

Written Ministerial Statement

Fiscal Sustainability Report

The Chief Secretary to the Treasury (Danny Alexander): Today the independent Office for Budget Responsibility (OBR) published its second *Fiscal sustainability report (FSR)*. This document meets their requirement to prepare an analysis of the sustainability of the public finances each financial year, and provides an important insight into the state of the public finances taking into account the significant impact of demographic change. The report was laid before Parliament earlier today and copies are available in the Vote Office.

The FSR shows that, without additional policy change, an ageing population is projected to increase age-related spending by 5.0% of GDP between 2016-17 and 2061-62, as health, social care and pension expenditure become an ever larger proportion of total public spending and the economy. The OBR projections show that public sector net debt is expected to fall to a trough of 57% of GDP in the mid-2020's, before rising to reach 89% of GDP in 2061-62 in the absence of further policy change.

The Government is committed both to shoring up our fiscal position now and making it sustainable for the long term. The OBR analysis makes it clear that our medium-term consolidation plan is essential to restoring long-term sustainability in the public finances. They show that a deterioration in the primary balance in 2016-17 worth 1% of GDP could increase projected public sector net debt in 2061-62 to around 130% of GDP. This shows the scale of impact if the medium term consolidation was not achieved.

The OBR discuss the impact of changes to policy on their long-term projections. They show that excluding policy changes announced since the 2011 FSR and the new population projections, public sector net debt would have been projected to reach nearly 200% of GDP by 2061-62. They identify the additional spending reductions announced at Autumn Statement 2011 as one of the key factors in preventing this increase in projections, as well as highlighting the long-term decisions we have made in bringing forwards the State Pension age increase to 67 and public service pension reforms.

The FSR presents the first estimates for the savings delivered by our public service pension reforms. These independent projections show that net spending on public service pensions is projected to fall from 1.5 per cent of GDP without reform to 0.9 per cent with reform in 2061-62. The Government's reforms will bring total spending on public service pensions in line with the long run average over the last 40 years. This will save 40 per cent of net expenditure by 2061/62, so freeing up funding for other services. The Treasury estimates that this represents around £430 billion of savings in current GDP terms over the next 50

years. This shows that the deals confirmed last week are good for taxpayers, as well as public sector workers who will continue to receive pensions that are among the very best available, providing a guaranteed pension level for all members.

The long-term projections presented in this report also provide important context to ongoing debates about public service reform, such as on social care. The OBR's projections suggest that spending on social care will increase substantially over the next 50 years as the UK's population ages and it is clear that the UK will need to take into account the likely pressure on public services from demographic change as we consider reforms in this and other areas.

We will bring forward the necessary legislation to reform public sector pensions in this Parliamentary session and set out proposals this autumn to ensure the State Pension age is reviewed to take into account future changes in longevity. These and other decisions reflect the Government's continuing commitment to make the right decisions for the long term, including for the long term sustainability of the public finances.

HM Treasury
12 July 2012