The Budget on 30 October 2024 is a highly significant event and will shape domestic policy for the whole of this Parliament.

Tax revenues were remarkably flat as a share of GDP over the 2010s. The period since 2019 has seen the biggest increase in Government revenue as a share of GDP over any Parliament since the second world war.

Government is now spending 4.5% of GDP (or around £112 billion) more than it spent five years ago. And it is forecast to remain well above its pre-pandemic (2019–20) or its pre-financial-crisis (2007–08) level.

Given that public spending has increased, why are public services not commensurately better?

The surface reasons are:

- Public sector productivity has been poor.
- Interest rates have risen, increasing debt interest payments.
- There has been a huge increase – that had not been forecast – in benefit spending supporting those with poor health or disabilities.

But there are more complex reasons too.

The settlements made in the last Spending Review (September 2021) have not been as generous as intended because they have been eroded by higher than expected inflation and faster than expected population growth.

In addition, we are currently spending £21 billion more on health than was forecast in Spring 2021 with another £13 billion due by 2029.

The reasons why are not well understood. It is possible the numbers will fall away from the £100 billion currently pencilled into forecasts. The figures could go in the other direction (forecasting is an inexact science), though an ageing population's demands on the health and social care systems are not likely to go away.

What is the inheritance? How will Labour's Budget differ from the previous Government's plans?

The plans bequeathed by the previous Government were for spending to be cut as a share of GDP over the next few years.

The Budget is expected to finalise individual departmental spending totals for this year and to set them for the first time for 2025–26. We are also expecting the Budget to set the path of spending for subsequent years. How that total for 2026–27, 2027–28 and 2028–29 will be allocated among departments will be decided in a Spending Review next Spring.

Former Chancellor (Jeremy Hunt) intended for a 1% annual increase in public spending. In reality, this still meant cuts for some departments because the majority of the increase would be swallowed up by the NHS, the increased childcare support promised in the Spring 2024 Budget, and the budgets of overseas aid and defence increasing at least in line with growth in the economy.

Departments at risk of spending cuts included Justice, Local Government and Home Office (and this was all apparent at the time of the election).

The public sector pay awards Labour agreed in July will also add an annual £9 billion to public spending. We are therefore expecting spending plans to be topped up in this Budget.

The boost to capital spending plans is expected to be funded by additional borrowing. This will be facilitated by a change in the fiscal rules, by targeting a different measure of the Government's balance sheet called *Public Sector Net Financial Liabilities.*

So, for example, additional borrowing could be used to maintain capital spending increases in line with growth in the economy. But the other fiscal rule – that day-to-day spending will be covered by government revenues – would still constrain the Chancellor.

How much would it cost to avoid cuts?

To avoid any cuts at all requires an additional £16 billion which would be on top of the £9 billion for public sector pay and the £5 billion of spending commitments in Labour's manifesto (altogether £30 billion). This would lead to day-to-day spending growing by 2% a year over the next few years but would not cover increasing spending in unprotected areas.

For departmental budgets to grow in line with national income would need a further £17 billion (£47 billion in total). This would imply increases in day-to-day spending of 2.8% a year. While much more generous than the inherited plans – which implied growth of just 1.0% a year – they would still be less generous than that intended at the time of the last Spending Review in September 2021.

These additional sums would require tax rises of around £25 billion.

What are the Chancellor's options to raise taxes?

Press speculation has suggested tax rises of £40 billion are in the pipeline (the second-largest tax rise in modern history beaten only by Norman Lamont's March 1993 Budget).

Tax rises would allow some room for manoeuvre in the event of adverse circumstances.

- A 1% increase in the rate of the employers' contribution would raise £5 billion, while cutting the threshold that it starts at by £10 per week would raise £1 billion. There has been speculation the Chancellor plans to raise £20 billion.

- Currently there is no National Insurance paid when salary contributions go in or out of a pension fund. If these contributions were taxed at 13.8% that would raise about £10 billion a year.

- The Chancellor may continue the previous Government's policy of increasing personal tax allowances and thresholds for two further years and generate £7 billion of additional revenue by 2029–30.

- Capital Gains Tax (CGT) is very responsive to incentives. The higher rates go, the more aggressively people pursue loopholes. Despite HMRC's position on the matter, it is unlikely that an increase in rates at the moment would result in less revenue. Options for increasing CGT include scrapping Business Asset Disposal Relief (formerly known as Entrepreneur's Relief) and the forgiveness of debt when people die – abolishing both would raise between £2 billion and £4 billion a year.

- The rate of Inheritance Tax (IHT) is higher in the UK than in most other countries. But there are some exemptions that are difficult to justify and mean some very wealthy individuals pay IHT at a lower rate than some who are merely wealthy. There is no inheritance tax on a pension fund at death, nor on certain classes of business assets, nor on agricultural land. Ending these would raise between £1 billion to £3 billion a year.

- The forecasts assume that the temporary 5p cut to rates of fuel duties will expire in March 2025 and that rates will be increased by RPI thereafter. But recent Chancellors have frozen fuel duty rates. If the temporary cut is allowed to expire, and fuel duty rates rise in line with the RPI, that would avoid having to make a £6 billion tax cut relative to the forecasts. There has also been a decline in fuel duty revenue from the increasing use of Electric Vehicles.