
Special Edition – Policy Update

- ◆ The discovery of another ‘black hole’ in the public finances adds to the already constrained fiscal finances
- ◆ Chancellor Reeves expects further tough decisions at her inaugural Budget on 30 October
- ◆ BoE cuts interest rates but doesn’t signal its next move

Tough decisions for the government

UK Chancellor Rachel Reeves has set out the results of a Treasury audit of the public finances. In her statement to the House of Commons she said a GBP22bn ‘black hole’ of government overspends had not been declared to the OBR, and therefore not included in their forecasts.

While these overspends are mostly one-offs, the decision to increase public sector pay was also included within the headline figure and that will have an enduring impact on the public finances. That will add to the second ‘black hole’ that was not mentioned – current implied cuts to unprotected departmental spending budgets from April 2025. Both of which increase the difficulty in meeting the fiscal target of having debt-to-GDP falling in the fifth year.

As a result, further “tough decisions” are expected at the government’s inaugural Budget and a multi-year spending review on 30 October. We could see tweaks to the fiscal rules, spending cuts, new tax rises, more borrowing, or possibly a combination of all four.

Housing policy takes a more optimistic tone

Meanwhile, Deputy Prime Minister Angela Rayner set out plans to “overhaul our housing system” and build 1.5m homes over the parliament. The plans are welcome news and offer some optimism for the sector; however, little detail was released on how their ambitions would be delivered. We will have to wait until the Autumn for that.

Bank of England cuts interest rates

The Monetary Policy Committee (MPC) finally opted to cut Bank Rate by 0.25ppts to 5.00%, its first interest rate cut since 2020. However, a 5-4 vote split indicated that it was a tough “finely balanced” decision and that several members who voted for the cut judge that “there remained some upside risks to the [inflation] outlook”. Notably regards future decisions, the MPC seemed to move away from looking at specific data points, as they have done previously, to a more holistic, judgement-based approach. We think they will pause at their next meeting in September.

Disclosure appendix

Important disclosures

Additional disclosures

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