Pagefield

Budget 2025

SUMMARY & INSIGHTS FROM PAGEFIELD

Foreword – Oliver Foster, Chief Executive, Pagefield

This Budget will go down in history not just because it was the most pre-briefed and leaked in history, but also because it confirmed that the UK's tax burden will reach its highest ever level. Is that because the Government has decided to spend big on incentivising entrepreneurialism and backing the UK's major growth-generating sectors?

No, sadly quite the opposite.

There was little comfort in this Budget for business, other than a huge sigh of relief that the Chancellor didn't come for a second round of major tax hikes on employers.

And so what is all that additional tax money for? Essentially to placate the Government's own backbenches who are now running the show, seeking and securing almost every one of their demands in the lead-up to the budget, the most high profile of which was the U-turn on the two-child policy.

The Chancellor will be pleased that she has put smiles on the faces of her backbenchers, and it would be churlish not to recognise the fact that the financial markets seemed broadly unmoved by the whole thing – a sadly important milestone in any Budget nowadays (though arguably the markets had already moved on from this Budget weeks ago when it was all pre-briefed).

Credit is also due for honouring the Labour Party's self-imposed fiscal rules, a move that was critical for the markets to maintain confidence in the Government's economic competence – and for the business community, both domestic and international, to feel more at ease about this government having a grip on the public finances.

More broadly, what this Budget seems to have done is entrench a growing feeling of division in the country – not just on ideological and political grounds, but on what is and isn't fair in the UK's ever-growing tax code. Those with the broadest of broad shoulders appear to be concluding that the UK is no longer a fair place for them to pay taxes in; whilst at the other end of the spectrum, Labour backbenchers (and indeed government ministers) appear to be concluding that those people still aren't being taxed anywhere near enough. Both can't be right, and only time will tell which side the wider British public supports.

In this briefing note, we break down the key announcements made by the Chancellor, share insights from our Senior Advisors - including those who have previously worked in the heart of government - provide reactions from influential figures in the political, media and economic arenas, and outline links to key documents for further reading.

Summary of economic outlook

Key Takeaways

- **The Chancellor introduced tax-raising measures totalling £26bn by the end of this Parliament, raising the tax burden to a post-war record of 38% of GDP.**
- **Inflation is expected to peak at 3.5% in 2025, before falling back to the Government target of 2% in 2027**
- **Government borrowing is forecast to reach £138.3bn in 2025-26, falling incrementally to £67.2bn by 2030-31**
- **Economic growth forecasts remain largely unchanged, anticipated to hold at 1.5% until 2030**

At a glance: The state of the UK economy

The Office for Budget Responsibility (OBR) became the unexpected - and unwelcome - star of the show ahead of the Autumn Budget when highly sensitive economic analysis was inadvertently published almost an hour before the Chancellor stood up to deliver her fiscal statement.

The OBR revised up real GDP growth for 2025 to 1.5%, an increase of 0.5% on initial estimates in March. The uplift largely reflects stronger than anticipated first quarter growth in 2025, driven in part by the temporary frontloading of property transactions as households sought to avoid changes to Stamp Duty thresholds introduced in April. Growth is expected to stay at the level for the rest of the forecast (2025-30).

The independent fiscal watchdog upgraded earnings growth and inflation in the near-term. While one-off cost of living measures are forecast to reduce inflation by approximately a third of a percent next year, it is forecast to remain half a percentage point higher than originally forecast in March. Inflation is expected to peak at 3.5% this year, before falling back to the Government target of 2% in 2027.

Fiscal Outlook

Beyond the spending announcement made by the Chancellor today, the OBR indicated that Government spending was set to rise by £22bn by 2029-30. The projected increase is a consequence of increases in welfare spending, inflation, debt interest and local authority spending on SEND provision.

Rachel Reeves is set to meet her fiscal rules by achieving £22bn in fiscal headroom by current 2029-30 - an improvement on the 2024 figure but remaining low by historical standards. The increased fiscal flexibility has been created by an additional £26bn in tax revenues forecast to be raised by 2029-30 as a consequence of the newly announced measures.

The OBR now puts the probability of the Chancellor meeting her fiscal balance rules at 59% - an increase on their 54% prediction in March. Public finances remain highly exposed to external shocks including unanticipated increases in interest rates, stubbornly weak productivity, geopolitical shocks, and as yet unfunded expected future defence spending commitments totalling £32bn.

In total, tax will rise to 38% of GDP by 2029-30, an increase of 5% compared to pre-pandemic levels. Two-thirds of this increase is driven by increases in personal taxation, most significantly the freezing of tax thresholds and increases to employer National Insurance Contributions (NICs).

Insights from Pagefield's Senior Advisors

John Alty, former Permanent Secretary at the Department for International Trade (DIT):

After last year's Budget, businesses have been feeling much the same way, after being stung with a set of nasty tax surprises, especially on NICs. So this time there was a premium for the Chancellor on not producing any further shocks, restoring some confidence that business growth was a priority. The various kites flown before the Budget had not exactly reassured a number of sectors, so the stakes could hardly have been higher.

The main tax measures announced today had all been more or less trailed in advance – freezing of personal tax thresholds, and the addition of NIC to salary sacrifice pension contributions, together with assorted other rises. In addition, the announcement of a 4.1% increase in the Living Wage.

> **"It's one for you, 19 for me" says the taxman in The Beatles' song of that name, railing against high taxes under a previous Labour Government!**
>
> John Alty, Senior Advisor at Pagefield

They are accompanied by higher borrowing, up by some £21bn in 2025/6 compared with the forecast last March. I would expect business and the markets to be concerned that the overall burden of taxation is rising further, even if the increased fiscal headroom should avoid an immediate market reaction.
Tax rates alone are not the only issue for business. Business organisations like the CBI and BCC put in wide-ranging Budget submissions, covering areas such as infrastructure, exports, workforce development, technology support and competitiveness.

Recently the Government has been on a business charm offensive with measures such as more help for energy intensive users with electricity bills, decisions on Gatwick and Heathrow expansions, and reassurance to banks that there would be no further windfall tax. The Budget contained some individual nuggets: the City is pleased with the three year holiday on stamp duty for purchases of shares, though nothing was done in relation to house sales. Changes have been made to incentivise investment into scaling small companies. There was good news for some high street businesses with a reduction in business rates (to be offset by increases on higher value premises); and the abolition of the exemption from import taxes for small parcels, often containing clothing direct form China and other East Asian countries. Whether consumers will be so happy is another matter.

The business reaction so far is, however, decidedly glass half empty. Whilst welcoming continued commitment to existing capital expenditure, innovation support and the corporate tax road map, CBI CEO Rain Newton-Smith's headline was that "A scattergun approach to tax risks leaving the economy stuck in neutral"; continuing "business will .. rue a missed opportunity to press on with much needed tax reform"; and her final salvo calling for "a landing zone on the Employment Rights Bill that works for everyone."

Whatever the specifics of individual Budget measures for one interest group or sector, my view is that the longer term success of the Budget will be judged on the overarching approach it signals to growing the UK economy. As the Government acknowledges, this is what will make people feel better off over time. Annual growth over the next few years is expected by the OBR to be 1.5%, some 0.3% lower than in March. So we should be asking - is borrowing under control? Is the Budget settlement resilient against future shocks? Are tax revenues being spent in ways which will enhance the economy's long term growth? Is there a coherent approach to regulation and markets which will encourage innovation and enterprise? When we look back in six months, it is answers to these questions, I suggest, which will determine the verdict of business and the markets on its success.

Summary of announcements

Headline Announcements

- A 3-year extension to freezes on Income Tax and NICs thresholds, maintaining current levels until 2031
- Employee Salary Sacrifice (ESS) schemes capped at £2,000 per year, expected to raise an additional £4.7bn in National Insurance Contributions (NICs)
- Scrapping of the two-child benefit cap, estimated to cost £3bn per year by 2029-30 and lift 450,000 children out of poverty
- No major commitment to cut public spending or welfare reform

Following months of speculation, the Chancellor unveiled a 'smorgasbord' fiscal statement of tax rises and spending measures intended to reassure financial markets and shore up public finances. Despite extensive briefing in recent weeks that Rachel Reeves was actively considering a manifesto-busting hike in Income Tax, her second Budget placed particular emphasis on support for those struggling with the cost of living crisis.

Tax

At the end of a challenging year for the Chancellor - in which her ironclad fiscal rules were repeatedly undermined by policy reversals, increased borrowing costs, high inflation and low growth - this Budget sought to steady the ship. Under mounting pressure to not break last year's manifesto commitment not to increase Income Tax, National Insurance, VAT or Corporation Tax, Rachel Reeves opted spread the fiscal burden and "ask ordinary people to pay a little bit more".

- **Three-year extension to the freeze in personal income tax thresholds**
  - Equivalent NICs thresholds for employees and self-employed individuals also to be frozen
  - Estimated to raise £8 billion in 2029-30 and £13 billion in 2030-31

- **Income tax rates on property, savings and dividends will increase by 2 percentage points.**
  - The higher rates will come into effect from April 2026 for dividends and April 2027 for property and savings.

- **Salary-sacrificed pension contributions above £2,000 per year will no longer be exempt from National Insurance, coming into effect April 2029.**
  - This is estimated to raise £4.7 billion in 2029-30.

- **High Value Council Tax Surcharge ('Mansion tax')**
  - £2,500 p/a for properties worth more than £2m, £7,500 p/a for properties worth more than £5m, beginning 2028-29.
  - The Government expects this to raise over £400m by 2031 and will be charged on fewer than the top 1% of properties.

- **Electric Vehicle Excise Duty (eVED)**
  - To come into effect April 2028, which will charge 3p per mile for electric cars and 1.5p for plug-in hybrids. This is expected to raise £1.85bn by 2030/31.

- **Soft Drink Industry Levy**
  - Reduction of the levy at which it applies from 5g to 4.5g of sugar per 100ml
  - Extension of the levy to include milk-based and milk substitute drinks

Summary of announcements

- **Alcohol Duty and Tobacco Duty will increase in line with inflation**

- **Gambling Duty Rises to raise £1.1bn**
  - Online Duty to rise from 31% to 40%; Online sports betting will increase from 15% to 25%
  - In person and horse betting will be exempt from the changes

Public Spending

In a move welcomed by backbench Labour colleagues, the Chancellor announced £11bn in new spending commitments. Notable by its absence was any mention of public spending cuts and reforms to the welfare system - both issues with significant fiscal implications that have proven particularly challenging for this Government to navigate with their own MPs.

- **Removal of the two-child benefit cap from April 2026**
  - Forecasted to cost £3 billion per year by 2029-30

- **Previous cuts to welfare have been scrapped entirely**
  - Welfare support will increase in line with inflation

- **Pension Triple Lock will be maintained as the state pension will increase by 4.8% from April 2026.**

Policy Priorities

In addition to major tax and spend announcements, the Chancellor introduced several cost-of-living support packages alongside measures intended to encourage investment and drive economic growth:

- **The Individual Savings Account (ISA) cash limit will be set at £12,000 for those under 65, within the overall annual ISA limit of £20,000**

- **National Living & Minimum Wage Increase**
  - From 1 April 2026, the National Living Wage will increase by 4.1% to £12.71 per hour.
  - The National Minimum Wage for 18-20 year olds will also increase by 8.5% to £10.85 per hour and for 16-17 year olds and apprentices by 6.0% to £8.00 per hour.

- **Skills and Apprenticeships**
  - Guaranteed 6-month work placement for every 18-21 year old who has been on Universal Credit and seeking employment for 18 months
  - Fully funded apprenticeships for those under 25

- **Previously announced £120bn capital spending budget has been maintained**

Insights from Pagefield's Senior Advisors

Patrick Diamond, Professor of Public Policy in the School of Politics and International Relations, Queen Mary, University of London, and former Head of Policy Planning in No.10:

The political hype surrounding the 2025 budget has been unprecedented, fuelled by leaking and briefing of various measures to media outlets over recent months. In the background, the impression given has been of chaos and instability presided over by a Chancellor no longer in control of events, with businesses and consumers postponing investment and purchasing decisions, a further drag on anaemic economic growth.

The shambolic impression was affirmed when the OBR published the budget details prematurely on its website before Rachel Reeves had even got to her feet in the House of Commons.

The main conclusion is that this was an 'Old' Labour budget which raises taxes to levels not seen in Britain since the 1970s. In fact, taxes will rise to their highest level ever as a share of national income. The total increase in taxes amounts to £26 billion: there are an array of tax measures, but freezing income tax thresholds raises £12.7 billion alone, a burden borne predominantly by 'working people'. The size of the British state has increased by five per cent of national income over the last decade alone, a dramatic rise in historical terms.

> **"the Chancellor will certainly be pleased by the reaction to her package in the financial markets. One bond market investor responded that on the basis of the measures outlined, 'We feel comfortable to come back to the UK market and add gilt exposure'. Fears of gilt market volatility have certainly dissipated."**
>
> Patrick Diamond, Senior Advisor at Pagefield

It is clear that taxes are being raised in part to increase welfare benefits by £10 billion, notably to deliver the abolition of the two-child limit, alongside a further hike in the national minimum wage. Those decisions were warmly cheered by Labour MPs. Keir Starmer and Rachel Reeves have evidently decided to embrace a traditional tax and spend agenda enabling them to draw sharp political dividing lines with their opponents, calculating that average voters care more about avoiding a further round of public sector austerity than rises in personal taxation. Time will tell if that political instinct is proved correct.

There are other budget proposals that will materially affect investment decisions. In the round, the concern will be the general climate for the private sector in the UK given additional taxes on pensions, savings and dividends. To many in the business community, this was a sticking plaster budget; investors will ask where is the long-term strategy to improve economic growth? The OBR has confirmed the sluggish outlook in the medium-term. There were few concrete growth-enhancing measures proposed, aside from limited investment in science and larger budgets for city-region mayors.

That said, some leading City figures have warmly welcomed Reeves' commitment to fiscal and budgetary discipline, while the Chancellor will certainly be pleased by the reaction to her package in the financial markets. One bond market investor responded that on the basis of the measures outlined, 'We feel comfortable to come back to the UK market and add gilt exposure'. Fears of gilt market volatility have certainly dissipated.

The difficulty for the Conservatives is that while they may feel justified in attacking the sharp rise in taxes that occurred since Reeves became Chancellor, particularly freezing tax thresholds which arguably breaches the commitment in Labour's manifesto, the UK state is bigger and taxes a good deal higher in large part because of decisions taken by previous Tory governments after 2010. The risk for Kemi Badenoch is that her critique of government policy falls on deaf ears as a result.

Political Reactions

Kemi Badenoch MP, Leader of the Opposition

"This Budget increases benefits for 560,000 families by an average of £5,000 ... This benefits street Budget is hiking taxes on workers, pensioners and savers to pay for handouts to keep their backbenchers quiet ... "Labour are hiking taxes to pay for welfare. This is a Budget for benefits, paid for by working people."

Nigel Farage MP, Leader of Reform UK

"There isn't really much truth being spoken about how much trouble we're in. But there was one absolute truth that came from Rachel Reeves this morning, and that was that this Government had a very bad inheritance. This really was the 'Alice through the looking glass' Budget, with a healthy dose of socialism thrown in. They literally talked repeatedly about cutting debt and yet even in their first year they've borrowed £21billion more than they were forecast to borrow before they've even started."

Sir Ed Davey MP, Leader of the Liberal Democrats

"This was a botched Budget delivered by a Chancellor who has diagnosed the disease, but refuses to administer the cure. This Government has chosen to reject the single biggest thing it could do to turbocharge economic growth and repair the £90 billion Brexit black hole. Labour was elected on a promise of tackling the cost of living crisis and growing the economy - and this is the second budget where it's failed to do either. For millions of people struggling with higher bills, all this budget really offers is higher taxes."

Zak Polanski AM, Leader of the Green Party

"The 50 wealthiest families own more wealth than the bottom 50% of the population. How can this Labour Government say this is a "cost of living" budget and refuse to tax the rich? They care about protecting power and wealth. And cost of living is a buzz phrase for them. Dire."

Rhun ap Iorwerth, Leader of Plaid Cymru

"On taxation, Labour's pick-and-mix approach is dishonest and chaotic. Rather than targeting the wealthiest and the big banks through wealth taxes, Rachel Reeves has chosen to freeze income tax thresholds for those in work, a dishonest and unfair wait to raise further revenue."

Stephen Flynn MP, Leader of the SNP in Westminster

"It's been chaos for the last few weeks. It was chaos in the hour before the Budget as we were all given the statement by the OBR. And then it was chaos during the Budget as the Chancellor told the public that growth is downgraded, living standards are rising slower than expected and energy bills come April will be £400 higher than the Labour Party promised before the election. When the SNP win the elections next year, they'll both be out of the job."

Insights from Pagefield's Senior Advisors

Giles Winn, former Special Advisor to the Chancellor of the Exchequer & Specialist Partner at Pagefield:

This was a Budget about political survival after a torrid few months for the Government - and it met that test. The Chancellor delivered what appears, for now at least, to be a package to satisfy two key constituencies - the bond markets and the Parliamentary Labour Party. She did that by more than doubling fiscal headroom (though still below historical norms) and meeting calls from her Parliamentary colleagues for increases in welfare spending.

The Chancellor plans to fund this with taxes on working people, the wealthy and businesses, taking the overall tax burden to an all-time high. However, she gave no coherent or convincing story to explain why. Given much of this burden falls towards the end of this Parliament, arguments that tax rises are needed 'to pay for 14 years of Conservative rule' will be wearing even thinner by then.

> **"The Government may have bought itself time and stability in the immediate term, but it's paid the price with diminished control over its own course."**
> Giles Winn, Specialist Partner at Pagefield

With significant increases in welfare spending (the OBR say it will be £16bn higher by 2029-30), the Chancellor has effectively ceded partial control over fiscal policy to the Labour backbenches, setting a precedent that will be difficult to reverse.

This is significant for public policy. The Government may have bought itself time and stability in the immediate term, but it's paid the price with diminished control over its own course. There is a political tension here with another major constituency – the public – since some of the measures championed by Labour backbenchers (e.g. the two-child benefit cap) do not enjoy widespread public support.

It is also worth pointing out that tests remain in the very short term, since the large number of small to medium measures increases the risk of something unravelling in the coming days. The Chancellor's team won't fully relax until they've gotten through this Sunday's papers relatively unscathed.

After the Parliamentary Labour Party, the markets and the public, the other key constituency is business – but their response will not make for happy reading in Number 11. The CBI say that "business investment and profitability will be weaker as a result of decisions today" while the FSB say Reeves' hikes to dividend tax make "investing in your own business one of the least tax-friendly things you can do with your money". This marks a continued departure from the charm offensive that took place in the lead up to the General Election.

Politically, this Budget set a clearer dividing line with the Conservatives – with Reeves choosing to increase taxes to fund more publicly spending (mostly on welfare). That was met with a punchy and impressive response from Kemi Badenoch, which will have satisfied her own backbenchers.

Media Reaction

This budget may end up dooming Labour's election chances' – Steven Swinford, Political Editor & Oliver Wright, Policy Editor, The Times

"The "fair and necessary" choices in her budget are aimed predominantly at the concerns and interests of Labour MPs. Given that Reeves and Sir Keir Starmer are fighting for their political survival, that is perhaps not surprising, but there is a gulf between the relatively narrow interests of 405 Labour MPs and voters more broadly."

'Labour MPs may like Reeves's budget - but her story is only part of the picture' – Sam Coates, Deputy Political Editor, Sky News

"Rachel Reeves told MPs that this was a budget for living standards, the NHS, and to reduce borrowing. Yet the OBR document reveals that living standards will now rise at a slower rate for most of the parliament and "well below" the 1% a year in the last decade."

"The question is whether the budget - which has become existential for Rachel Reeves and Sir Keir Starmer - will do its job for the audiences that matter most to their survival."

Rachel Reeves has condemned us to a doom loop of ever higher taxes, debt and welfare spending. All the experts are saying the same thing about her cruel Budget - and I fear there is worse to come – Alex Brummer, City Editor, Daily Mail

"In a shockingly brazen breach of trust, she is once again plundering our pockets for an extra £26 billion by 2029-2030, with no fewer than 88 separate tax-raising or spending measures. This is the largest tax burden in the history of our country – even worse than during wartime. The vast majority of it is being taken from people working hard in the private sector – to lavish on an ever-ballooning welfare bill."

"Punishing mansion-owners will delight Labour's baying backbenchers. But just like last year's blitz on wealth, in the shape of higher inheritance and capital gains taxes, it represents another penalty on aspiration which will drive ever more of the nation's strivers offshore."

A Budget that borrows to spend on political priorities in the next year or so, and then taxes hard to get borrowing down in the final years of the decade. - Faisal Islam, Economics Editor, BBC News

"This is about buying breathing space, politically and economically. The two factors are inseparable. By borrowing to spend, the chancellor and prime minister have shored up their immediate position in parliament and it appears to put to bed the shocking doubts about passing their budgets.

The Labour left is getting behind this Budget as it spends to help alleviate child poverty, to lower energy bills, and to freeze rail fares and prescriptions. This is important for the financial markets which need to know, whether they love the policies or not, that the government has the votes to pass its Budget.

By subsequently taxing hard to double the amount of breathing space or headroom to £22bn a year around her borrowing targets, Reeves gets space from the uncomfortable glare of the markets.

Industry & Policy Reactions

Confederation of British Industry (CBI)

"The government's growth mission is currently stalled. While the Chancellor has succeeded in creating the fiscal headroom she needed, a scattergun approach to tax risks leaving the economy stuck in neutral

With business investment and profitability weaker as a result of these decisions, the government must now double-down on leveraging the experience and expertise of enterprise to find the step-change in economic growth that has proven elusive. One of the biggest things the government can do right now is get round the table with business to find a landing zone on the Employment Rights Bill that works for everyone."

Institute of Directors (IOD)

"We welcome the more than doubling of the headroom against the fiscal rules. This will help calm the frenzy of speculation which has surrounded fiscal events. The decision to only assess performance against the fiscal rules once a year may also contribute to greater stability in policymaking. But the leaking of policy choices in the run-up to this Budget is of grave concern. It has contributed to substantial declines in business and consumer confidence, with real impacts on economic activity."

British Chambers of Commerce (BCC)

"The Chancellor has listened to our calls and made the right choice by not piling major new tax rises on businesses' shoulders, which will calm nerves. Firms will be pleased to see the commitment to transport and infrastructure, and critically the funding for planners the BCC has called for. It is now vital that the Government delivers on these promises.

"While most businesses will weather this new financial landscape, they are still being squeezed by rising costs. Many will be disappointed that this Budget did not provide a more compelling blueprint to deliver transformational growth."

Federation of Small Businesses (FSB)

"We need the Government to follow this Budget through with serious, pro-growth measures that restore the confidence small businesses need to grow, invest and hire. While the Chancellor has taken important steps today on SME training and the new jobs guarantee scheme, ministers must now bring forward pro-business, pro-growth policies. Otherwise, we'll be back at square one, stuck in the same rut we were in last year."

Trades Union Congress (TUC)

"14 years of Conservative government took a wrecking ball to living standards. This government is starting to turn the page on that failed Tory era. But fixing the mess that the Tories left will take time. We now need to see a relentless focus on affordability and making work pay beyond this Budget."

Industry & Policy Reactions

The Institute for Public Policy Research (IPPR)

"The Chancellor has made good calls on gambling tax, taxing income from wealth and work more equally, a tax on high value properties and ending the two-child limit, which will pull 450,000 children out of poverty. She has also protected vital services from cuts and more than doubled fiscal headroom against her fiscal rules and cut bills, as IPPR has urged.

"She faced a challenging fiscal context. On the back of an OBR downgrade, the government needed to stabilise public finances, drive higher and fairer economic growth, relieve pressure on working families, all while raising revenues to protect public services. This Budget made real progress towards achieving these goals.

"But after a decade of wage stagnation the move to cut energy bills must be just the start of action to tackle the cost-of-living crisis. We need a relentless war on bills if working people are to feel better by the end of the parliament."

Institute for Fiscal Studies (IFS)

One year on from her first Budget, Rachel Reeves is choosing to spend more and borrow more than she previously said she would. To stress: borrowing will be higher in each of the next three years. Only after that point, from 2029–30, will borrowing be lower than previously planned, due to a set of back-loaded tax rises and promises of spending restraint in the next Spending Review period.