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Skills Shortages and Fiscal Constraints Await the UK's Burnham Government

― Promoting Youth Employment Is Key, but Likely to Take Time ―

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This is an English version of the Japanese report "人材と財政の制約に直面する英国のバーナム次期政権 ― 若年層の就業促進がカギも、時間を要する公算 ―" published on July 17, 2026. (The original version is available at https://www.jri.co.jp/MediaLibrary/file/report/research/pdf/16842.pdf)

On July 20th, Andy Burnham will become British Prime Minister. Mr Burnham plans to re-industrialise, i.e. expand support for manufacturing sectors like steel and defence. He is also aiming to ease living costs such as rent and utility bills through council housebuilding and greater public control of public services including water and energy (Figure 1).

Figure 1. Key Policies Advocated by Mr Burnham

Core Philosophy	Devolution of power to regional authorities
	Emphasising state intervention while acknowledging the role of the private sector
	Public housing and vocational education as the foundations of working class aspirations
Specific Policy Examples	Establishing a "No. 10 North" in Manchester to oversee large-scale devolution
	Re-industrialisation (focusing on defence, energy, steel, and food and farming)
	The largest council housebuilding programme since WW2
	Strengthening public control of essential public services such as water, energy, and transport
	Achieving parity between the academic and vocational routes by emphasising vocational education
	Emphasising the Starmer government's fiscal rules
	Maintaining the 2024 Labour Party manifesto commitment not to raise Income Tax, National Insurance, or VAT
	Funding business rate cuts for pubs and the high street by increasing taxes on out-of-town warehouses

Source: JRI based on various media reports

However, two factors will hamper the implementation of these policies. The first is a lack of skilled labour. Skills shortages in both manufacturing and construction are already one factor constraining recent output. Ageing is also progressing rapidly in both industries (Figure 2). As more skilled workers retire, skills shortages are likely to worsen, potentially hindering a manufacturing recovery and greater housebuilding.

The second factor is fiscal constraints. UK government debt is notably high, reaching 102.3% of GDP in 2025. Reducing the debt ratio stably will require improving the primary fiscal balance. While Mr Burnham has suggested he will maintain the Starmer government's fiscal rules, if he were to attempt to nationalise energy and water without securing adequate funding, it is possible that the primary balance would worsen by a yearly

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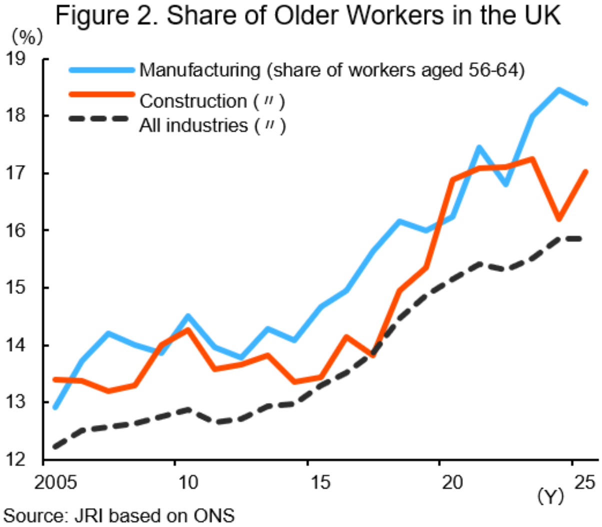
average of up to 1% of GDP (Figure 3). This would push up government debt further.

In response to these obstacles, Mr Burnham has suggested promoting youth employment and upskilling by strengthening vocational education. This signals an intention to secure the necessary human resources for re-industrialisation and housebuilding. In the medium to long term, this approach also aims to alleviate the state's fiscal burden by boosting tax revenues and curtailing welfare spending on NEETs (young people Not in Employment, Education or Training).

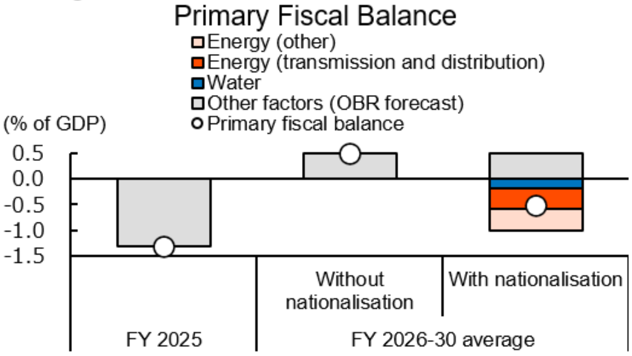
Figure 2. Share of Older Workers in the UK



Source: JRI based on ONS

However, around 60% of NEETs have exited the labour market due to factors such as mental health (Figure 4). This will make it difficult to immediately increase the labour supply by merely promoting skills education, meaning efforts to boost youth employment will take time to yield tangible fiscal benefits. If Mr Burnham nonetheless attempts to expand government spending without adequate resources, gilt yields may rise further while the pound depreciates, ultimately worsening the financial burden on businesses and households.

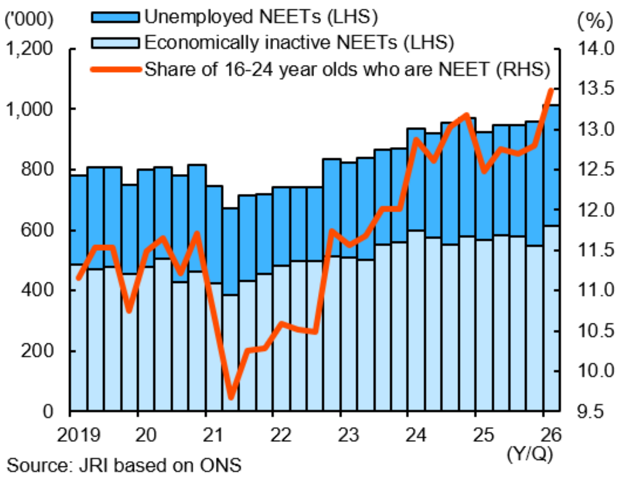
Figure 3. Forecast for the UK Government's Primary Fiscal Balance



Source: JRI based on OBR, Ofwat and Unite

Note: This shows the impact from nationalising water and energy over 10 years. The cost for water is estimated using Ofwat's data on Regulatory Capital Value, while that for energy is estimated with Unite's data on market value. "Energy (other)" includes supply, generation and North Sea oil & gas.

Figure 4. Number of NEETs in the UK



Source: JRI based on ONS

Note: The ONS defines NEETs as young people (aged 16 to 24 years) not in employment, education or training.