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Spending Review 2025

SUMMARY & OVERNIGHT INSIGHTS FROM PAGEFIELD

Foreword – Oliver Foster, Chief Executive, Pagefield

This Spending Review was clearly the most significant moment of Rachel Reeves' time as Chancellor so far. Front and centre of the statement was a clear commitment to invest in the UK's public services - the NHS, local transport networks and schools to name a few – with the associated uplifts in departmental budgets designed to deliver tangible change in voters' lives.

Increases in health and defence spending, major investments in housing and regional transport infrastructure, and a multibillion pound fund to build new homes were all carefully briefed stories intended to roll the pitch ahead of the Chancellor's statement - in an effort to deliver two key messages.

The first, fiscal responsibility. The hardnosed tactics of Darren Jones and the Treasury led to real-terms cuts to Home and Foreign Office budgets which have been painful for all parties – which will come back to haunt the Chancellor if immigration still dominates the priorities of swing voters come the next election.

The second key message was that this Labour Government is ready to borrow to invest to deliver real-world benefits to voters. However, almost a year into this government, prevailing sentiment suggests the wider public are yet to feel the benefits of Labour's growth agenda – large-scale, long-term capital expenditure is unlikely to shift the dial and put Labour back on the front foot.

Moreover, this Spending Review leaves considerable uncertainty in two areas. First, given the Chancellor's front-loading, are these departmental budgets sustainable in the latter years of the Parliament, especially so close to an election? And second, if they aren't (and that seems likely) - or if economic circumstances worsen - will taxes need to increase to pay for more spending? We don't have long to wait for an answer to that in the October Budget.

The Opposition parties were predictably far from impressed, and Shadow Chancellor Mel Stride - who dubbed Reeves the "tin foil Chancellor" (in stark contrast to the "Iron Chancellor") - has in the past week or so arguably shone more in opposition than he ever did in power. Could he - that shamefully rare beast of a calm and erudite politician - be the Tories secret weapon in the coming months?

As fiscal events go, this was far more 'political' than October's Budget, and it's still unfathomable only one year into a new government with a stonking majority, that it is they who are scrambling to regain credibility and control of the narrative. With defeat at May's local elections still ringing in their ears and Reform holding a consistent lead in the national polls, the Spending Review should have been the first confident step forward after 12 months of stumbling. But the problem for Reeves is that all the good stuff from the review is going to take years for people to feel the benefit from...and if that elusive, yet vital, growth doesn't materialise, what we'll all be feeling instead is a lot poorer with very little to show for it.

Summary of key announcements

The Spending Review set out departmental budgets for day-to-day spending until 2028-29, and for capital investment until 2029-30. Total departmental budgets will grow by 2.3% across the Spending Review period, with a £190bn boost for public services and an increase in capital spending of £113bn over this Parliament.

Below is a summary of the key sectors impacted and the major announcements relevant to each.

Business & industry

- The Department for Business and Trade (DBT) will see an average annual real terms growth rate of 5.8% over the Spending Review period with a growth of capital spending of 9.4%
- £500 million grant will go to Tata Steel in Port Talbot
- British Business Bank will see its financial capacity rise to £25.6 billion in the Parliament

Start-ups and small businesses are set to benefit from an expanded British Business Bank, while the £1.2 billion funding increase for apprenticeships and £2 billion committed to the AI Action Plan are expected to boost talent pipelines and productivity across UK businesses. The Government has also allocated £1.8 billion for redress payments related to the Post Office Horizon scandal, alongside over £500 million to modernise the Post Office network. Further details for businesses will follow in the forthcoming Industrial Strategy, set to be published later this month.

Housing

- £39bn of grants will be distributed over the next 10 years as part of a new Affordable Homes Programme, averaging £3.9bn a year, up from £2.3bn under the previous Government's £11.5bn programme
- Private investment totals £4.8bn will be secured through Homes England to unlock more efficient financing for new homes
- From 2026, a new social rent settlement will allow rents to rise at Consumer Price Index +1%, and a consultation will follow on implementing social rent convergence

The Ministry for Housing, Local Government and Communities (MHCLG) emerged as a big winner from the Spending Review. The new Affordable Homes Programme forms the biggest new financial commitment from the Chancellor, while Energy Secretary Ed Miliband also leant on the strong support of Housing Secretary Angela Rayner to ensure £13.2bn of funding for the flagship Warm Homes Plan was protected from any cuts. Housing – and all the policies that sit under it – continue to form the bedrock of this Government's mission to deliver economic growth.

Energy & the environment

- The Department for Environment, Food & Rural Affairs' (DEFRA) capital spending budget will be cut by 1.8% to an average of £13.8bn a year over the 2025-2030 period
- The Department for Energy Security and Net Zero's (DESNZ) capital spending budget, excluding the Sizewell C nuclear plant, will increase by 2.6% per year over the 2025-30 period
- Great British Energy and Great British Nuclear will together invest more than £8.3 billion over the Spending Review period

The Spending Review underscores the Government's commitment to positioning the UK as a leader on clean energy production. For DEFRA, despite reductions in both its capital and departmental budgets, significant investments are being made to strengthen climate resilience and protect natural ecosystems. Significant additional funding which will be allocated to the clean energy mission, is set to be announced in the Government's upcoming Industrial Strategy. The Government's Clean Energy Industries and Advanced Manufacturing sector plans again highlights its ambition to capture benefits from the industries pushing towards net zero targets.

Summary of key announcements (cont.)

Science & technology

- £1.2 billion will be committed to the Department for Science, Innovation and Technology (DSIT) over the Spending Review period
- R&D funding will reach a record £22 billion per year by the end of the Spending Review
- There will be a £2 billion investment in AI initiatives, supporting homegrown innovation

The Spending Review puts science, technology, and innovation at the centre of the UK's economic strategy. The Chancellor announced further investment in core infrastructure and an ongoing programme of digital transformation and R&D, as well as major investment in AI to signal a clear ambition to lead in high-growth, high-tech sectors. DSIT received an uplift to drive digital modernisation across healthcare, public services, and data infrastructure, while increased support for life sciences and health data research reinforces the UK's position in global biomedical innovation.

Transport

- Department for Transport's (DfT) annual expenditure funding will rise to £31.5 billion in 2028-29, including HS2
- £15.6 billion in total will go to new Transport for City Regions (TCR) settlements by 2031-32
- £2.2 billion of funding will go to Transport for London's capital renewals programme

The transport sector as a whole has benefitted from several new investments. Star of the show is the £15.6 billion teased ahead of the Spending Review which will be spent by 2031-32 on long-term transport infrastructure projects outside London, via Transport for City Regions settlements. London wasn't forgotten, with a four-year settlement confirmed with Transport for London (TfL), confirming £2 billion to be spent on TfL's capital renewals programme. Funding was also ringfenced to maintain and improve roads and bus services.

Education & skills

- There will be a £2 billion increase in the school budget over the Spending Review period, ensuring an average real terms growth of 1.1% per pupil annually
- £1.3 million will be allocated to provide 16–19-year-olds with access to high-quality training opportunities
- Measures from the Immigration White Paper will aim to reduce reliance on overseas labour by upskilling the domestic workforce

The increase in the schools budget, alongside efforts to recruit 6,500 additional teachers, will improve the quality of education, ensuring that students benefit from better resources and teaching. The focus on 16-19 year-olds will help address skills shortages and better prepare young people for the workforce. Additionally, the focus on upskilling the domestic workforce is expected to create a more self-sufficient and highly skilled labour pool, further strengthening industries across the UK.

Summary of key announcements (cont.)

Health

- The NHS in England will receive 3.0% real terms growth in day-to-day spending (£226 billion) across the Spending Review period
- The Department of Health and Social Care's (DHSC) capital budget will increase by £2.3 billion in real terms by 2029/30, compared to 2023/24
- £29 billion has been committed in annual funding for the NHS, with up to £10 billion to be invested in NHS technology and digital transformation

The Government is investing in the digitalisation of the NHS, with investment committed to reform the NHS app into a platform enabling patients to manage medicines and prescriptions, receive NHS communications securely and increase their access to medical services. Reeves pledged to deliver 700,000 additional urgent NHS dental appointments each year during the Spending Review period, recruit 8,500 more mental health staff by the end of the Parliament and expand GP training to strengthen frontline treatment.

Defence

- Defence spending will rise to 2.6% of GDP by 2027, and 3% in the next parliament, funded partly by reductions in overseas aid
- There will be a £11 billion increase in defence funding, plus £600 million for intelligence and security agencies

Following the publication of the Strategic Defence Review, there is increased investment aimed at boosting both national security and economic growth. Major spending commitments include £15 billion for nuclear deterrence, £6 billion for munitions, and £7 billion to renew military accommodation, alongside funding for cutting-edge technologies. Programmes such as Ajax and the Clyde Naval Base redevelopment underline the regional impact, supporting jobs across the UK. The forthcoming Defence Investment Plan in the autumn will set out further detail.

Cultural and creative industries

- The Department for Digital, Culture, Media & Sport's (DCMS) annual capital spending budget will be cut by 2.8%
- The Department will deliver at least 5% savings and efficiencies over Phase 2 of the Spending Review period

By directing funding towards innovation, the Government aims to reaffirm the UK's creative sector as a global leader. DCMS will allocate £2.9 billion across its capital programme to modernise and safeguard the country's cultural and heritage institutions, benefitting key national organisations such as the National Museums, Galleries, and bodies like Arts Council England. The Spending Review also aims to deliver major international sporting events, including the recent announcement to host the Women's Rugby World Cup this summer, as well as preparations for the Grand Départ of the Tour de France in 2027 - events that are key in enhancing the UK's global reputation.

Insights from our network

Commenting on what the Spending Review means for business investment, John Alty, former Permanent Secretary at the Department for International Trade (DIT) & Senior Advisor at Pagefield:

The spending review's most eye-catching opportunities for business lie in the increased capital spend announced by the Chancellor - £113bn to be exact.

We already knew this after last year's budget but the Spending Review has started to put flesh on the bones. This will be good news for a number of sectors, especially in manufacturing and construction.

> **"There is a focus on ensuring the benefits of this investment are spread around the country, with a push to delegate more decision making to regions and city mayors."**
> John Alty, former Permanent Secretary at DIT & Senior Advisor at Pagefield

The defence sector is a clear winner from the review. Major new projects have also been announced in the energy sector, in particular the nuclear projects at Sizewell C and the first small modular reactors (SMRs) to be built by Rolls Royce, which could be critical for future infrastructure such as data centres.

On housebuilding, the announcement of £39bn to be spent on social housing over the next 10 years provides a longer term commitment for the sector. The Government also pre announced several transport projects across the Midlands, North and West Country, which will provide opportunities for the tram, train and bus sectors. Finally, on the capital side, there are additional commitments to fund science and innovation. Throughout all of this, there is a focus on ensuring the benefits of this investment are spread around the country, with a push to delegate more decision making to regions and city mayors.

These spending plans have to be looked at alongside other policies, notably in the areas of regulation and skills. Some additional answers should come from the Government's Industrial Strategy which is designed to bring together different policies which support the growth and competitiveness of key areas of economic activity.

What are the potential catches here? First, additional borrowing, whilst it may be permitted under the fiscal rules, will still incur repayment costs for the public finances, so it will be essential that projects deliver the economic benefits they claim.

Secondly, these are mostly projects with long term payback. For instance some of the major individual projects like Sizewell C will take at least 10 years to come on stream.

Lastly, the overall economic and fiscal picture depends on a myriad of other factors, not least international disruption caused by President Trump's tariff announcements. If taxes have to rise significantly in the autumn, the sunlit uplands of the late 2020s could look some way off.

Commenting on what the Spending Review means for business sentiment, Sara Rajeswaran has seen both sides of the coin - as Chief of Staff at Aviva plc and as Special Advisor in the Department for Environment, Food and Rural Affairs (DEFRA):

Choices, choices, choices...The old adage is that "to govern is to choose" and Rachel Reeves chose to put that message front and centre of her Spending Review.

After her early, fateful, choices as Chancellor, this Spending Review was a chance to reset the narrative and define what makes this Labour Government tick. Indeed, that choice is at the heart of any Spending Review – you cannot hide behind one or two big policies when you are setting a multi-year spending envelope for every government department.

> **"Robbing Peter to pay Paul is not a long-term defence and security strategy."**
> Sara Rajeswaran, Chief of Staff at Aviva plc

So, what to make of the Chancellor's choices? As trailed, housing was the big winner, with money too for the NHS, for schools and for areas outside London (with a long overdue uplift for Wales). But, crucially, this was not as much as any of the sectors had asked for. This is unsurprising given the anemic growth of the last year, exacerbated by the Chancellor's first Budget, which has likely not raised as much in tax or waste cutting as promised.

In a nod to both the risk from Reform and the wider geopolitical outlook, there was also the well-trailed increase in the defence budget. However the corresponding cut to the Foreign Office budget, larger than just the cut in foreign aid, will likely prove misjudged. It is widely known that, whilst they don't always see eye to eye on the details, the FCDO and MoD are two sides of the same coin which upholds national security. Robbing Peter to pay Paul is not a long-term defence and security strategy.

And what about business? Well, if you work in nuclear or infrastructure, there is good news. If you're a supplier to the Home Office, Defra or Cabinet Office, you might want to check your contract terms and retender dates. But, the bigger signals for business in a Spending Review lie between the lines – they tell you which government policies are likely to deliver (because they are funded) and, crucially, they send a signal about what may be coming down the line in the next Budget. The Chancellor has promised no more tax increases on business. Yet this Spending Review has shown how narrow her wiggle room is to fund essential services and policies which will deliver on Labour's mission(s).

In opposition, Rachel Reeves used to talk about funding things through "growth". Now, she has found out that growth is not a funding stream but the result of policies which drive growth. So, the Chancellor's message is now about "renewal". And this Spending Review implies that renewal is only partially paid for. Relaxing the fiscal rules to allow for more local spending is a great first step; but what then? She may have made some choices, but hard choices remain in the Chancellor's in-tray. And eyes now turn to her next move.

Insights from our network (cont.)

Commenting on what the Spending Review says about government priorities, Patrick Diamond, Professor of Public Policy in the School of Politics and International Relations, Queen Mary, University of London & Senior Advisor at Pagefield:

After enduring months of political turbulence, the Chancellor, Rachel Reeves, needed this Spending Review to restore her waning authority.

After complaints from businesses that tax hikes and new regulations were suppressing growth, Reeves had to execute another painful U-turn, restoring winter fuel payments to pensioners. The blunder cost the Chancellor support among Labour MPs, while adding to speculation about further tax rises in the Autumn Budget.

For a Chancellor, spending reviews are nonetheless an unrivalled opportunity to underline the difference a Labour government makes, while establishing clear 'dividing lines' with the opposition ahead of the next election.

The large spending rises committed to the NHS will reassure anxious backbenchers that the Starmer Government can bring down waiting lists. £39 billion earmarked for social housing over the next decade is another pledge likely to enthuse the party, resonating with younger voters shut out of the housing market.

As ever though, it is vital to look beneath the headlines. In reality, even after today's announcement, many departments will suffer real terms cuts in their budgets at a time of rising cost pressures. Criminal justice and local government are already on their knees.

> **"Whether this adds up to a coherent growth strategy given the headwinds in the global economy and Trump's tariffs is questionable."**
> Patrick Diamond, Professor of Public Policy in the School of Politics and International Relations, Queen Mary, University of London & Senior Advisor at Pagefield

Another issue is how much difference extra resources will make. Does the Government have a robust plan to ensure that money achieves tangible improvements in public services? The danger is too many voters believe additional money is wasted.

And there is the question of growth, ostensibly the Number 1 mission of this government. Reeves pledged to use public investment to drive innovation. The commitment of £113 billion infrastructure spending to the North of England, particularly improvements to rail and bus services, will be welcomed.

Yet whether this adds up to a UK coherent growth strategy given the headwinds in the global economy and Trump's tariffs is questionable. The Mayor of London, Sadiq Khan, expressed concern that the Spending Review largely bypasses the capital, with plans to extend the Bakerloo Line and Docklands Light Railway rejected by the Treasury (although the Chancellor did announce a four year funding settlement for Transport for London). Yet London remains the growth engine of the UK. Rising prosperity will be hard to achieve without unleashing its economic potential.

Insights from our network (cont.)

Commenting on the impact of the defence settlement, Professor John Louth, former Director at the Royal United Services Institute for Defence and Security Studies (RUSI) & Senior Advisor at Pagefield:

The Chancellor has confirmed the planned uplift in budgets for Defence to meet the self-imposed target of 2.5 percent of GDP. Clearly, this is welcomed across the sector but there are some glitches which a thorough look at the data can expose.

Much of the additional money – perhaps as much as two thirds of it – merely buys out the unfunded risks and uncertainties contained within the current Equipment Plan. Away from capital expenditure, payroll and pensions will grow with the delta of the £6.4 billion left to fund uplifts in missiles, munitions and ordinance as the UK replaces what has been, and will continue to be, consumed by our support to Ukraine. The new money, therefore, rather than being transformative as claimed, is merely allowing the armed forces to tread water.

> **"The Spending Review did not really articulate a "programmatic" choice for defence other than saying the UK values it and will spend quite a bit more money on it."**
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> Professor John Louth, former Director at RUSI & Senior Advisor at Pagefield

The ambition contained in the recent Strategic Defence Review was a recapitalisation of UK defence, with a NATO first approach to interdict Russian aggression in Europe and a partnered approach through AUKUS to counter a more assertive China in the Indo-Pacific. These missions require differing force structures and a strategic reassessment of budgetary priorities. This won't happen until work is completed on the forthcoming Equipment Plan which will take account of the Ministry of Defence's investment priorities and technology strategy. Industry is unlikely to see a summary of this work until the autumn. We may see current programmes significantly re-shaped, or even scrapped, to make headroom for disruptive, technology-rich, emerging capabilities and intelligent (perhaps, swarming) uncrewed assets. No sensible person believes that the Equipment Plan at the end of this Parliament will look the same as that of 2024. Oddly, therefore, the Spending Review, the budget and Strategic Defence Review did not really articulate a "programmatic" choice for defence other than saying the UK values it and will spend quite a bit more money on it.

Before pledging the 2.5 percent GDP target, once more at the launch of the Strategic Defence Review, the Prime Minister knew that the NATO Secretary General and US would be calling for 5 percent of GDP to be spent by (especially European) NATO nations. At the forthcoming NATO summit, I wonder whether the Government will pledge 3.5 percent on warfighting capabilities, legitimising tax rises in the autumn. This would also have the benefit of using new money to fund new capabilities without having to take too many difficult decisions with the Equipment Plan.

Links to key documents

- Spending Review 2025 in full - here
- Supporting documents for Spending Review 2025 - here
- The Chancellor’s statement in full - here