largest of these is public sector pensions. Giving visibility to these would improve management of the liability, as well as increasing public awareness of their impact on public sector net worth.

One note of caution is that the present value of pension liabilities can move a lot when interest rates change: the large increase in UK PSNW in recent years is due to higher interest rates lowering the value of pension liabilities.

**Public Sector Net Worth**




*Source: ONS, 'International Monetary Fund's Government Finance Statistics framework in the public sector finances: Appendix E' Link; ONS, 'Gross Domestic Product at market prices: Current price: Seasonally adjusted £m' Link*

[27] J Crompton and D Detter, 'Why the UK doesn't have Sovereign Wealth Funds – and reasons why it should' in 'Sovereign Wealth Funds: What's the big idea ... and what could it mean for Britain?', March 2024. Link

## Conclusion

While Rachel Reeves will almost certainly meet her fiscal rules in this year's Budget, the underlying health of the state's finances is likely to get worse. That's because her fiscal rules, and the rules of her predecessors, are not producing decisions that will reduce debt, tackle long-term pressures, or increase the net worth of the state.

Any discussion around changing the fiscal framework of the UK needs to begin with the reality that budgeting is political. Politicians will always be tempted to sacrifice the long term for the short term. Many countries that have managed their finances in a more fiscally sustainable way have done so because of a political consensus that supports fiscal discipline. And sadly, many countries that improve their fiscal management only do so after a crisis.

But we shouldn't need to wait for a crisis to force politicians to manage the public finances in our long-term interest. Above all, as Gerard Lyons has argued for the CPS, we need to embed a culture that focuses not just on an artificial five-year forecast, but the nation's full fiscal inheritance.

Fiscal policy should ensure that the government's intentions on a range of measures is transparent and ensure there is accountability for meeting targets. The fiscal rules have failed since 1997 because they do not focus on the right things, because Chancellors are not accountable for past mistakes and, frankly, because the whole system lets politicians put off tough decisions while pretending they are not doing so.

A better fiscal framework can support a renewed culture of fiscal sustainability – a culture that Britain very badly needs.

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