



BUDGET 2025: TAX RISES BOOST HEADROOM BUT NO SIGN OF A FISCAL STRATEGY

7 January 2026

This Fiscal Insight analyses Chancellor Rachel Reeves's [second Budget](#) presented to Parliament on 26 November 2025, and the accompanying [Economic and Fiscal Outlook](#), published by the independent Office for Budget Responsibility (OBR) on the same day.

Our analysis concludes that while Budget 2025 has increased the Chancellor's headroom against her fiscal rules, the public finances remain on an unsustainable path.

Headlines

- A tax-raising Budget, primarily to increase fiscal rule headroom from £10bn to £22bn.
- Chancellor uses opportunity to tackle child poverty by lifting the two-child benefit cap.
- Backloading of tax rises leads to £61bn in additional borrowing by March 2030.

Budget for 2026/27

- Receipts £1,304bn - spending £1,416bn = deficit £112bn (41.2% - 44.7% = 3.5% of GDP).
- Equivalent to £18,700 - £20,300 = £1,600 on a per capita basis.
- Net debt to increase by £130bn to £3,070bn (95.3% of GDP) in the year to 31 March 2027.

Fiscal outlook to 2030/31

- Fiscal deficit projected to fall to £67bn (1.9% of GDP) by the end of the forecast period.
- Gradual contraction in public spending as a share of GDP from 2026/27 onwards.
- Net debt to rise by £606bn to £3,546bn over five years (from 95.0% to 96.1% of GDP).

Changes since the Spring Statement 2025

- Estimate for the deficit in the current financial year revised up by £20bn to £138bn.
- Boost from inflation and wage growth offset by productivity downgrade and cost pressures.
- Adjustment for poor accounting adds £6.5bn a year to projected local authority spending.
- 44 spending choices (mostly small) and 209 tax measures (a few of which are sizeable).

Conclusions

- Poor inheritance exacerbated by mistakes in the Chancellor's first Budget.
- Increased headroom provides some comfort to debt investors, but significant risks remain.
- No long-term fiscal strategy nor any sign of a plan for much needed tax and welfare reform.

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Budget chaos highlights how the lack of a fiscal strategy leads to bad outcomes

“Chancellor Rachel Reeves used her second Budget to increase headroom against her fiscal rules, providing some comfort to debt markets. However, this was only after a chaotic autumn that saw an unprecedented number of leaks, rumours and ‘market testing’ cause huge damage to the economy as businesses chose to delay hiring and investment and high-value taxpayers left the country. This was no way to run a budget process and should never happen again.

“Budget 2025 also highlighted the huge flaws in the UK’s fiscal framework that has led to a nation burdened with debt and to governments that are severely constrained in their ability to direct resources to their priorities. The lack of a long-term fiscal strategy means there is no clear plan, outside of crossing our fingers and hoping for economic growth to magically appear, to pay for the huge costs of more people living longer sometimes less healthy lives or to deliver the quality of public services demanded by the public.

“The more than 200 tax measures announced as part of this Budget provide a vivid illustration of just how broken the UK tax system has become, while poor accounting has again added to the financial woes. The lack of any real commitment to serious tax reform is a major disappointment, especially for a government that says its primary mission is to grow an economy constrained by complexity and uncertainty.

“We desperately need a new approach to the public finances that focuses on their long-term sustainability and resilience, sets out a new direction for taxation to support rather than hamper the economy, and stops avoiding the major fiscal challenges facing the country.”

Martin Wheatcroft FCA

External advisor on public finances to ICAEW

Figure 1 – Budget 2025 projected fiscal deficit

■ Spring Statement 2025 ■ Budget 2025



Sources: HM Treasury, *Budget 2025*; OBR, *Economic and Fiscal Outlook*, November 2025.

BUDGET 2025

The primary purpose of the Budget is to present to Parliament the government's plan for receipts, spending and borrowing in the coming financial year, in this case for 2026/27 from 1 April 2026 to 31 March 2027.

In practice, the focus is on the medium-term economic and fiscal outlook – in particular whether the five-year fiscal forecasts prepared by the OBR are consistent with the Chancellor's fiscal rules – and on the detail of the 209 tax measures contained in the Budget.

The Budget and the accompanying economic and fiscal outlook show an improving picture for the public finances based on economic growth and tax rises increasing receipts at a faster rate than the government plans to increase public spending.

THE FISCAL FORECAST

Table 1 sets out the latest estimates for the current financial year, the budget for 2026/27, and projections for the rest of the five-year forecast period, including the 2029/30 fiscal rule test year.

Table 1 – Budget 2025 summary of the fiscal forecast

	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn	2025/26 to 2030/31 avg real %
Tax receipts	1,103	1,172	1,233	1,279	1,337	1,388	+2.7%
Other receipts	129	132	137	142	146	151	+1.2%
Receipts	1,232	1,304	1,370	1,421	1,483	1,539	+2.5%
Current spending ¹	(1,284)	(1,333)	(1,375)	(1,417)	(1,461)	(1,514)	+1.4%
Current budget (deficit)/surplus	(52)	(29)	(5)	4	22	25	N/A
Net investment	(86)	(83)	(94)	(91)	(90)	(92)	-0.6%
Fiscal deficit	(138)	(112)	(99)	(87)	(68)	(67)	-15.1%
Net financial liabilities	2,570	2,683	2,788	2,882	2,958	3,034	+1.4%
Net debt	2,940	3,070	3,211	3,341	3,452	3,546	+1.8%
GDP	3,043	3,165	3,277	3,388	3,504	3,628	+1.6%
Tax receipts/GDP	36.3%	37.0%	37.6%	37.8%	38.2%	38.3%	
Other receipts/GDP	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%	
Receipts/GDP	40.5%	41.2%	41.8%	41.9%	42.3%	42.4%	
Current spending/GDP	(42.2%)	(42.1%)	(41.9%)	(41.8%)	(41.7%)	(41.8%)	
Current budget balance/GDP	(1.7%)	(0.9%)	(0.1%)	0.1%	0.6%	0.6%	
Net investment/GDP	(2.8%)	(2.6%)	(2.9%)	(2.7%)	(2.5%)	(2.5%)	
Fiscal deficit/GDP	(4.5%)	(3.5%)	(3.0%)	(2.6%)	(1.9%)	(1.9%)	
Net financial liabilities/GDP	83.1%	83.3%	83.6%	83.7%	83.0%	82.2%	
Net debt/GDP	95.0%	95.3%	96.3%	97.0%	96.8%	96.1%	

Sources: HM Treasury, *Budget 2025*; OBR, *Economic and Fiscal Outlook*, November 2025.

¹ The combination of public sector current expenditure and depreciation in the OBR's detailed tables.

These numbers are prepared in accordance with National Accounts statistical standards², which are materially different from accounting standards such as International Financial Reporting Standards (IFRS). They are subject to change, especially in later years where there is more time for the economy to improve or deteriorate, and for new policy decisions to be made.

The fiscal projections show how the fiscal deficit is expected to reduce from 4.5% of GDP in the current financial year to below 2% by 2029/30, with net debt as a share of GDP starting to fall in that year as well. Taxes as a share of the economy are expected to increase from an estimated 36.3% of GDP in 2024/25 to 38.3% of GDP in 2030/31, their highest level since 1948. This is despite a reduction in the proportion of spending going on public services outside of health, social care and education of around a half over the last 50 years.

Key elements to the forecast include:

- A projected increase in tax receipts of 2.7% a year on average in real terms over the five-year forecast, driven by real-terms economic growth of 1.6% a year combined with tax rises.
- Current spending rising at a much slower rate of 1.4% a year on average in real terms, with help from a rise in the state pension age from 66 to 67 and £18bn a year in planned efficiency savings by 2029/30.
- A boost to net investment in 2027/28 followed by a decline in real terms.
- The above factors combining to turn a current budget deficit into a surplus and to more than halve the fiscal deficit over the next five years.
- A 2% cumulative increase over five years in the working age population aged 16 to 65 (who pay the most taxes) compared with an 11% increase in those aged 65 or more who receive the most in benefits and government expenditure.
- Headroom of £22bn against the Chancellor's primary fiscal rule of a projected current budget surplus in 2029/30, the fourth year of the forecast period.
- Headroom of 0.7 percentage points of GDP or £24bn against the secondary fiscal rule for the ratio of public sector net financial liabilities (PSNFL or 'persnuffle') to be falling in 2029/30.³

There is significant uncertainty about the fiscal forecast as it is highly dependent on the strength of the economy over the next five years, the potential for economic shocks, the ability of the government to deliver planned efficiencies in the delivery of public services, and whether it can constrain the continuing rise in welfare spending.

Key upside and downside risks include:

- Economic growth, in particular productivity, which has disappointed in recent years but could improve, especially as compared with the more conservative assumption in this forecast.
- The potential boost to the economy of the government's planning reforms, where the OBR assumes that most of any benefit will occur after the end of the five-year forecast horizon.
- The size of the working age population, which is now almost entirely dependent on net inward migration. The latter is assumed to reach 340,000 a year, following a drop to 204,000 in the year to 30 June 2025.
- Delivery of efficiency savings integral to the plan to constrain current expenditure, in particular major productivity improvements needed if the NHS is to meet increasing demand.
- International developments or pressure to bring forward the point at which defence expenditure reaches the recent NATO commitment to reach 3.5% of GDP from the mid-2030s onwards.
- A likely re-evaluation of the profile of public investment spending, which is currently expected to fall from a peak of 2.9% of GDP in 2027/28 to 2.5% by the end of the forecast period, which appears inconsistent with the government's core mission of driving economic growth.
- Economic shocks such as a global or domestic financial crisis, war in Europe, another pandemic, or even an 'ordinary' recession.

² The European System of National and Regional Accounts 2010 (ESA10) and the UN System of National Accounts 2008 (SNA08).

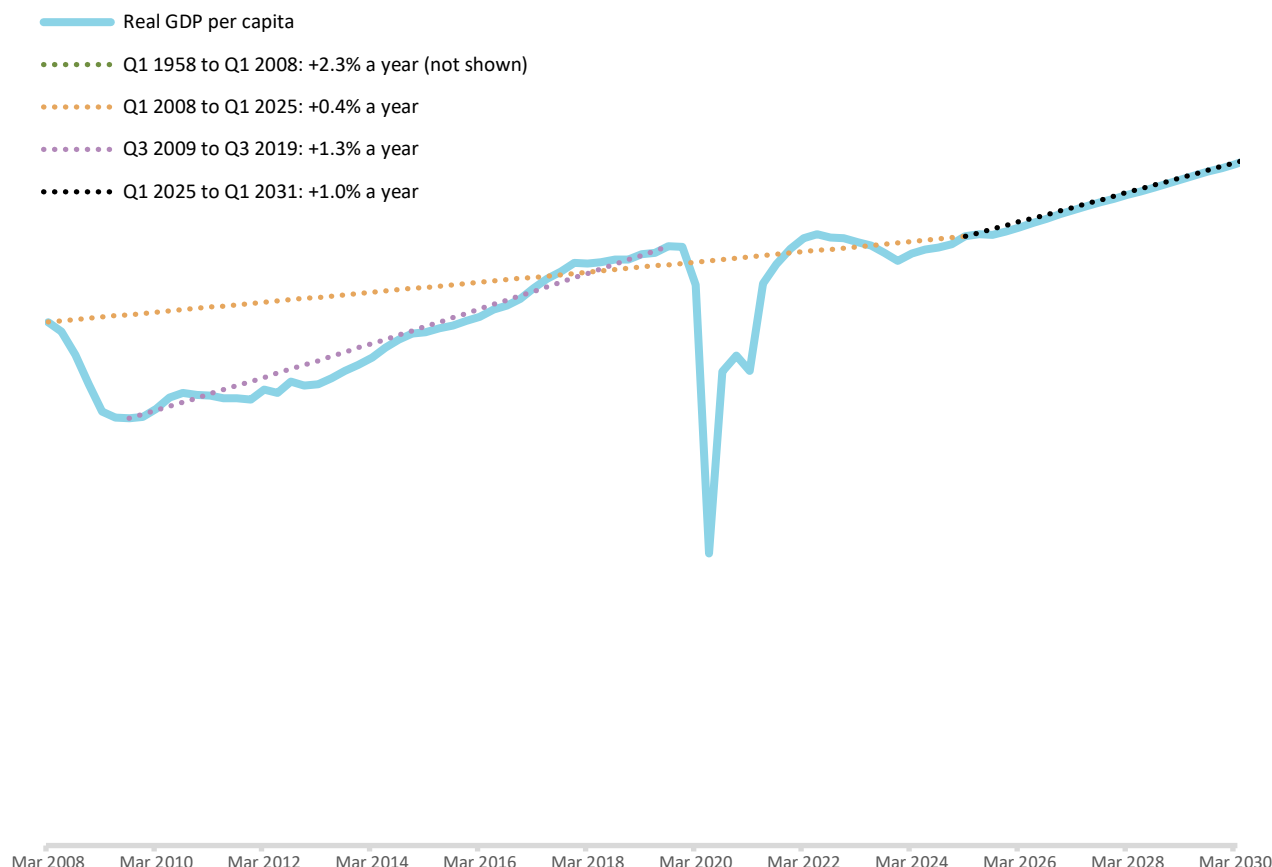
³ PSNFL is projected to fall by 0.7 percentage points in 2029/30 from 83.7% of GDP on 31 March 2029 to 83.0% of GDP a year later.

ECONOMIC AND FISCAL CONTEXT

Budget 2025 follows more than a decade and a half of weak economic performance since the financial crisis, including the austerity years, the turmoil of the pandemic, a cost-of-living crisis, and low growth over the last few years despite record levels of net inward migration.

This is illustrated by Figure 2, which highlights how economic activity per person grew by an average of just 0.4% a year over the 17 years to March 2025, before being predicted to grow by 1.0% a year over the period to March 2031.

Figure 2 – Real GDP per capita



Sources: ONS, *Quarterly GDP*, Q3 2025; OBR, *Economic and Fiscal Outlook*, November 2025.

While projected per capita growth of 1.0% a year over the next five years is better than the average of 0.4% experienced since the time of the financial crisis, it is still less than the 1.3% seen during the austerity years and is significantly lower than the 2.3% annual average achieved in the 50 years prior to the financial crisis.

The weak level of economic growth over the last two decades has coincided with a massive increase in public indebtedness that has seen net debt rise from £461bn or 33.5% of GDP on 31 March 2005 to an estimated £2,810bn or 93.5% of GDP on 31 March 2025.

The OBR's most recent long-term fiscal risks and sustainability report⁴ projects that public sector net debt as a share of GDP could rise to 274% by 2074 if the public finances stay on their current path, to 348% of GDP if climate change risks are included, or potentially even as much as 398% of GDP if economic shocks are also considered.

This reflects long-term fiscal challenges that have not been addressed by successive governments, such as more people living longer, a falling birth rate, the repeated deferral of difficult decisions such as how to fund social care in retirement, and the end of the peace dividend that means the defence budget can no longer be raided to cover the rising costs of the NHS.

⁴ OBR, *Fiscal risks and sustainability – July 2025*.

CHANGES SINCE THE SPRING STATEMENT

Table 2 summarises changes between the OBR forecast that accompanied the Spring Statement 2025 and the October 2025 forecast that underpins this Budget.

Table 2 – Budget 2025 fiscal deficit – changes from Spring Statement 2025

Changes to fiscal deficit	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn
Inflation and wage growth	1	14	22	26	30
Inflation and cost pressures	(11)	(17)	(16)	(17)	(14)
Local government spending	(6)	(6)	(7)	(7)	(6)
Net revisions before productivity	(16)	(9)	(1)	2	10
Productivity downgrade	-	(2)	(6)	(11)	(16)
Forecast revisions	(16)	(11)	(7)	(9)	(6)
Spending measures	(5)	(7)	(16)	(13)	(11)
Tax measures	1	1	6	14	26
Indirect effects	-	2	(1)	(2)	(3)
Net change in fiscal deficit	(20)	(15)	(18)	(10)	6
Spring Statement forecast deficit	(118)	(97)	(80)	(77)	(74)
Budget 2025 forecast deficit	(138)	(112)	(98)	(87)	(68)

Source: OBR, *Economic and Fiscal Outlook*, November 2025.

Forecast revisions start with the effect of higher inflation and stronger wage growth than previously predicted on tax receipts and the associated effects on spending. These include uplifts in welfare benefits and a reduction in underspending assumptions on the government's spending plans.

Together with a correction for under-recorded local government spending, this resulted in a deterioration in the estimate for the current financial year and in the projections for 2026/27 and 2027/28, but positive revisions to the projections for 2028/29 and 2029/30 before taking account of changes to the OBR's assumption for productivity growth.

The adjustment made to correct for local government spending reflects problems in the accounting and reporting of spending by English local authorities and in how the government collects those numbers. HM Treasury, the Ministry of Housing, Communities and Local Government, the Office for National Statistics (ONS), and the OBR have formed a joint Local Government Financial Information Taskforce to investigate, with the objective of improving the flow of data to the ONS and the accuracy of OBR forecasts.

The productivity downgrade arises from a review conducted by the OBR earlier this year into trends in productivity since the pandemic that concluded that the OBR has been too optimistic in forecasting productivity growth in recent years.

Spending decisions by the Chancellor and the government added to the deterioration in the forecast, before back-loaded tax rises turn the situation around in 2029/30, the test year for the Chancellor's fiscal rules.

SPENDING MEASURES

Table 3 analyses the impact of the government's main spending decisions on the fiscal deficit, starting with the summer welfare reversals that saw the winter fuel allowance return for pensioners earning less than £35,000 and the failure of the government to secure parliamentary approval for eligibility restrictions in disability and illness benefits that had been announced in the Spring Statement 2025.

The Chancellor took the opportunity of a tax raising Budget to abolish the two-child benefit cap, a long-standing desire of many Labour MPs. At a cost of £3bn a year, this is a relatively small measure in the context of the overall Budget or that of previous fiscal events.

She also decided to subsidise electricity bills by covering the cost of renewables obligations for the spending review period from 1 April 2026 to 31 March 2029, which together with other measures should help reduce inflation in the next couple of years. However, by not continuing this subsidy into the fiscal rule test year, she avoided having to increase taxes even further, despite the risk that temporary measures like this often become permanent.

The Budget year benefits from a plan to freeze the threshold at which student loans are repaid for three years from 6 April 2027, which in the year of enactment should result in a £6bn write-back in the allowance for irrecoverable loans.

A decision to transfer the British Coal Staff Superannuation Scheme investment reserve to scheme members costs £2bn in the current financial year, while an assortment of individually small spending decisions add up to single digit billions of other current spending measures over the next five years. These include additional funding to freeze regulated rail fares in 2026, for the warm homes plan and warm homes discount scheme, for jobs and skills programmes and for electric car grants, together with additional resources to tackle fraud and error.

Additional capital investment primarily reflects an acceleration of infrastructure programmes, most prominently the Lower Thames Crossing.

Finally, the Chancellor has included some stretch targets to increase the amount of efficiency savings that can be delivered over the latter years of the forecast period, adding £5bn to the £13bn already included in the Spending Review. These savings appear ambitious given past experience and the lack of significant funding for upfront investment for transformation and digitisation.

Table 3 – Budget 2025 spending measures

Effect on fiscal deficit	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn
Summer welfare reversals	(2)	(2)	(4)	(6)	(7)	(8)
Lifting of two-child benefit cap	-	(2)	(3)	(3)	(3)	(2)
Subsidise electricity bills	-	(3)	(2)	(2)	-	-
British Coal Staff Superannuation	(2)	-	-	-	-	-
Other current spending	(1)	(3)	(2)	(2)	(4)	(5)
Additional capital investment	-	(3)	(5)	(2)	(2)	(3)
Student loan threshold freeze	-	6	-	-	-	-
Additional efficiency savings	-	-	-	2	5	6
Spending policy measures	(5)	(7)	(16)	(13)	(11)	(12)

Source: OBR, *Economic and Fiscal Outlook*, November 2025.

TAX MEASURES

Table 4 summarises the net effect on the fiscal deficit of the 209 tax measures included in Budget 2025. Most of these are fairly small in the context of the overall public finances, with just 44 reported on the government's scorecard and only five generating £2bn a year or more by 2030/31. However, together they add up to a large amount by 2029/30, the fiscal rule test year.

The most significant tax rises announced in Budget 2025 were:

- **Fiscal drag:** a three-year extension to 5 April 2031 in the freeze in the basic, higher and additional rate personal tax thresholds at £12,570, £50,270 and £125,540 respectively, bringing more taxpayers into the scope of income tax or higher tax bands.

- **Pensions tax relief:** imposing employee and employer national insurance contributions (NIC) from 6 April 2029 on pension contributions made through a salary sacrifice arrangement in excess of £2,000 a year.
- **Interest, dividends and rents:** a two percentage point increase in income tax rates from 6 April 2026 on the basic and higher rates of dividends and a two percentage point increase from 6 April 2027 on all rates of income tax on interest and rental income from properties.
- **Writing down allowances:** a reduction in the deduction for main rate pool plant and machinery from 18% to 14% a year, but with a new 40% first-year allowance.
- **Electric car mileage-based charge:** new 3p and 1.5p per mile taxes on electric and plug-in hybrid cars respectively to replace lost fuel duties from April 2028 onwards.
- **Gambling duty reform:** increase in duty on online casino games and slots from 21% to 40% and in general betting duty from 15% to 25%. The 10% bingo duty was abolished, and the horseracing and machines betting duties were unchanged at 15% and 20%.
- **Capital gains tax:** 100% relief on shares transferring to an employee ownership trust reduced to 50%, with the remaining 50% rolled over and deferred until the trust sells the shares.
- **High value council tax surcharge:** an annual tax of £2,500, £3,500, £5,000 or £7,500 from 1 April 2028 on residential properties in England valued in excess of £2m, £2.5m, £3.5m and £5m respectively, with revaluations every five years.
- **Tax compliance:** Additional resources for HMRC are expected to deliver an additional £2bn a year in additional tax receipts by 2029/30.

There were a handful of tax cuts and increased reliefs as well:

- **Business rates:** transitional relief to mitigate some of the impact of ratable revaluations.
- **Fuel duties:** the freezing of fuel duties for yet another year from 6 April 2026 onwards, and a phased reversal of the 5p temporary cut at a one-off cost of £1bn in 2026/27.
- **Other tax cuts:** amongst numerous other small tax measures these included additional enterprise investment scheme incentives and venture capital reliefs, as well as a three-year waiver of stamp duty on shares following listing.

Table 4 – Budget 2025 tax measures

Effect on fiscal deficit	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn
Freeze personal tax thresholds	-	-	-	4	8	13
NIC on salary sacrifice pensions	-	-	-	-	5	3
Income tax: interest, dividends, rents	-	-	1	2	2	2
Writing down allowances	-	1	2	2	2	2
Electric car mileage-based charge	-	-	-	1	1	2
Gambling duty reform	1	1	1	1	1	1
Capital gains tax on employee trusts	-	-	1	1	1	1
Other net tax increases	-	3	2	4	5	5
Improved tax compliance	-	-	1	1	2	2
Business rates transitional relief	-	(2)	(1)	(1)	-	-
Fuel duty freeze	-	(2)	(1)	(1)	(1)	(1)
Tax policy measures	1	1	6	14	26	30

Sources: HM Treasury, *Budget 2025*; OBR, *Economic and Fiscal Outlook*, November 2025.

THE FISCAL FORECAST IN MORE DETAIL

FORECAST EVOLUTION

Table 5 analyses the evolution between the current deficit for the current financial year and the fiscal rule test year of 2029/30.

This illustrates how the Chancellor hopes to use the proceeds of economic growth and tax increases on receipts to more than offset the projected growth in public spending over the next five years.

The consequence is a change from an estimated current budget deficit of £52bn in 2025/26 to a projected surplus of £22bn in 2029/30.

Table 5 – Budget 2025 forecast evolution between current year estimate and the fiscal rule test year

	2025/26 Estimate £bn	Inflation £bn	Economic growth £bn	Tax increases £bn	Spending increases £bn	2029/30 Forecast £bn
Income tax	329	27	23	32	-	411
VAT	210	17	15	7	-	249
Employer national insurance	146	12	10	3	-	171
Corporation tax	99	8	7	4	-	118
Employee national insurance	59	5	4	-	-	68
Other taxes	260	22	18	20	-	320
Tax receipts	1,103	91	77	66	-	1,337
Other receipts	129	10	9	(2)	-	146
Total receipts	1,232	101	86	64	-	1,483
Departmental spending	(525)	(43)	-	-	(21)	(589)
Welfare spending	(333)	(27)	-	-	(29)	(389)
Local government spending	(195)	(16)	-	-	(12)	(223)
Other current spending	(44)	(4)	-	-	11	(37)
Debt interest	(114)	(9)	-	-	(14)	(137)
Depreciation	(73)	(6)	-	-	(7)	(86)
Current spending	(1,284)	(105)	-	-	(72)	(1,461)
Current budget (deficit)/surplus	(52)	(4)	86	64	(72)	22
<i>Total receipts/GDP</i>	<i>40.5%</i>	<i>(2.5%)</i>	<i>2.5%</i>	<i>1.8%</i>	<i>-</i>	<i>42.3%</i>
<i>Current spending/GDP</i>	<i>(42.2%)</i>	<i>2.6%</i>	<i>-</i>	<i>-</i>	<i>(2.1%)</i>	<i>(41.7%)</i>
Current deficit/GDP	(1.7%)	0.1%	2.5%	1.8%	(2.1%)	0.6%

Sources: HM Treasury, *Budget 2025*; OBR, *Economic and Fiscal Outlook, November 2025*; ICAEW calculations and estimates. Other current spending is net of intra-government eliminations.

The tax increases of £64bn a year in excess of inflation and economic growth by 2029/30 shown in Table 5 comprise the £26bn of tax rises announced in Budget 2025 together with £18bn in fiscal drag from freezing personal tax allowances up to 2027/28 and £25bn from the effect of a wide range of previous tax rises, most of which were announced in the Autumn and Spring Budgets in 2024, less £5bn in other movements.

Although the plan is for current spending to increase in real terms, it is reducing as a share of the economy (from 42.2% to 41.7% of GDP), emphasising how this is not a generous settlement for the public sector despite all the tax rises.

This is especially the case giving that more will go into the state pension, health and social care costs, squeezing the budgets of unprotected departments and local government.

BORROWING

Table 6 sets out projections for borrowing up to 2030/31, highlighting how the government plans to borrow £346bn in the current financial year and a further £1,326bn over the following five years.

Table 6 – Budget 2025 forecast borrowing

	2025/26 <i>Estimate</i> £bn	2026/27 <i>Budget</i> £bn	2027/28 <i>Forecast</i> £bn	2028/29 <i>Forecast</i> £bn	2029/30 <i>Forecast</i> £bn	2030/31 <i>Forecast</i> £bn	Five-year Total £bn
Borrowing for fiscal deficits	138	112	99	87	68	67	433
Borrowing for net lending ⁵	14	22	20	21	21	19	103
Borrowing for working capital ⁶	26	24	22	22	22	24	114
Net borrowing	178	158	141	130	111	110	650
Borrowing to refinance existing debt	168	142	161	148	134	91	676
Gross borrowing	346	300	302	278	245	201	1,326
Borrowing for fiscal deficits/GDP	4.5%	3.5%	3.0%	2.6%	1.9%	1.9%	12.9%
Borrowing for net lending/GDP	0.5%	0.7%	0.6%	0.6%	0.6%	0.5%	3.0%
Borrowing for working capital/GDP	0.8%	0.7%	0.7%	0.6%	0.6%	0.7%	3.3%
Net borrowing/GDP	5.8%	4.9%	4.3%	3.8%	3.1%	3.1%	19.2%
Refinancing/GDP	5.5%	4.5%	4.9%	4.4%	3.8%	2.5%	20.1%
Gross borrowing/GDP	11.3%	9.4%	9.2%	8.2%	6.9%	5.6%	39.3%

Sources: OBR, *Economic and Fiscal Outlook*, November 2025; ICAEW calculations.

The £346bn that the government plans to borrow in the current financial year comprises £315bn from the sale of government securities⁷, £13bn from National Savings & Investment (a government owned retail savings bank) taking in deposits from the public, £12bn brought forward from previous years, and £6bn from other sources.

A similar pattern is expected over the next five years, with the Debt Management Office (DMO) continuing to issue debt with shorter maturities than it has previously, and to limit the issue of new inflation-index-linked gilts:

- The lower proportion of long fixed-interest gilts to be issued in the current financial year (19% compared with 27% in the existing debt portfolio) reflects an expectation that interest rates will fall over the next few years, at which point it may make sense to lock in borrowing costs for longer periods again.
- Meanwhile, the demand for index-linked gilts has fallen significantly in recent years, accompanied by a change in treasury strategy to reduce the relative size of the low-inflation hedge that index-linking provides.

⁵ Borrowing to fund student loans, business loans (eg through the British Business Bank) and lending to individuals, net of repayments.

⁶ Borrowing to fund working capital requirements, including increases in tax and other receivables, student loan interest accruals, timing of premiums and discounts on the issue of debt, and the unwinding of quantitative easing, less increases in payables and provisions.

⁷ £134bn short fixed-interest gilts (maturities less than 7 years), £102bn medium (7 to 15 years), £29bn long (15 to 50 years), £31bn in inflation-index-linked gilts, £8bn yet to be decided, and £11bn in short-term Treasury bills (maturities less than six months).

The interest rates payable to debt investors are likely to be higher than they otherwise would be because of up to £300bn in gilt sales by the Bank of England over the next five years as it unwinds quantitative easing. These sales increase market supply and so in theory reduce the price that debt investors are willing to pay for government bonds, increasing the yield payable on them.

The OBR's analysis indicates that domestic demand for gilts has reduced in recent years, making us more dependent on international sentiment and the willingness of foreigners to invest in the UK.

DEBT

Table 7 analyses how borrowing translates into movements in net debt, with forecast opening debt on 1 April 2026 of £2,940bn expected to increase by £606bn to £3,546bn on 31 March 2031.

The increase comprises £650bn in additional debt incurred by fresh borrowing less £44bn from a reduction in Bank of England Term Funding Scheme liabilities settled from the recovery of scheme assets.

The table also illustrates how the action of inflation and economic growth on GDP (the denominator in the debt to GDP ratio) helps 'inflate away' the equivalent of 16.8 percentage points of GDP over five years, reducing the projected net increase in the debt to GDP ratio to 1.1 percentage points of GDP between 31 March 2026 and 2031.

Table 7 – Budget 2025 forecast movements in public sector net debt

	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn	Five-year Total £bn
Net borrowing	178	158	141	130	111	110	650
Term Funding Scheme	(48)	(28)	-	-	-	(16)	(44)
Increase in net debt	130	130	141	130	111	94	606
Opening net debt	2,810	2,940	3,070	3,211	3,341	3,452	2,940
Public sector net debt	2,940	3,070	3,211	3,341	3,452	3,546	3,546
Net borrowing/GDP	5.8%	4.9%	4.3%	3.8%	3.1%	3.1%	19.2%
Term Funding Scheme settlements	(1.6%)	(0.9%)	-	-	-	(0.4%)	(1.3%)
Effect of increases in GDP	(2.7%)	(3.7%)	(3.3%)	(3.1%)	(3.3%)	(3.4%)	(16.8%)
Change in net debt/GDP	1.5%	0.3%	1.0%	0.7%	(0.2%)	(0.7%)	1.1%
Opening net debt/GDP	93.5%	95.0%	95.3%	96.3%	97.0%	96.8%	95.0%
Closing net debt/GDP	95.0%	95.3%	96.3%	97.0%	96.8%	96.1%	96.1%

Sources: OBR, *Economic and Fiscal Outlook*, November 2025; ICAEW calculations.

FISCAL RULES

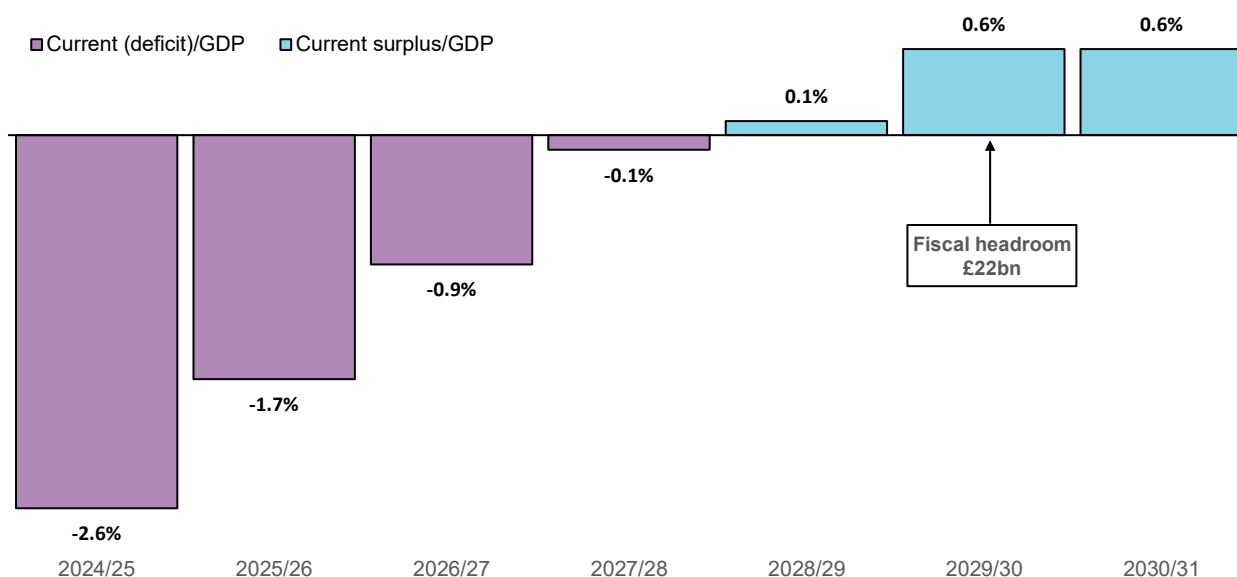
Although the government does not have an explicit long-term fiscal strategy, it does have medium-term strategic objectives to end the use of borrowing to fund current spending and to stop public debt from rising faster than the size of the economy.

These aims are embodied in fiscal targets that are intended to provide confidence to debt markets about the government's commitment to keeping the public finances under control.

The Chancellor's primary 'stability' fiscal rule targets a current budget surplus by 2029/30, the fourth year of the fiscal forecast period, as illustrated by Figure 3.

In theory, this rule prevents the government borrowing to fund current spending and reduces the incentive inherent in previous fiscal rules to attempt to 'balance the books' by cutting investment.

Figure 3 – Autumn Budget 2025 current balance ‘stability’ rule



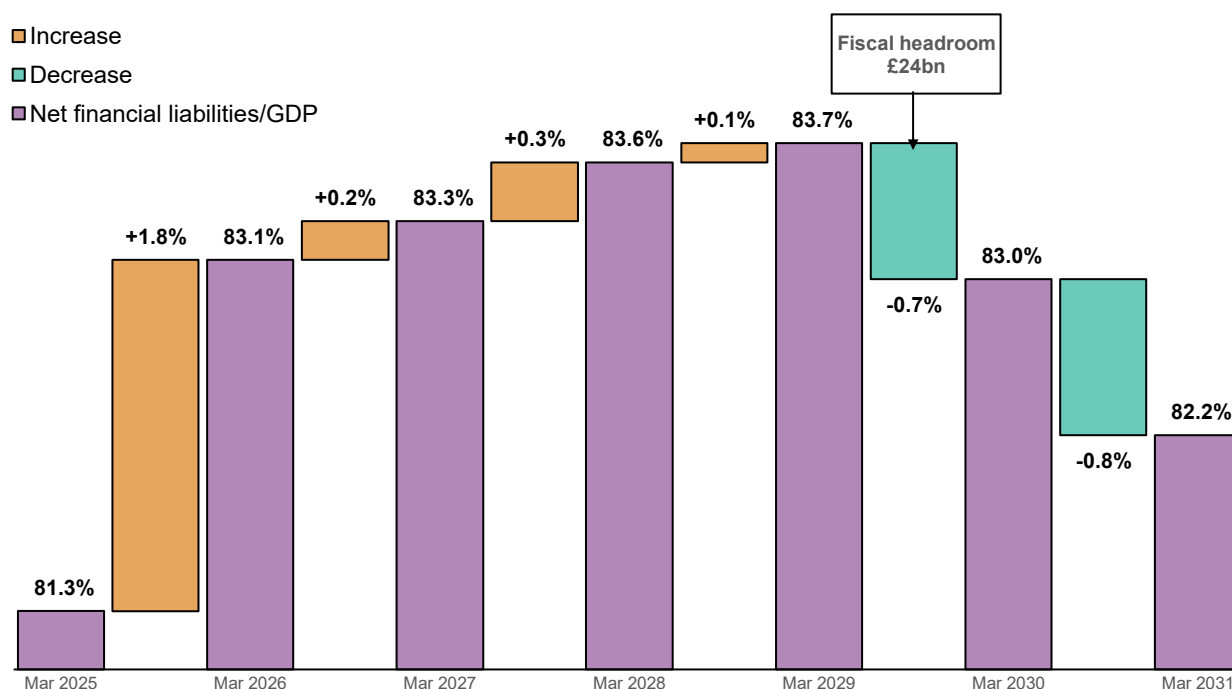
Sources: HM Treasury, *Autumn Budget 2025*; OBR, *Autumn Economic and Fiscal Outlook 2025*.

The Chancellor's secondary 'investment' fiscal rule is for debt to be projected to start falling as a share of GDP by the fourth year of the fiscal forecast. The debt metric used for this purpose is public sector net financial liabilities instead of the headline measure of public sector net debt.

Net financial liabilities include a wider range of liabilities than net debt, including the pension obligations of local government and other funded pension schemes as well as trade creditors and other payables. They also net off more financial assets, such as student and business loans, equity investments, pension fund assets, and tax and other receivables in addition to the cash balances and other liquid financial assets already netted off within public sector net debt. Both measures exclude 'non-financial' liabilities such as unfunded public sector employee pension obligations and non-financial assets such as property, plant and equipment.

The use of this measure is preferred as it doesn't penalise financial investment by the government that should be recovered in the future, although it still limits the ability to borrow to invest in infrastructure and other physical assets that might be possible with a more comprehensive balance sheet metric.

Figure 4 – Autumn Budget 2025 debt 'investment' rule



Sources: HM Treasury, *Autumn Budget 2025*; OBR, *Autumn Economic and Fiscal Outlook 2025*.

As illustrated by Figure 4, the headroom on the fiscal rule for net financial liabilities in 2029/30 is 0.7 percentage points of GDP or £24bn. This is relatively small in the context of a forecast public spending of £1,551bn in that year and public sector net debt of £3,452bn.

Projected public sector net debt on 31 March 2030 is £61bn higher than was forecast at the time of the Spring Statement, highlighting how the Chancellor chose to borrow more in the first three years of the forecast period and focus her tax rises on 2029/30 – the fiscal rule test year. While the need to reduce the level of borrowing by that point can be seen as a positive effect of the fiscal rules, the downside of testing against a projection for a future period is the temptation to increase borrowing in the meantime.

Next year's Budget 2026 reduces the fiscal target to three years. This is a major improvement as it aligns with the three-year spending review period and hence should significantly reduce the scope for 'playing with spreadsheets' to meet fiscal targets.

The tightening in this fiscal rule is accompanied by a slight relaxation in the target, going from aiming for a current budget surplus to a projected maximum current budget deficit of up to 0.5% of GDP. This should provide the Chancellor with around £17bn in additional headroom on top of the existing £22bn she has this year, before taking account of changes in the fiscal forecasts or policy decisions in 2026.

This is likely to mean that her secondary fiscal rule, for projected debt to start falling by 2029/30, will become more critical to whether she will meet her fiscal rules or not next year.

CONCLUSIONS

ALL ABOUT THE HEADROOM

The story of Budget 2025 was all about the Chancellor's headroom against her fiscal rules.

It is generally accepted that the Chancellor left herself with too small a level of headroom against her fiscal rules in the Autumn Budget 2024. This left the government vulnerable to relatively small swings in economic circumstances and also constrained the government's ability to spend more on defence or other emerging priorities.

The need to respond to a deterioration in the fiscal forecasts saw the Chancellor cut planned welfare spending in the Spring Statement, followed by hugely damaging speculation about potential tax rises in the run up to Budget 2025 following the overturning of those cuts by Labour MPs.

Although the level of headroom is still not that high by historical standards, the additional £17bn of headroom she is scheduled to benefit from in next year's Budget should provide her with more resilience to weather further deteriorations in the economy if needed.

YES, THE INHERITANCE WAS BAD, BUT THE GOVERNMENT MADE IT WORSE

The poor state of the public finances left by the previous government should not be understated.

The Chancellor inherited completely unrealistic plans to cut public spending (including sharp cuts in areas such as prisons and criminal justice for example) that were always going to require replacing with a more realistic profile. A returning Conservative government would have had to raise taxes too.

The poor quality of accounting, financial reporting, budgeting and forecasting that she inherited has also been a major issue, resulting in significant costs emerging to blind side the government. This include some elements of the 'black hole' that the current government reported last year, and the £6.5bn a year extra in local government spending identified by the OBR this time around.

However, it is also generally accepted that the Labour Party manifesto made matters worse. By promising that the government would not raise four of the five biggest taxes, the Chancellor chose to add to the burdens on UK businesses in Autumn Budget 2024 by increasing their taxes in particularly economically damaging ways.

The design of the employer NIC rise implemented in April 2025 was particularly bad, including the decision to implement the full rise on the same day as a large increase in the minimum wage rather than phase it in over several years. This caused significant economic damage as businesses cut back on hiring and investment during 2025.

At the same time, the government has been slow to move forward with its economic programme. This includes reforms to the planning system, deregulation, and the delivery of much needed infrastructure investment, all of which need some time to take effect before their economic benefits show up in the numbers. [ICAEW's Business Growth campaign](#) highlights just some of the ways that it has become too uncertain, too difficult and too expensive to do business in the UK and the urgent need for reform to address this.

AUTUMN CHAOS HIGHLIGHTS HOW THE BUDGET PROCESS IS BROKEN

Unfortunately, the government compounded the mistakes of the last Budget with the shambolic way in which this year's two fiscal events were conducted.

Having committed to move to only one fiscal event a year, the Chancellor failed to follow through and held a fiscal event in March at which she responded to a deterioration in the economic and fiscal outlook with spending cuts that (as it turned out) she could not deliver on politically.

This was followed by an extended period of speculation in the run up to Budget 2025 as a wide range of potential tax ideas were floated and then shot down, ranging from manifesto-busting rises in income tax to rumoured taxes on foreign investors that almost seemed designed to encourage them to leave the country.

Meanwhile, the 209 tax measures that were announced in Budget 2025 illustrate just how bad the process of designing new taxes has become, providing the opposite of the stability and predictability that businesses and individuals need to have confidence in the UK as a place to invest and grow.

NO LONG-TERM FISCAL STRATEGY NOR ANY SIGN OF A PLAN FOR MUCH NEEDED TAX AND WELFARE REFORM

Despite the increase in taxation and greater levels of public investment, the fiscal position remains fragile.

Public debt is at its highest level since the 1960s. There are substantial unfunded liabilities for public sector employee pensions, nuclear decommissioning, clinical negligence and other obligations. The government is committed to expanding the welfare state, particularly through the state pension triple-lock and promises to improve childcare provision. And, as the 'insurer-of-last-resort', the government is also exposed to the consequences of adverse events ranging from the effects of climate change, pandemics, energy shocks, international conflict, financial crises, and (more prosaically) recessions.

At the same time, there is still no long-term fiscal strategy setting out how the government can avoid the prospect of net debt reaching 274% or 324% of GDP in 50 years' time as set out in the OBR's long-term fiscal projections that are based on current trends. Developing such a strategy could be politically unpalatable, but it is difficult to see how we can address the poor state of our public finances without a more concrete plan to address those weaknesses.

At the same time, while there were a few minor positive developments in the Budget, there appears to be little ambition so far to tackle the many deficiencies in what is generally agreed to be the most complicated tax code in the world or to tackle the many issues with the design of the welfare system.

ICAEW's [recent call for the adoption of a single comprehensive rate of VAT](#), phased in over time, should provide higher tax receipts even with a lower overall rate, providing the government with the ability to abolish or reform the most damaging taxes and the space to reform welfare.

APPENDIX 1 – BUDGET 2025 ACCOMPANYING DOCUMENTS

Budget 2025 supporting and supplementary documents	
Budget 2025 distributional analysis	Anti-avoidance rule relating to certain non-derecognition liabilities
Budget 2025 policy costings	Benefits in kind: easement for plug-in hybrid electric vehicles
Budget 2025 data sources	Capital gains tax: employee ownership trusts
Overview of tax legislation and rates	Capital gains tax: incorporation relief claims
Financial investment report 2025	Capital gains tax: non-resident capital gains
Monetary policy remit 2025	Capital gains tax: share exchanges and reorganisations
Effects of the business retail, hospitality and leisure multipliers	Capping inheritance tax trust charges for excluded property in trusts
Business rates and investment: call for evidence	Changes to agricultural property relief and business property relief
Guidance for managing government's implicit liabilities	Changes to charity tax rules
Evaluation of the Office for Value for Money	Changes to employee car ownership schemes for income tax
The Office for Value Money Report	Changes to gambling duties
10 year efficiency projections	Collective money purchase: unconnected multi-employer schemes
Reforming the customs treatment of low value imports: open consultation	Construction industry scheme: tackling fraud
Climate change levy: electrolytic hydrogen and energy context	Controlled foreign companies: interest on the reversal of state aid recovery
Tax treatment of remote gambling	Corporate interest restriction relief for certain capital expenditure
Balance sheet framework	Corporate interest restriction: reporting companies
Government response to the OBR 2025 fiscal risks and sustainability report	Corporation tax: increases to late filing penalties
Oil and gas price mechanism: consultation outcome	Creative industries and R&D tax reliefs: administrative changes
Reform of air passenger duty: consultation outcome	Crown immunity: repeal of obsolete legislation
Digital services tax review	Crypto asset reporting framework: reporting of UK resident crypto asset users
Consultation on reform of landfill tax	Economic crime levy: changes to bands and charges
Independent review of the loan charge	Enterprise investment scheme (EIS) and venture capital trusts (VCT) changes
Advance tax certainty for major projects consultation	Enterprise management incentive scheme: increasing the limits
Consultation on the VAT treatment of business donations of goods to charity	Further amendments to multinational top-up tax and domestic top-up tax
Remit and recommendations for the Financial Policy Committee	First-year allowances for zero-emission cars and EV charge points
Reforming the spending control and accountability framework	Income tax: cancelled, moved or curtailed shifts
Tax support for entrepreneurs: call for evidence	Income tax: changes to tax rates for property, savings and dividend income
Non-discretionary tax-advantaged share schemes: call for evidence	Income tax: charge on Winter Fuel Payments
Entrepreneurship in the UK	Income tax: removal of the tax relief for additional homeworking expenses
UK Government green financing framework 2025	Inheritance tax and infected blood compensation payments
Consultation on the VAT treatment of private hire vehicles	Inheritance tax: anti-avoidance measures non-long-term UK residents/trusts
Consultation on the introduction of electric vehicle excise duty (eVED)	Inheritance tax: thresholds
International student levy technical detail	Inheritance tax: unused pension funds and death benefits
Integrated settlement funds for 2026 to 2030	Inland border facilities: changes to port approvals legislation
Functional responsibilities for the integrated settlements: 2026 to 2030	Introduction of carbon border adjustment mechanism
Visitor levy in England	Introduction of vaping duty stamps scheme on 1 October 2026
Local growth fund (England): policy statement	Introduction of vaping products duty from 1 October 2026
Local growth fund (England): place selection and allocation methodology	Landfill tax rates for 2026 to 2027
Mayor revolving growth fund: policy statement	Loan charge independent review
National licensing policy framework for the hospitality and leisure sectors	Maintaining income tax and national insurance thresholds until 5 April 2031
Reform of non-complete clauses in employment contracts	Mandatory tax adviser registration with HMRC
Electric vehicle charge: changes to permitted development rights	Modernising HMRC's outbound digital communications
Review of raw cane sugar ATQ and related considerations: 2025	New first-year allowance and main rate of writing-down allowances
High value council tax surcharge	Oil and gas taxation: decommissioning relief deeds
Changes to salary sacrifice for pensions from April 2029	PAYE changes for the umbrella company market
Abolition of the dividend tax credit for non-UK residents	Plastic packaging: mass balance approach, removal of pre-consumer plastic
Advance tax certainty service: major projects with certainty in advance	Removing VAT on donations of eligible goods from businesses to charities
Aggregates levy devolution to Scotland	Residence-based tax regime: technical amendments
Alcohol duty: rates change	Stamp duty reserve tax: relief changes
Aligning PAYE notifications with the overseas workday relief limit	Stamp taxes on shares: modernisation
Annual tax on enveloped dwellings: availability of relief	HMRC tax debt strategy update

Budget 2025 supporting and supplementary documents	
Tackling promoters of marketed tax avoidance	Taxation decentralised finance involving lending and staking of crypto assets
Tackling tax adviser facilitated non-compliance	Tackling the hidden economy by expanding tax conditionality to new sectors
Private intermittent securities and capital exchange system (PISCES)	Promoting electronic invoicing across UK businesses and the public sector
Temporary non-residence rules: post departure trade profits	Tax for companies and employees for employees trading shares on PISCES
Expansion of workplace benefits relief	Research and development tax relief advance clearances
Reform of transfer pricing, permanent establishment and diverted profits tax	Personal tax: offshore anti-avoidance external engagement
Tobacco duty: rate changes	Behavioural penalties reform
Tour operators' margin scheme: legislation for private hire vehicle operators	Transfer pricing: scope and documentation
Transfer pricing: international controlled transactions schedule	Reform of transfer pricing, permanent establishment and diverted profits tax
VAT and IPT: change to reliefs for qualifying motor vehicle leasing schemes	Changes to tax rates for property, savings and dividend income
VAT: refunds of VAT for combined county authorities	Research and development: clarifying the scope of the overseas restriction
VED: expensive car supplement threshold increase for zero emission vehicles	

Copies of these supporting and supplementary documents are available from [HM Treasury's Budget 2025 page](#).

APPENDIX 2 – DETAILED RECEIPTS AND SPENDING BY YEAR

Table 8 – Budget 2025 forecast receipts detail

	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn	2025/26 to 2030/31 avg real %
Income tax	329	359	383	393	411	427	+3.3%
VAT	210	220	231	239	249	260	+2.3%
Employer national insurance	146	153	157	163	171	177	+1.8%
Corporation tax	99	104	110	114	118	123	+2.4%
Employee national insurance	59	61	64	65	68	70	+1.6%
Council tax	51	54	57	60	63	67	+3.5%
Business rates	34	37	38	39	42	42	+2.5%
Capital gains tax	20	20	22	25	27	30	+5.9%
Fuel duties	24	24	26	26	26	25	-0.9%
Property transaction taxes	16	19	22	24	26	28	+9.1%
Alcohol duties	12	12	13	13	14	14	+1.4%
Environmental levies	14	16	15	16	17	19	+3.7%
Inheritance tax	9	9	11	13	14	14	+8.6%
Vehicle excise duties	9	10	10	12	13	13	+5.2%
Insurance premium tax	9	9	9	10	10	10	+0.4%
Tobacco duties	8	8	8	7	7	7	-2.8%
Air passenger duty	5	5	6	6	6	6	+5.2%
Customs duties	5	5	5	6	6	6	+2.5%
Gambling taxes	4	5	6	6	6	6	+5.7%
Stamp duty on shares	4	5	5	5	5	5	+1.5%
Apprenticeship levy	4	5	5	5	5	5	+1.3%
Visa fees	3	3	3	3	3	3	-1.2%
Bank levy and surcharge	3	3	3	3	3	3	+0.1%
Immigration health surcharge	2	2	2	2	2	3	-0.4%
Energy profits levy	2	2	2	1	1	-	-39.4%
All other taxes	22	22	20	23	24	25	+0.3%
Tax receipts	1,103	1,172	1,233	1,279	1,337	1,388	+2.7%
Other receipts	129	132	137	142	146	151	+1.3%
Total receipts	1,232	1,304	1,370	1,421	1,483	1,539	+2.5%

Sources: OBR, *Economic and Fiscal Outlook*, November 2025; ICAEW calculations.

Table 9 – Budget 2025 forecast spending detail

	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn	2025/26 to 2030/31 avg real %
Departmental spending	525	546	562	578	589	609	+1.0%
Welfare spending	333	352	362	373	389	406	+2.0%
Local government spending	195	206	213	215	223	231	+1.4%
Other current spending	44	39	39	40	37	38	-4.8%
Debt interest	114	114	119	128	137	141	+2.3%
Depreciation	73	76	80	83	86	89	+2.0%
Current spending	1,284	1,333	1,375	1,417	1,461	1,514	+1.3%
Gross investment	159	159	174	174	176	181	+0.6%
Depreciation	(73)	(76)	(80)	(83)	(86)	(89)	+2.0%
Net investment	86	83	94	91	90	92	-0.6%
Total managed expenditure	1,370	1,416	1,469	1,508	1,551	1,606	+1.2%

Sources: OBR, *Economic and Fiscal Outlook*, November 2025; ICAEW calculations. Other current spending is net of intra-government eliminations.

Table 10 – Budget 2025 forecast receipts and spending as % of GDP

As % of GDP	2025/26 Estimate % of GDP	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn
<i>Tax receipts/GDP</i>	36.3%	37.0%	37.6%	37.8%	38.2%	38.3%
<i>Other receipts/GDP</i>	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%
Total receipts/GDP	40.5%	41.2%	41.8%	41.9%	42.3%	42.4%
<i>Current spending/GDP</i>	(42.2%)	(42.1%)	(41.9%)	(41.8%)	(41.7%)	(41.8%)
<i>Net investment/GDP</i>	(2.8%)	(2.6%)	(2.9%)	(2.7%)	(2.5%)	(2.5%)
Managed expenditure/GDP	(45.0%)	(44.7%)	(44.8%)	(44.5%)	(44.2%)	(44.3%)
<i>Current budget balance/GDP</i>	(1.7%)	(0.9%)	(0.1%)	0.1%	0.6%	0.6%
<i>Net investment/GDP</i>	(2.8%)	(2.6%)	(2.9%)	(2.7%)	(2.5%)	(2.5%)
Fiscal deficit/GDP	(4.5%)	(3.5%)	(3.0%)	(2.6%)	(1.9%)	(1.9%)

Source: OBR, *Economic and Fiscal Outlook*, November 2025. Current spending = current expenditure + depreciation in OBR tables.

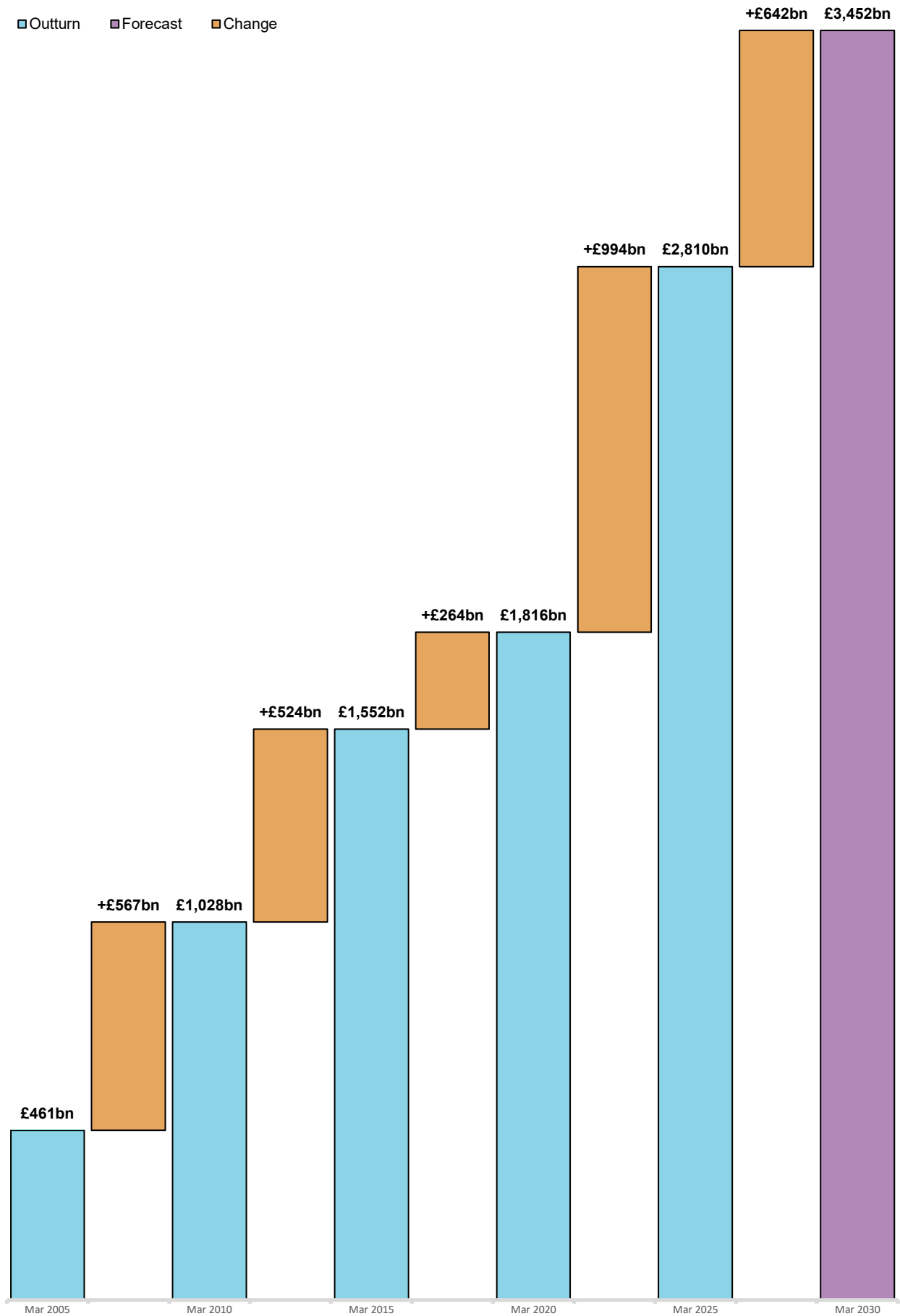
FORECAST GDP AND GDP DEFLATOR BY YEAR

Table 11 – Budget 2025 forecast GDP

	2025/26 Estimate £bn	2026/27 Budget £bn	2027/28 Forecast £bn	2028/29 Forecast £bn	2029/30 Forecast £bn	2030/31 Forecast £bn	2025/26 to 2030/31 avg real %
GDP	3,043	3,165	3,277	3,388	3,504	3,628	+1.6%
GDP end of year	3,094	3,221	3,333	3,445	3,565	3,692	+1.6%
GDP deflator (index values)	102.94	105.24	107.36	109.38	111.40	113.57	-

Sources: OBR, *Economic and Fiscal Outlook*, November 2025; ICAEW calculations.

Figure 6 – Budget 2025 forecast: Public sector net debt over 25 years



Source: OBR, *Public Finances Databank*, November 2025.

This Fiscal Insight was written by Martin Wheatcroft FCA on behalf of ICAEW.

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For questions about this Fiscal Insight please contact us at publicsector@icaew.com.

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