

LKA PERSPECTIVE

Britain's State Has Outgrown the Economy That Pays for It

Public spending, taxation, pensions, welfare, labour-market participation and the changing cost of financing the state.

19 September 2026

45.0% Public spending / GDP, 2025/26	38.3% Forecast tax take / GDP, 2030/31	£1.401tn Unfunded public-service pension liabilities Present-value accounting liability; not a one-year cash bill
£406.9bn Forecast welfare spending, 2030/31	981,000 Estimated 16–24-year-olds NEET	£252.1bn Original 2026/27 gilt-sales remit

The proposition

Britain is trying to finance a state that has become much larger than it was before the pandemic. Public spending is around 45% of GDP, the tax burden is heading towards a historic high and long-term pension and welfare commitments continue to grow. No single statistic settles the argument. Taken together, however, the numbers explain why I believe the state has outgrown the independent economy that ultimately pays for it.

The state is absorbing too much of the economy while the private sector carries a rising tax, regulatory and financing burden.

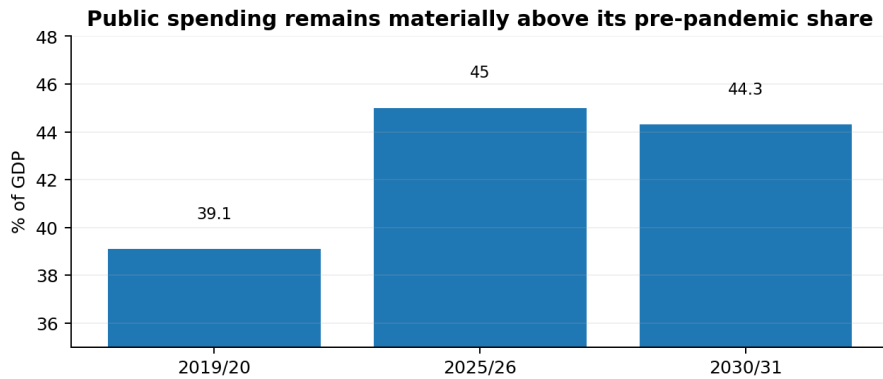
Evidence first; interpretation second

The numbers in this paper come from the OBR, ONS, HM Treasury, the DMO, the Whole of Government Accounts and the Bank of England. The conclusion is mine. I believe Britain needs a smaller state, lighter regulation and a larger independent private economy.

What would change our view? — see page 6.

Source: OBR Economic and Fiscal Outlook (Nov 2025); ONS releases through 15–16 Sep 2026; DMO 2026/27 remit; Whole of Government Accounts 2024/25; Bank of England MPC, Sep 2026.

1 | The Scale of the State

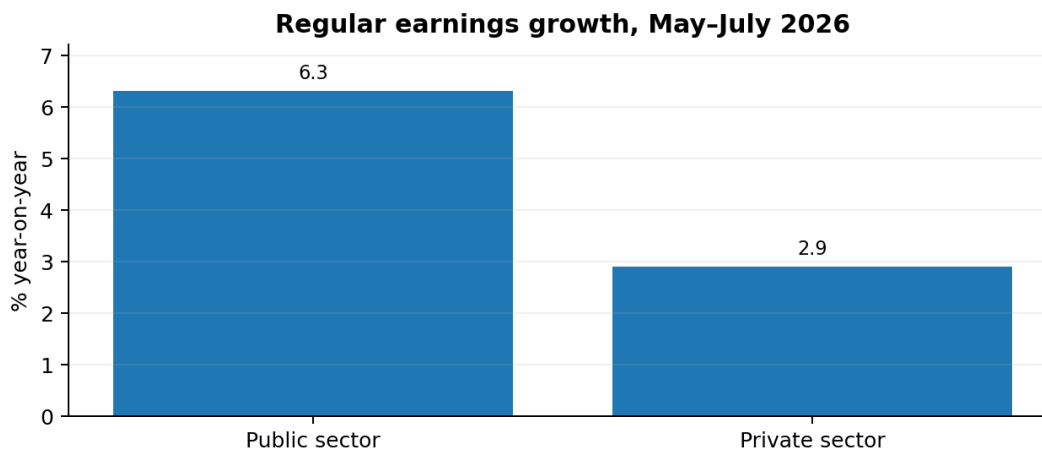


The OBR puts total managed expenditure at 45.0% of GDP in 2025/26. It falls only gradually to 44.3% by 2030/31 — still 5.2 percentage points above 2019/20. National Accounts taxes are forecast to rise from 34.7% of GDP in 2024/25 to 38.3% by 2030/31, which the OBR describes as an all-time high.

Britain is not the largest state in the G7. France and several other European economies spend more. OECD data nevertheless put UK general-government expenditure at 47.1% of GDP in 2023, above the OECD average of 42.6%, and at 46.6% in 2024. The point is not that Britain is uniquely large. It is that the British state is materially larger than before the pandemic and is being financed by an economy already carrying a high tax and borrowing burden.

Source: OBR, Economic and Fiscal Outlook, Nov 2025, Chapter 4 and Chapter 5.

Employment and pay: a divergence worth watching

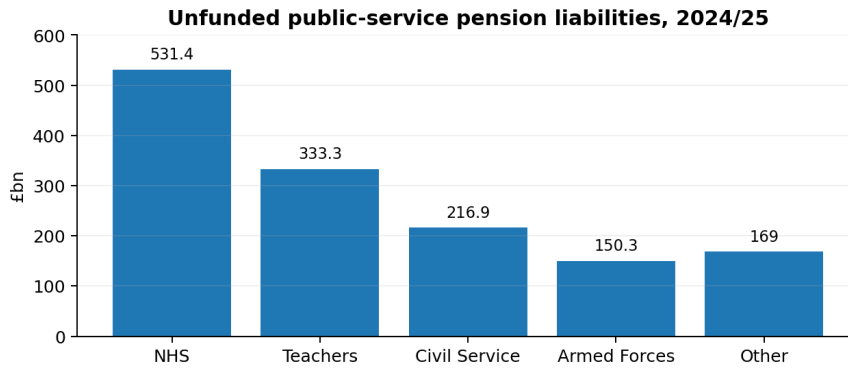


Public-sector employment was estimated at 6.21 million in June 2026 — 18.0% of UK employment — up 33,000 year-on-year. Central-government employment reached a record 4.08 million. Regular public-sector earnings grew 6.3% year-on-year in May-July, against 2.9% in the private sector. ONS cautions that differences in the timing of public-sector pay awards affect the comparison, so the 6.3% versus 2.9% figures should not be extrapolated. Even with that qualification, the divergence is striking.

HMRC RTI data show payrolled employment down 101,000 year-on-year in July; the provisional August estimate is down 145,000. The PAYE and public-sector employment series are not directly comparable, but the contrast with an expanding public payroll is difficult to ignore.

Source: ONS Public Sector Employment, June 2026; ONS Labour Market Overview and PAYE RTI, Sep 2026.

2 | Long-Dated Fiscal Commitments



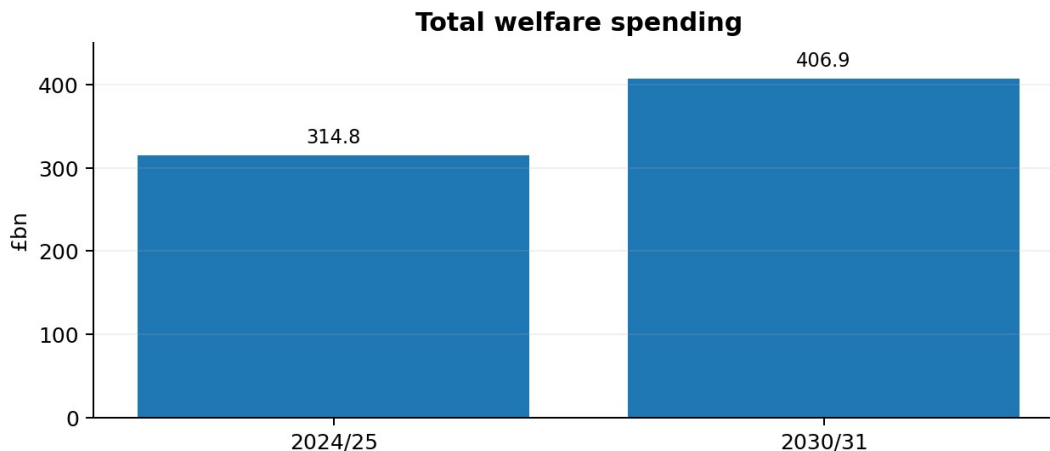
Whole of Government Accounts records £1,400.9bn of unfunded public-service pension liabilities at 31 March 2025. The largest components are the NHS (£531.4bn), teachers (£333.3bn), Civil Service (£216.9bn) and Armed Forces (£150.3bn). These are accounting liabilities whose measured present value is sensitive to the discount rate; they are not a bill falling due in a single year.

For the Civil Service scheme, the employer contribution rate is 28.97% of pensionable pay. Government evidence breaks this into 23.60% for newly accruing pension, 5.10% for the past-service deficit and roughly 0.27% for administration.

Source: HM Treasury, Whole of Government Accounts 2024/25; Civil Superannuation Annual Account 2024/25; Government evidence on Civil Service pensions.

State pension and public-service pensions are different obligations

The State Pension is a taxpayer-funded social-security benefit; public-service pensions are occupational defined-benefit schemes for government employees. They should not be conflated. The OBR nevertheless identifies pensioner spending as a major source of future pressure: larger cohorts and the triple lock add around 0.6% of GDP to pensioner spending by 2030/31, partly offset by the State Pension age moving from 66 to 67.

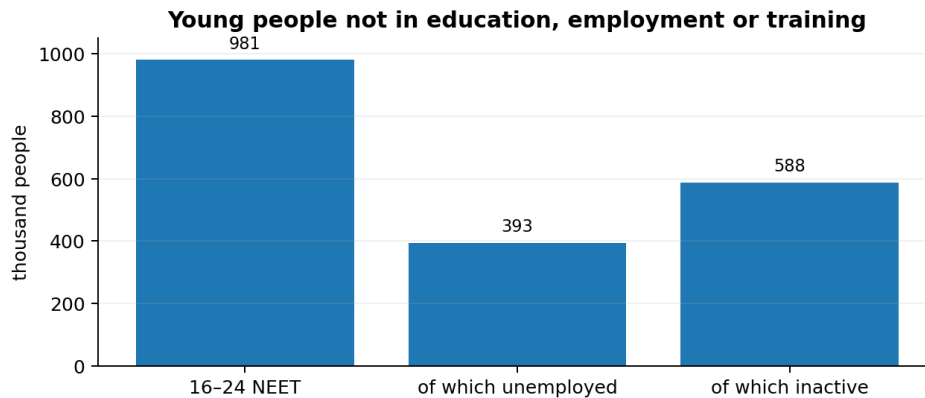


Total welfare spending is forecast to rise from £314.8bn in 2024/25 to £406.9bn in 2030/31. Health and disability benefits rise from £76.9bn to £109.8bn. The OBR forecasts incapacity caseloads rising from 3.4m to 4.0m and disability caseloads from 6.5m to 8.8m.

A safety net cannot sustainably become an alternative labour market. Not every claimant can or should be working, but a working-age incapacity caseload rising towards four million is an economic problem as well as a social one.

Source: OBR Economic and Fiscal Outlook, welfare tables and discussion, Nov 2025.

3 | Labour-Market Participation and Productivity



An estimated 981,000 people aged 16–24 were not in education, employment or training in April–June 2026, equivalent to 13.0% of the age group. For 18–24-year-olds the estimate was 894,000, or 15.2%. Of the total 16–24 NEET population, 393,000 were unemployed and 588,000 economically inactive.

These are Labour Force Survey estimates rather than a census, and ONS continues to warn that the more granular LFS data are volatile. The precise quarterly movement should therefore be treated cautiously. The scale of the problem is harder to dismiss.

Source: ONS, Young people not in education, employment or training (NEET), Apr–Jun 2026, published Aug 2026.

NHS productivity: improving, but still below 2019

+1.1%

Healthcare productivity, 2024

+1.0%

Healthcare productivity, 2025

–5.8%

2025 level versus 2019

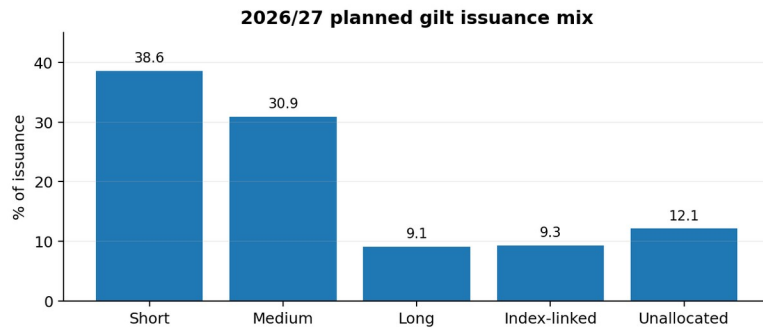
Healthcare productivity has improved for five consecutive years, but in 2025 it remained 5.8% below its 2019 level. Pouring additional resources into the existing structure cannot remain the default answer.

Source: ONS, Public service productivity, quarterly, UK, Aug 2026. 2024–25 healthcare estimates are official statistics in development and subject to revision.

Participation and productivity

A high-spending state is easier to finance when labour-force participation, private employment, productivity and real incomes are expanding. It becomes much harder when a significant cohort is detached from education and work while labour-intensive public services require rising resources simply to recover earlier productivity levels.

4 | Sovereign Funding and Refinancing Risk

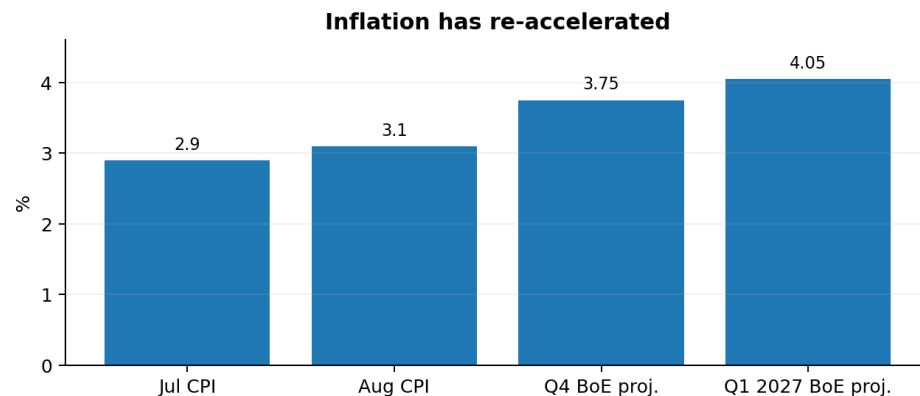


The original 2026/27 remit provided for £252.1bn of gilt issuance. Following the April update, planned gilt sales were reduced to £246.2bn. Short conventional gilts accounted for 38.6% of the planned programme, up from 37.1% in the previous programme. Long conventional issuance has fallen materially as a share of issuance. The DMO points to structural changes in investor demand, with declining pension-fund demand for long conventional gilts and changes in their relative cost effectiveness.

At end-December 2025, the average maturity of the gilt stock was 13.9 years. The DMO says this significantly reduces refinancing risk. Britain still has a valuable duration buffer. Market demand, cost and refinancing considerations all influence the shorter issuance mix. Current DMO metrics do not show a deterioration in near-term refinancing risk. My concern is what happens over time if shorter issuance persists.

Source: UK DMO, Debt Management Report 2026/27, paras A.5 and B.35-B.40; April 2026 remit update, Annex A.

5 | Inflation and the Monetary Constraint



CPI inflation rose from 2.9% in July to 3.1% in August. Petrol averaged 161.3p/litre and diesel 181.8p. Motor-fuel prices were 23.0% higher than a year earlier and made the largest upward contribution to the change in inflation. Producer input prices rose 6.1% year-on-year and factory-gate prices 3.7%, with refined petroleum products driving much of the acceleration.

On 16 September the MPC voted 6–3 to keep Bank Rate at 3.75%; three members preferred a rise to 4.0%. Based on energy prices at 14 September, the Bank expected CPI around 3.4% in Q4 2026 and slightly above 4% in Q1 2027. It also changed the gilt-unwind path to a multi-year programme averaging £46bn a year through end-2034, including £20bn of annual sales alongside maturities.

Source: ONS CPI and PPI, Aug 2026; Bank of England Monetary Policy Summary and Minutes, Sep 2026.

6 | The LKA Perspective

There are legitimate arguments for a larger state, particularly around health, defence, demographics and public investment. Those choices still have to be paid for. The question is whether Britain can continue expanding the state without weakening the private economy on which the tax base ultimately depends.

The LKA interpretation

My judgement is that the balance has moved too far. Britain is spending around 45% of GDP through the state while the tax burden heads towards a historic high. Welfare and pension commitments continue to grow. Almost one million young people are outside education, employment or training. Healthcare productivity remains below 2019. And the Government must finance a very large borrowing programme in a market where inflation has again limited the Bank of England's room for manoeuvre.

I do not believe another round of higher taxes to sustain the same structure is the answer. Britain needs a smaller and more productive state, lighter regulation, stronger incentives to work and invest, and a larger independent private economy.

What would change our view?

Sustained improvements in public-sector productivity would matter. So would stronger private employment and labour-force participation, a stabilisation in welfare caseloads and a durable reduction in borrowing and debt-service pressure without another increase in the tax burden. If those things happen, the argument changes. Persistent inflation, weak private employment, higher debt-interest costs or further deterioration in working-age participation would point the other way.

Primary-source audit trail

- Office for Budget Responsibility — Economic and Fiscal Outlook, November 2025: receipts, spending, welfare and caseload forecasts.
- Office for National Statistics — Public Sector Employment, June 2026; Labour Market Overview and PAYE RTI, September 2026.
- Office for National Statistics — NEET statistics, April–June 2026; Public Service Productivity, 2025 estimates.
- Office for National Statistics — Consumer Price Inflation and Producer Price Inflation, August 2026.
- HM Treasury — Whole of Government Accounts 2024/25; Civil Superannuation Annual Account 2024/25.
- UK Debt Management Office — Debt Management Report 2026/27; April 2026 remit update; Annual Report and Accounts 2025/26.
- Bank of England — Monetary Policy Summary and Minutes, meeting ending 16 September 2026.
- OECD — Government at a Glance 2025: UK general-government expenditure and OECD comparison.

Editorial note: figures are stated as published by the cited primary sources and are subject to subsequent revision. Where datasets are not directly comparable, the text says so. Policy conclusions are explicitly identified as LKA judgements.