COVER STORY

End in sight for triple lock after watchdog's UK finances warning

By Will Hazell and Grace Gausden

The UK's finances are on an "unsustainable" track and the country "cannot afford" the spending promises which have been made to the public, the Office for Budget Responsibility (OBR) has said.

In a report spelling out the "fiscal risks" facing Britain, the OBR pointed out that the country had the sixth highest government debt, the fifth highest deficit and third highest borrowing costs of 36 advanced economies, leaving the country in a "vulnerable position".

It said that on the current trajectory, the ageing population and the knock-on impacts for healthcare and pension spending will push debt from 94 per cent of GDP to 270 per cent by the early 2070s.

The watchdog said the triple lock, which ensures the state pension rises in line with whichever is highest of inflation, wage rises or 2.5 per cent, will be three times more expensive by the end of the decade than expected when it started in 2011, costing £15.5bn by 2030.

Richard Hughes, the OBR's chair, said: "The UK public finances are in an unsustainable position in the long run.

"The UK cannot afford the array of promises that it has made to the public if you leave those unchanged based on a reasonable assumption about growth rates in the economy and tax revenues."

Economists said the stark forecast made reform of the state pension triple lock all but inevitable.

A Downing Street spokesman said that the Government remained committed to the triple lock "for the entirety of this parliament" – leaving the door open to make changes after the next election.

However, there is a growing expectation among MPs and economists that the policy will need to be reformed.

£15.5bn
Expected cost of the triple-lock pension by 2030, three times more than the predicted level when it started

One Labour MP believes there is "active thinking" in government about the growing cost of the triple lock and "whether you can deliver it".

Jon Greer of the wealth management firm Quilter said: "While the triple lock remains a safeguard for pensioners, its escalating cost poses a serious challenge to fiscal sustainability."

As well as making the triple lock less generous, he said another option would be to raise the retirement age. The Department for Work and Pensions has already confirmed the age will rise to 67 between 2026 and 2028, and a further increase to 68 has been legislated to start from 2044.

Despite the warnings from the OBR, Labour rebels were pushing for even further concessions from the Government at today's third reading of the welfare reform bill.

More than 40 MPs, 27 of them Labour, have backed an amendment by left-winger Richard Burgon to scrap the remaining cut to benefits in the bill – a planned halving of the universal credit health element.

However, a Labour loyalist said the rebels were deluded about the state of the public finances.

"There is no magic money tree," the MP said. "Rachel [Reeves] clearly knows that and the leadership clearly knows that, but we've got ourselves into a position where there's a large group who aren't just facing reality.

"We need to be making that stark case about the position we're in and the options for the future."

Gilts rise Uncertainty boosts yields

The UK's 30-year gilt yield climbed eight basis points, to its highest level since late May at about 5.48 per cent, while the 10-year gilt yield climbed to 4.65 per cent as investors reacted to financial uncertainty and wider trade tensions.

Gilts are government bonds – essentially IOUs – issued by a government to support spending.

Yields are a key indicator of market confidence, moving inversely to bond prices. They rise when investors are less willing to own debt, meaning they will pay a lower price for the bonds.

The Office for Budget Responsibility also highlighted the risk posted by gilts ownership on upward interest rates on government debt.

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