CAVENDISH

2025 Spending Review.

Departmental budgets set for 2026-29

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Here's what you need to know.

The Chancellor has today confirmed spending plans across Government, pledging for total departmental budgets to grow by 2.3% across the Spending Review (SR) period to the end of this Parliament while departments will all make administrative efficiencies.

This is the first Spending Review since 2021 and the first of the Labour Government, following Rachel Reeves' October Budget in 2024 and the Spring Statement in 2025.

In this briefing, we've looked at the full details published by the Treasury following the Chancellor's speech and picked out the key items confirmed to receive additional spending and the consequences for individual departments and areas.

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**I have made my choices.
These are this Government's choices.
These are the British people's choices.**

Chancellor Rachel Reeves

The fiscal and political picture.

The Chancellor has used this Spending Review to signal to voters that the Government is committed to change, and to make them feel that change. However, the question is whether she can both afford it - and deliver it.

The funding announced today was framed by the Chancellor as a payment plan for better outcomes – helping people see a doctor when they need to, security in employment and a roof over their head. 'Renewal' was the buzz word chosen by Number 11. The clear winners today – housing, health, defence and energy – are policy areas that Number 10 and the Treasury have decided will cut through with an electorate that, looking at the polls, is losing faith in the Government they elected by a landslide only last year.

For Labour MPs frustrated with the direction of travel, today's announcements provide some red meat to take back to their constituencies and a tool to declare that austerity has ended and the Government is open to investing again. This follows the volte-face on the Winter Fuel Allowance, which Labour politicians had spent months defending to the press, their voters and their members. The hope for them will be that a change of direction is possible. If not in policy direction, at least in narrative.

The announcements centred by the Chancellor in her speech will sharply contrast with the Departmental Spending Plans set out in the accompanying documents. Many are facing real terms cuts, not only to day-to-day spending but to capital.

Divisions will continue to grow on the Chancellor's self-imposed fiscal rules, with senior figures such as Angela Rayner said to be pushing for tax rises in the October Budget to avoid some of the harder decisions that the Government is currently working through, particularly on welfare.

This week's payroll employment figures show a drop of 280,000 since June 2024, with most of the losses following the increases to employer National Insurance Contributions announced in the last October Budget. Tomorrow will see the publication of the estimated GDP for the UK economy in April 2025, which the Chancellor hopes will back up her approach and show that the Government is cultivating a positive investment atmosphere without the need for higher taxes.

The OBR's latest borrowing figures show that borrowing in the month of April was £1bn higher than the year before, though lower than forecast, and debt as a percentage of GDP rose by 0.7%. To make these Spending Review plans deliverable, with the Chancellor herself acknowledging the need to be reactive and flexible in an uncertain world, decisions may have to be made in the October Budget to look at increased taxation or borrowing if sufficient economic growth does not materialise.

Sectoral impact

Housing and local government.

Delivery

- £39bn will be invested in a successor Affordable Homes Programme over the next 10 years from 2026, with a strong emphasis on social rent, reaching £4bn per year in 2029-2030.
- A ten-year social rent settlement which will be set at Consumer Price Index + 1% from 2026. This will be accompanied by a consultation on rent convergence, which has been a long term ask for the sector following its abolishment in 2015.

Provider funding

- £2.5bn for social housing providers, designed to help investment into new developments along with £4.8bn for financial transactions to be delivered by Homes England to 2030.
- £1bn of new investment to accelerate the remediation of social housing, giving social housing providers equal access to Government funding as private building owners.
- £950m will be invested by the fourth round of the Local Authority Housing fund.

Local Government finance

- Mayors in the North and Midlands will have access to a new Local Growth fund and ten-year capital settlements from 2026-27 to 2035-36.
- London will see the integrated settlement expanded to include the city from 2026-27, with new integrated settlement schemes set for North East, West Yorkshire, South Yorkshire, and Liverpool City Region mayoral authorities from 2026-27.
- Local Government will see its spending power increase by 3.1% between 2023-24 and 2028-29.
- Multiyear allocations will be provided for local authorities and simplification of funding across departments into the upcoming 2026-27 Local Government Finance Settlement.

Departmental spending

- Up until 2029 the Ministry of Housing, Communities and Local Government is estimated to receive investment equivalent to 3.2%. MHCLG committed to 5% savings including cutting 70% of the communications and marketing budget, reduced external legal costs, and abolishing the Office for Local Government.

Sectoral impact

Transport and infrastructure.

Infrastructure

- The 10-Year Infrastructure Strategy confirmed to be announced in June.
- Heathrow Airport third runway expansion to sign up to the UK Steel Charter, with other infrastructure projects to be encouraged to use British steel to support the industry.
- £500m grant to Tata Steel in Port Talbot as part of a £1.25bn transformation deal.

City regions

- New Transport for City Regions (TCR) settlements to give a total of £15.6bn by 2031-32, focusing on city regions, doubling real terms spending by 2029-30 compared to 2024-25.
- The Local Grant will receive £2.3bn in funding which will be allocated to non-TCR areas to support local transport priorities such as buses, trams, and local rail, delivering a fourfold increase in 2029-30 compared to 2024-25.
- National Wealth Fund to deliver up to £27.8bn of capital, with some of this investment being directed into the transport sector.
- Multi-year settlement for Transport for London, providing £2.2bn of funding between 2025-6 and 2029-30 for their capital renewals programme.

Public transport and local authorities

- Provision of £3.5bn for the TransPennine Route Upgrade, and £2.5bn for the delivery of East West Rail.
- Allocation of £616m to local authorities to support the construction and maintenance of walking and cycling infrastructure.£3 bus fare cap to be extended to March 2027.

Decarbonisation

- Allocation of £2.6bn of capital investment to decarbonise transport, between 2026-27 to 2029-30. Of this, £1.4bn will be earmarked for electric vehicles and £400m to support charging infrastructure.
- Sustainable Aviation Fuel production to be supported by expanding the Advanced Fuels Fund through the Spending Review period.
- Commitment to fund research into transport decarbonisation and the development of new sustainable transport technology.

Rail

- Northern Powerhouse Rail approved, with further announcements in the summer.
- Commitment to support the Midlands Rail Hub.
- Wales is set receive £445m to fund railway improvements and expansions over a ten-year period.

Departmental spending

- The Department of Transport will see a 0.4% reduction in spending from 2025-26 to 2028-29, with HS2 spending cut by 9.3%, from £7.8bn to £5.6bn, in the same period. The Department has committed to finding savings of 5%.
- Reduction in DfT's administrative budget of 15% by 2030, totalling £30m in savings.

Sectoral impact

Energy and environment.

Nuclear

- £300m for GB Energy support over the SR period for offshore wind supply chains.
- £14bn for Sizewell C over the SR period.
- £2.5bn for the Small Modular Reactor programmes, with Rolls-Royce as the preferred bidder to partner with Great British Energy – Nuclear.
- £2.5bn for nuclear fusion, with new prototype energy plant in Nottinghamshire.
- £13.9bn CDEL for the Nuclear Decommissioning Authority.

Renewables

- Conformation of up to £80m investment in ports to support offshore wind deployment in Port Talbot.
- £9.4bn for Carbon Capture, Usage and Storage (CCUS) over the SR period.

Decarbonisation and retrofit

- £13.2bn commitment to the Warm Homes Plan, including Barnett consequentials, with further details in October.
- £2.6bn capital investment to decarbonise transport up to 2030, including £1.4bn to support uptake of EVs and £400m to support charging infrastructure.
- Extending the Advanced Fuels Fund through the SR period for Sustainable Aviation Fuel (SAF).
- Carbon Budget and Growth Delivery Plan to be announced in October, including plans to decarbonise industry.

Environmental mitigation

- £4.2bn over three years to build and maintain flood defences.
- £2.3bn for the Farming and Countryside Programme and up to £400m from additional natures schemes. This includes increasing budget in Environmental Land Management schemes to £2bn by 2028-29.

Departmental spending

- Cumulative cuts to Department of Environment, Food and Rural Affairs and Department of Energy Security and Net Zero respective administration budgets of 15% by 2029-30.

Sectoral impact

Defence.

Delivery & funding

- As announced in February the defence sector is set to receive £11bn and spending will rise to 2.6% of UK GDP by April 2027. This includes a £600m investment to the security and intelligence services.
- A Defence Investment Plan will be published later in the year and will provide greater detail.
- £6bn investment in munitions production across the UK.
- Military accommodation will receive £7bn in this Parliament for renewal, including £1.5bn for rapid work.

Departmental spending

- The Ministry of Defence will receive a real term growth rate of 3.6%, £73.5bn, by 2028-29.
- £203 million of technical efficiencies savings are expected to be made by 2028-29.

Sectoral impact

Home affairs and justice.

Border security and asylum

- A further £280m per year for Border Security Command on top of previous announcements.
- End of the use of hotels to house asylum seekers across the UK at the end of this Parliament, saving £1bn per year.
- £200m of transformation funding for the asylum system.

Police and prisons

- More than £2bn will be available for police through a 2.3% spending power per year until 2029 to provide 13,000 more police officers.

Departmental spending

- A further £7bn will be spent on 14,000 on new prison places, with £700m to be invested into the reform and probation system.
- The Home Office budget will decrease by -2.2% in real terms growth by 2029. Savings are expected to come from reducing consulting and digital roles being insourced amounting to £153m.
- The Ministry of Justice will receive a real term growth of 3.1% to 2029. Reductions will be made on back office and using AI on administrative tasks.

Sectoral impact

Health.

Funding

- A £30bn increase in NHS funding, representing a 2.8% real-terms rise. This funding aims to tackle record waiting lists and modernize healthcare.
- An extra £3.6bn for the public health grant to address health inequalities.
- More investment in prevention initiatives, for example, £80m per year for tobacco cessation programmes.

Innovation

- Announced at the weekend, £86bn announced for the Local Innovation Partnership Fund to give Mayoral strategic regions across Greater Manchester, West Midlands, South Yorkshire, Liverpool City Region, the North East and Greater London power to invest money in research and development. One region across Wales, Scotland and Northern Ireland will also receive equivalent funding.
- Investment of up to £10bn in NHS technology and digital transformation by 2028-29, just under 50% increase from 2025-26.

Departmental spending

- The Department of Health and Social Care has planned savings from achieving a 2% productivity over the next three years and reduce the need for agency use for entry level jobs.
- Overall a 20% real term increase will be delivered by the end of the spending review.

Sectoral impact

Welfare, education and skills.

Funding

- £1.2bn a year by the end of the SR period to support training and apprenticeships for young people, including previously announced training and support for construction workers.
- Education will see a real terms increase in capital budgets. The Government is committing £2.4bn per year to the School Rebuilding Programme for the next four years, with plans to extend this investment under the 10-Year Infrastructure Strategy until 2034-35.
- Annual maintenance funding will rise in line with inflation to £2.3bn by 2029-30, marking a £400m increase from 2024-25, for repairs.

Departmental spending

- While the majority of welfare spending falls in AME rather than DEL, the Department for Work and Pensions will see a relatively flat budget over the Spending review period. Outside of the Spending Review, the Chancellor has committed to finding savings in the Department spend on Welfare.
- The Education budget will see a real terms increase in spending over the period, but much of this is likely to be absorbed through pay settlements

Sectoral impact

Digital and tech.

- £2bn investment into “home grown” AI by 2029.
- Up to £27.8 billion capital to be invested through the National Wealth Fund (NWF), prioritising investment into the clean energy, digital and technologies, advanced manufacturing, and transport sectors.
- £22bn per year by the end of this Parliament for research and development as a whole.
- HMRC will receive a further £500mor digital services, with 90% of customer interactions digital self-serve by 2029-30.
- The Department Science, Innovation and Technology will receive a real term growth of 2.8% until 2028-29.

Treasury priorities.

Spending

- Total departmental budgets will grow by 2.3% a year in real terms across the Spending Review period.
- Every department is expected to deliver 5% savings and efficiencies by 2028-29.
- The Office for Value for Money worked with all Departments to create savings and efficiency plans.
- A Growth Mission Fund will be established for local economic growth investing £240m of capital from 2026-27 to 2029 -30. Further detail will be set out in late summer on the fund and application criteria.

Green Book Review

- The findings of the Government's review into the Green Book was also published today.
- As such there will now be 'place-based business cases' which collate projects around the specific needs of a location, ensuring central Government evaluates how different initiatives complement one another.
- In 2026, an updated and simplified Green Book and accompanying business case guidance will be published.
- The use of arbitrary benefit-cost ratios (BCRs) to determine if a project should be funded will be banned.
- Guidance on transformational change within the Green Book will be improved to help public servants better assess the growth potential of major projects.

Impact across the United Kingdom.

Scotland

- The Scottish Government will receive £50.9bn each year including an additional £2.9bn via the Barnett formula.
- £452m for continued delivery of City and Growth Deals.
- Funding is being provided to progress the Acorn carbon capture and storage project near Aberdeen, with a final investment decision is expected later in this Parliament.
- Hydrogen production projects in Cromarty and Whitelee have secured contracts through the first Hydrogen Allocation Round, with eight further Scottish projects shortlisted for awards in early 2026.
- Reaffirmed its commitment to four Investment Zones and Green Freeports in Scotland, including £160m each over 10 years for zones in the North East and Glasgow City Region, and up to £25m each for the Inverness and Cromarty Firth, and Forth Green Freeports.
- The Glasgow City Region zone will focus on advanced manufacturing around Renfrewshire and Glasgow Airport, aiming to generate £1.7bn in investment; the North East zone will centre on green industries and digital tech in Aberdeen and Aberdeenshire, targeting over £220m in private investment.
- Brand Scotland will continue to receive £2.25m between 2026-27 and 2028 -29.
- The UK and Scottish Governments confirmed a joint £100m investment over 10 years for the Falkirk and Grangemouth Growth Deal, alongside £200m from the National Wealth Fund to support long-term opportunities at the Grangemouth site. Ongoing local growth commitments include the Drumchapel Town Centre Regeneration.

Wales

- The upcoming 10-year Infrastructure Strategy will deliver at least £445m of rail enhancements, including £48m over four years to the Welsh Government to upgrade the Core Valley Lines and increase connectivity across Wales.
- £118m of investment over three years on coal tip safety in Wales.
- Confirming in-flight local growth commitments including Port Talbot Town Centre Regeneration.
- Confirming £218m UK Government funding over four years for City and Growth Deals in Wales, to support economic growth and development in Cardiff, Swansea Bay, Mid-Wales and North Wales regions.
- £2.4m over 2026-27 to 2028-29 to launch a new Brand Wales programme.
- Committing almost £1m over three years for the Wales Office to drive UK Government support for Port Talbot's transition and regeneration.
- Confirming the UK Government's commitment to the future of Welsh steel and the Port Talbot area, with £500m investment in Tata Steel and the new Electric Arc Furnace.
- Confirming up to £80m for port investment to support floating offshore wind deployment in Port Talbot.
- £160m each over 10 years for Investment Zones in the Cardiff City Region and Wrexham and Flintshire; and up to £25m each for Celtic Freeport (centred on Port Talbot and Milford Haven) and Anglesey Freeport.

Northern Ireland

- Northern Ireland Executive is set to receive £19.3bn. On average each year, this includes £1.2bn through the Barnett formula.
- £50m will be invested to develop the Casement Park Stadium, detail on the profile of funding is yet to be agreed.
- £310m will be available via the City and Growth Deals to continue delivery.
- £469m will be available from the 2024 restoration financial package. This is on top of the £2.15bn provided since February 2024.
- £113m for the Police Service of Northern Irelands Additional Security Fun and £24m for the Executive Programme on Paramilitarism and Organised Crime.
- £187m confirmed for public services transformation and integrated education.
- An implementation update to the Northen Ireland Executive's Interim Fiscal Framework was also announced.