HM Treasury

Government Response to the 2024 Fiscal Risks and Sustainability Report

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Introduction

1. Growth is the central mission of the government. The government is restoring stability, increasing investment, and reforming the economy to drive up prosperity and living standards across the UK. Stability is vital to supporting long-term economic growth.

2. At the Budget last autumn, the government reset public spending and put the public finances on a sustainable path. This was underpinned by new, non-negotiable fiscal rules that embed stability, while supporting sustainable investment in public services and growth. At Spending Review (SR) 2025, the government has confirmed its plans for spending within the totals set out at the Spring Statement.

3. Delivering stability requires effective risk management and the Office for Budget Responsibility's (OBR) Fiscal Risks and Sustainability Report (FRS) is an important component of the government's approach to risk management. The OBR's analysis offers a comprehensive evaluation of the public finances, integrating interactions between short- to medium-term fiscal risks and the long-term sustainability of public finances.

4. Since the OBR published this report, the international context has fundamentally changed. Global economic policy uncertainty has increased and security threats have grown. This is why the government has acted quickly to strengthen partnerships with allies around the world. The UK concluded a landmark trade deal with India, which is expected to increase UK GDP by £4.8 billion each and every year in the long run.[1] A historic trade agreement with the US will slash tariffs and protect thousands of jobs in key sectors of the economy.[2] The Prime Minister also confirmed a new agreement with the European Union which will add nearly £9 billion to the UK economy by 2040.[3] These deals support the government's core mission to grow the economy, back British jobs and put more money in people's pockets.

5. This FRS, published in September 2024, examined three main risks to the public finances: climate change damage; long-term health trends; and long-term fiscal projections.[4]

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[1] UK-India trade deal: conclusion summary, Department for Business and Trade, May 2025.

[2] Landmark economic deal with United States saves thousands of jobs for British car makers and steel industry, HM Government, May 2025.

[3] PM secures new agreement with EU to benefit British people, 10 Downing Street, May 2025.

[4] Fiscal risks and sustainability report, Office for Budget Responsibility, September 2024.

Fiscal Framework Improvements and Debt Sustainability

6. At Autumn Budget 2024, the government announced a set of reforms to the fiscal framework, which will support the UK’s long-term growth, through increasing the certainty and predictability of the fiscal policy environment.[5] These changes strengthen the UK's fiscal framework and have been welcomed by fiscal experts.[6] The reforms included:

    - **A commitment to the principle of holding one major fiscal event per year** to give families and businesses stability and certainty on upcoming tax and spending changes.
    - **Committing to hold a Spending Review every two calendar years,** setting Departmental Expenditure Limits (DEL) for a minimum of three years of the five-year forecast period. According to the IMF, this will “improve the credibility of the medium-term fiscal framework”.[7]
    - **Government reforming its approach to welfare, including setting a new welfare cap for 2029-30**, to support spending control and ensure that welfare spending is sustainable in the medium term.
    - **An escape clause that provides a strengthened role for the OBR** when the government assess there is a need to temporarily suspend the fiscal rules due to economic shocks.
    - **Confirming the details of the fiscal lock,** as already legislated for, to ensure that no government can announce fiscally significant measures without being subject to an independent assessment by the OBR.
    - **Improving the transparency and consistency of the spending information shared with the OBR.**

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5 Autumn Budget 2024, HM Treasury, October 2024.

6 A Strong Fiscal Framework: Explaining the government’s new fiscal framework and rules, HM Treasury, October 2024.

7 United Kingdom: 2024 Article IV Consultation, International Monetary Fund, July 2024.

- **Requiring the OBR to report on the long-term economic impacts of capital investment and government policies** in its forecast.
- **Committing to publish an annual report on the government's contingent liabilities.**

7. The reformed fiscal framework introduces new fiscal rules which help to deliver the government's fiscal strategy. Moving towards a third-year target to meet the fiscal rules represents a phased approach, providing a medium-term anchor to support stability and sustainable public finances, which is in line with international recommendations.
8. The government's stability rule requires the current budget to move into balance so day-to-day spending is met by current revenues. The current budget excludes spending on capital investment, measuring the difference between current receipts and all other expenditure. Balancing the current budget ensures that, over the medium term, borrowing is only for investment. This means that future generations will not be burdened with the costs of public services today.
9. The government's investment rule supports a step change in investment in the economy to drive growth, while maintaining a strong fiscal anchor so that debt is on a sustainable trajectory. Targeting net financial debt as a fiscal rule offers benefits such as strengthening fiscal management, recognising the value of financial assets, and supporting growth enhancing investments.
10. These reforms strengthen the UK's fiscal framework and have been welcomed by experts, including the IMF. The Institute for Public Policy Research (IPPR) noted this "sensible change to modernise the UK's fiscal rules has opened the way to an ambitious path to greater public investment" and "this is an important, pro-growth approach that can support improving public services, address climate change, and begin to address regional inequalities".[8]
11. In addition to these improvements to the fiscal framework, the government has committed to consider a wide range of metrics to inform a full assessment of the sustainability of the public finances, and will seek to improve sustainability over time.
12. While the UK's medium-term public debt levels and consolidation plans compare favourably against G7 peers, UK debt dynamics have worsened in recent years due to lower growth and higher interest rates. That is why growth is the central mission of the government, and it fully supports the independent Monetary Policy Committee as it acts to return inflation to target sustainably.

[8] Institute for Public Policy Research, October 2024.

13. At Spring Statement 2025, the government committed to the fiscal and economic strategy set out at Autumn Budget, putting the UK in the best position to withstand global uncertainty and repair the public finances.[9] This included taking responsible action to keep the public finances on a sustainable path. When faced with a forecast for higher borrowing in the medium term, the government introduced measures to offset around ¾ of the deterioration in borrowing in the fifth year.

14. This action has not usually been taken in the past. The OBR highlighted in its March 2025 Economic and fiscal outlook (EFO) that forecasts for higher borrowing since 2010 have been met with a mixture of tightenings and loosenings, while forecasts for lower borrowing have almost always been met with loosenings.[10] This previous asymmetric response pattern has contributed to rising debt levels.

15. The IMF welcomed the government's fiscal strategy, noting "the new spending plans are credible and growth-friendly" and "they are expected to provide an economic boost over the medium-term", while striking "a good balance between supporting growth and safeguarding fiscal sustainability".[11]

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9 Spring Statement 2025, HM Treasury, March 2025.

10 Economic and fiscal outlook – March 2025, The Office for Budget Responsibility, March 2025

11 United Kingdom: Staff Concluding Statement of the 2025 Article IV Mission, International Monetary Fund, May 2025.

Climate Change

16. Delivering clean power by 2030 and accelerating to net zero across the economy is a key mission of this government. The government recognises that whilst efforts to reach net zero emissions are accelerated, it must also take action to build resilience and ensure the UK is well-prepared for the changing climate.

17. Fiscal challenges from climate change arise through three main avenues: mitigation, damage, and adaptation. Mitigation involves the cost of reducing carbon emissions to limit global temperature rises; damage can reduce productive economic output and tax revenues due to impacts on capital assets, agriculture, and health, while increasing public service demands and pressures on compensating uninsured losses; and adaptation requires greater investment in resilient infrastructure, services, and goods, to reduce harm from climate damage.

18. Analysis in the FRS indicates that river and coastal flooding in the UK will become more frequent and severe, necessitating investments in adaptation measures to reduce long-term costs and damage which could increase debt. Additionally, rising temperatures and extreme heat waves will place pressures on public services and infrastructure, requiring early strategic intervention.

19. At the Autumn Budget, the government committed to actively investing in climate mitigation and adaptation to protect the economy from the impacts of climate change. The government is investing £2.65 billion over two years (2024-25 to 2025-26) in enhancing flood resilience, including the construction of new flood defences and the maintenance of existing assets to protect communities and to fund £5 billion over two years on farming and land management. Spending Review 2025 builds on this by investing in the protection and restoration of the UK's natural environment, including £2.7 billion a year in sustainable farming and nature recovery from 2026-27 until 2028-29.[12] The government is also committing £4.2 billion over three years (2026-27 to 2028-29) to build and maintain flood defences.

20. Under the Climate Change Act 2008, the UK has a developed institutional framework on carbon budgets, with a long-term goal of reaching Net Zero emissions by 2050 and setting legally binding caps on emissions over five-year periods.

21. The government will respond to the Climate Change Committee's Progress Report and deliver an updated Carbon Budget Delivery

[12] Spending Review 2025, HM Treasury, June 2025.

Plan that sets out the policy package to the end of Carbon Budget 6 in 2037 for all the sectors in October 2025. This will outline the policies and proposals needed to deliver Carbon Budgets 4-6 and the 2030 and 2035 Nationally Determined Contributions on a pathway to net zero. Looking ahead, the government will set Carbon Budget 7 by June 2026, in line with statutory duties.

22. One of the five missions of this government is to make the UK a clean energy superpower. This mission will bring energy security, protect billpayers, create good jobs, and help to protect future generations from the cost of climate breakdown. Delivering on this, and transitioning to net zero, are central to ensuring sustainable and resilient long-term growth.

23. At Spending Review 2025, the government is maximising these opportunities through committing £14.2 billion over the SR period for Sizewell C, providing £9.4 billion of funding over the SR period for Carbon Capture, Usage, and Storage to decarbonise industry, and investing more than £8.3 billion in homegrown clean power through Great British Energy and Great British Energy-Nuclear.

24. As of October 2024, the Green Financing Programme has raised £43.4 billion, underscoring the government's proactive approach to fund green expenditures that tackle climate change, biodiversity loss, and other environmental challenges.[13] The government remains committed to its plans to raise £10 billion through the issuance of green gilts in 2025-26, subject to demand and market conditions.

[13] UK Green Financing Allocation Report, United Kingdom Debt Management Office, October 2024.

Long-Term Health Trends

25. The government recognises that the ability to achieve the growth mission is dependent on a healthy, productive workforce, and the long-term survival of the health service depends on investment and reform. The health mission will thus deliver fundamental reforms to improve people's health and put the NHS on a more sustainable footing to ensure it is fit for the future.

26. Globally, many countries are increasingly encountering health-related fiscal challenges. The UK is experiencing similar pressures, as the nation's overall health has deteriorated in recent years due to various factors, including those exacerbated by the pandemic, as highlighted by Lord Darzi in his independent review of the NHS.[14]

27. The Department of Health and Social Care (DHSC) settlement at Spending Review 2025 provides record cash investment in the health and social care system. The SR announces a £2.3 billion real terms increase (£4 billion cash uplift) in DHSC's annual capital budgets from 2023-24 to 2029-30 to invest in the NHS, including in new technology, hospitals, and critical infrastructure. This will deliver the largest ever health capital budget, representing a more than 20% real terms increase by the end of the SR period. By increasing the health capital budget to 75% higher than in 2019, this investment takes steps to address the recommendations set out in Lord Darzi's review, ensuring the long-term sustainability of the NHS.

28. The government recognises that investment alone will not fix the problems facing the health systems. That is why the Spending Review commits to a major transformation of care delivery, moving from analogue to digital systems, hospital to community-based care, and from treatment to prevention.

29. To support this, total investment in NHS technology and transformation will reach up to £10 billion by 2028-29 – an almost 50% increase from 2025-26, as set out in the Spending Review. Additionally, through the transformation and AI optimisation of the NHS App, patients will be supported through personalised triage, releasing millions of appointments across GP practices and community pharmacies.

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[14] Independent investigation of the NHS in England, Department of Health and Social Care, September 2024.

30. The forthcoming 10 Year Health Plan will lay the foundations for the future of health and healthcare in England, delivering on the three shifts from analogue to digital, hospital to community, and treatment to prevention. The plan will restore financial sustainability and provide more transparency for patients and the public.

31. The government is dedicated to improving the NHS through prioritising prevention and disincentivising behaviours that cause ill-health. This is why the government has increased Tobacco Duty to encourage the switch from tobacco to vaping; the Soft Drinks Industry Levy to tackle obesity and other harms caused by high sugar intake; and increasing non-draught rates of alcohol duty while reducing draught rates to encourage responsible drinking.

32. In March, the government announced it is bringing NHS England back into DHSC to strip back duplication and inefficiency in arms-length bodies to strengthen accountability.[15]

33. Since the pandemic, economic inactivity has increased with a record high of 2.8 million people out of work in 2024 due to health-related conditions, creating a cycle of poor health for many and holding back opportunities for economic growth.[16]

34. Rising economic inactivity has significant implications for the economic and fiscal landscape, as outlined by the OBR in the FRS. The government is committed to reducing this, recognising that it will be essential to reaching the ambition of an 80% employment rate, which will boost the economy and public finances.

35. The Get Britain Working White Paper, published in November 2024, sets out fundamental reforms to tackle these challenges, break down barriers to opportunity, and improve the health of the nation.[17] The White Paper includes proposals on scaling up and deepening the contribution of the NHS and wider health system to improve employment outcomes, such as establishing health and growth accelerators as part of the wider Trailblazers announcement across England and Wales to improve the support available to those who are inactive due to ill health and help them return to work.

36. Furthermore, the government recognises that there are significant inequalities in health and care, and the current welfare system does not provide enough support to disabled people. As announced in the Pathways to Work Green Paper in March 2025, the government is driving ambitious reforms to create a more pro-work welfare system for those who can work, whilst protecting those who

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[15] NHS England: Health and Social Care Secretary's statement, Department of Health and Social Care, March 2025.

[16] Road to recovery: the government's 2025 mandate to NHS England, Department of Health and Social Care, January 2025.

[17] Get Britain Working White Paper, HM Government, November 2024.

cannot.[18] This includes investing in additional employment, health and skills support for anyone receiving out of work benefits with a work-limiting health condition.

37. Reforms to incapacity and disability benefits will save £4.8 billion in 2029-30, driving opportunity and improving the fiscal sustainability of the welfare system. To address the gap between incapacity benefits and other types of benefits, the government will increase the Universal Credit standard allowance for new and existing claims above inflation from 2026-27. In addition to this, the government is undertaking a fundamental review of the Personal Independence Payment (PIP) assessment, to ensure PIP is focused on those with higher needs by introducing a new additional eligibility requirement.

18 Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper, Department for Work and Pensions, March 2025.

Conclusion

38. The OBR's report plays an essential role in assessing risks to the public finances, sitting alongside the government's effective fiscal risk management framework.

39. Amidst increasing global tensions and uncertainty, the government inherited a challenging fiscal environment. Nevertheless, it is taking active steps to address these challenges by fixing the foundations of the public finances and investing in long-term growth, supported by the new fiscal framework.

40. The government is acting to mitigate risks, including investing in climate mitigation and adaptation, advancing the ambition to achieve net zero, building an NHS for the future, and driving ambitious reforms to reduce economic inactivity and foster a more pro-work welfare system. Together, these measures are designed to ensure sustainable public finances and support resilient long-term growth.

41. As set out in this response, the government is committed to fiscal sustainability, and has strengthened the fiscal framework to put the public finances on a sustainable path and prioritise investment to drive long-term growth.

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