CAVENDISH

Spring Statement 2025

Summary and analysis of the Government's economic outlook

Overview.

Chancellor of the Exchequer, Rachel Reeves, delivered her Spring Statement to MPs today (26 March).

The Chancellor's Spring Statement carried significant implications for the UK's economic and fiscal outlook. Initially billed as a 'Spring Forecast' that would solely respond to the Office for Budget Responsibility's (OBR) economic forecast, the event was rebranded as a 'Spring Statement' in recent weeks due to the growing impact of the economic and geopolitical environment. The Chancellor outlined the Government's response to slow economic growth, increasing borrowing costs and a deteriorating fiscal position, signalling the possibility of further departmental spending cuts in the forthcoming Spending Review and Autumn Budget.

Reeves underlined the need for an "active Government" to navigate the evolving economic and geopolitical landscape. Addressing the Commons she pointed to the escalating threats following Russia's invasion of Ukraine and the broader instability in global markets, which has led to increased borrowing costs for major economies. Rather than passively observing these challenges, she argued that the Government must take a proactive approach, supporting working people and harnessing the UK's economic strengths to foster stability and prosperity.

Reflecting on her tenure, Reeves expressed pride in the progress made since the Labour Government took office. She highlighted achievements such as stabilising public finances, enabling the Bank of England to lower interest rates three times since the General Election, and increasing investment in public services – particularly the NHS, which has seen waiting lists decrease for five consecutive months. Additionally, she pointed to the upcoming rise in the National Living Wage, which she said would benefit three million workers.

Reaffirming the Government's fiscal stance Reeves argued that the fiscal rules introduced in the autumn remain "non-negotiable," serving as a cornerstone of economic stability. She contrasted this disciplined approach with her view that the previous administration had significantly mishandled the public finances, notably through the mini-Budget that led to surging costs for households. She said that the measures introduced in the Spring Statement would create a budget surplus to £9.9 billion by 2029/30, correcting a projected shortfall of £4.1 billion as previously forecast by the OBR.

The full transcript of the Chancellor's speech can be found here, and the policy paper and supporting documents can be found here.

> **"I am proud of what we have delivered in just nine months...Now our task is to secure Britain's future in a world that is changing before our eyes."**
>
> \- Rachel Reeves, Chancellor of the Exchequer

Economic and fiscal background

Ahead of the Statement the OBR issued a pessimistic economic forecast, revising its expected UK growth rate for 2025 from 2% to approximately 1%. Moreover, the previously estimated fiscal headroom of £9.9 billion has been erased, leaving the Government facing a deficit of around £4 billion.

The economy continues to face difficulties, shaped by domestic policies and global instability. A planned rise in employers' National Insurance Contributions, expected to generate £25 billion, will take effect next month. Simultaneously, escalating trade tensions – particularly with the United States – contribute to economic uncertainty. Government borrowing has also exceeded expectations, with the cost of servicing this debt increasing due to volatility in global markets. In fact, the Chancellor highlighted that debt interest payments have reached £105.2 billion in the current financial year – surpassing the combined budget allocated to defence, the Home Office, and the justice system. She emphasised that reducing debt and borrowing over time is essential to allow greater spending on priorities that matter to working people.

Concerns over long-term productivity growth persist. While the OBR initially projected that productivity would rise to 1.2% by 2029, the Bank of England's latest forecast anticipates a more modest increase of just 0.7% by 2027. Analysts from Citigroup warn that even a marginal 0.1 percentage point reduction in productivity growth could widen the fiscal gap by £7-8 billion.

Despite these challenges, there was a positive development ahead of the Chancellor's statement as the Office for National Statistics (ONS) announced that inflation eased in February, with the Consumer Price Index (CPI) falling to 2.8%, down from 3% in January.

However, the real test for the Chancellor will be whether she can produce sustained economic growth – something that has remained elusive.

Economic consequences of the Spring Statement

The Chancellor outlined measures in the Spring Statement focussed on fiscal stability and creating long-term growth. Prior to these measures, the Office for Budget Responsibility (OBR) projected a £4.1 billion deficit in 2029-30. However, the Chancellor stated that the announcements made today have had the following positive consequences:

- **The OBR has upgraded their growth forecast for "next year and every single year thereafter,"** with GDP growth projected at 1.9% in 2026, 1.8% in 2027, 1.7% in 2028, and 1.8% in 2029.
- **The deficit forecast for 2025/26 has been reduced from £36.1 billion** to a surplus of £6 billion by 2027/28, reaching £9.9 billion by 2029/30.

A key focus of the Spring Statement is the Government's ambitious planning reforms, which are set to deliver the largest growth impact ever reflected in an OBR forecast. The OBR has concluded that these changes will permanently increase real GDP by:

- **0.2% by 2029-30**, contributing an additional £6.8 billion to the economy.
- **0.4% over the next decade**, contributing an additional £15.1 billion.

In addition to the fiscal and planning reforms, the Government's approach to housing and infrastructure is expected to yield significant benefits:

- **1.3 million new homes** being built over the next five years. Notably, this figure is lower than the Government's election commitment of 1.5 million new homes over the course of this Parliament.
- **305,000 homes per year** by the end of the forecast period – which would be the highest level of housebuilding in 40 years.

Key announcements.

Chancellor Rachel Reeves' Spring Statement set out a range of fiscal measures aimed at cutting spending, increasing revenue, and reshaping public services:

Spending Cuts and Welfare Reforms

While some announcements on welfare reform were included in last week's Green Paper, the Chancellor was forced to find additional savings from the welfare budget to meet her fiscal rules.

- **Welfare Spending Reduction:** The Government has announced a £5 billion reduction in welfare spending through stricter benefit rules, including the restructuring of Personal Independence Payments (PIP) and tougher eligibility tests.
- **Personal Independence Payments:** The Government will conduct a fundamental review of the Personal Independence Payment (PIP) assessment involving policy experts, stakeholders, and disabled people. Their intention is to reflect changes in health conditions and society and introduce a new eligibility requirement that requires a minimum of four points on one daily living activity to receive the daily living element.
- **Universal Credit Standard Allowance:** The Government will increase the Universal Credit standard allowance above inflation for new and existing claims from 2026/27, raising the weekly rate for a single person aged 25 and over from £92 in 2025/26 to £106 in 2029/30.
- **Universal Credit Health Element:** The Universal Credit health element will be frozen for existing claimants until 2029/30, while for new claims it will be reduced to £50 a week in 2026/27 and then frozen until 2029/30.
- **Work Capability Assessment:** The Government will restart Work Capability Assessment reassessments for certain groups, increase capacity for PIP award reviews, and tackle fraud and error in the welfare system by enhancing Universal Credit checks and hiring over 500 fraud staff, saving £240 million by 2029/30.
- **Welfare Savings**: The OBR has estimated that the changes to disability and incapacity benefits will save £3.4 billion in 2029/30, lower than the £5 billion previously expected.
- **Employment Support**: £1 billion will be invested to provide guaranteed, personalised employment support to help people return to work, with an additional £400 million to support the Department for Work and Pensions (DWP) in delivering these reforms.

Income Tax and Tax Evasion

- **Tax Evasion Crackdown**: A further £1 billion will be raised through continued investment in cutting-edge technology to improve HMRC's capacity to tackle tax avoidance. Plans include a 20% increase in the number of tax fraudsters charged each year, bringing total revenue raised from reducing tax evasion to £7.5 billion.
- **Late Payment Penalties**: From April 2025, the Government will raise late payment penalties for VAT and income tax self-assessment taxpayers as they join Making Tax Digital (MTD), with penalties of 3% for tax overdue by 15 days, an additional 3% for 30 days, and 10% per annum for 31 days or more.
- **Cash ISA Limit**: The Government is exploring reforms to Individual Savings Accounts to balance cash and equities for better returns, promote retail investment, and support growth, while collaborating with the Financial Conduct Authority to provide targeted support and build confidence in investing.

Business Rates

- **Business Rates Relief**: In the summer, the Government will release an interim report outlining the direction for the business rates system, with further policy details to be provided at the Autumn Budget.

Regulatory Overhaul and Public Sector Efficiency

- **Regulatory Reduction**: The Government will reduce regulatory compliance costs to business by 25%.
- **Civil Service Reform**: Plans include cutting administrative costs by 15% over the next five years, potentially eliminating 10,000 jobs, with a focus on improving efficiency using AI and automation.
- **NHS England Abolition**: As part of a broader public sector overhaul, NHS England will be abolished, with money redirected to improving patient care.

Defence Spending

- **Defence Budget Increase**: Defence spending will rise to 2.5% of GDP, partly funded by cuts to overseas aid.
- **Ministry of Defence Investment**: An additional £2.2 billion will be allocated to the Ministry of Defence next year, with a focus on increasing national and economic security.
- **Defence Industry Boost**: The Government will spend at least 10% of the Ministry of Defence's equipment budget on novel technologies, including drones and AI, and aims to make the UK a leader in defence manufacturing.

Public Sector Transformation and Civil Service Efficiency

- **Transformation Fund**: £3.25 billion will be brought forward to reform public services, harness digital technology and AI, and transform frontline delivery to achieve long-term savings. This includes funding for voluntary exit schemes to reduce the civil service size and investment in AI to modernise Government operations.

Housing and construction

- **Affordable Housing Investment**: £2 billion will be invested in the construction of 18,000 affordable and social homes, described as a 'downpayment' on the next iteration of the Affordable Homes Programme that is expected to be announced at the Spending Review.
- **Capital Infrastructure**: The Government will support growth by investing £13 billion more in capital infrastructure over the next five years.
- **Strategic Road Network:** The Government has committed £4.8 billion to the Strategic Road Network in 2025/26, including £1.3 billion for road renewals and £1.6 billion for local road maintenance.

Construction Training

- **Construction Training Investment:** £625 million will be invested over four years to enhance construction training in England, including £100 million for 35,000 construction bootcamp places, £40 million for 10,000 new Foundation Apprenticeship places, and £165 million to expand construction course offerings. A new Teacher Industry Exchange scheme will also be introduced to attract industry experts to teach in Further Education.
- **Technical Excellence Colleges:** £100 million will be allocated to establish 10 new Technical Excellence Colleges in construction. Additionally, the CITB will double its New Entrants Support Team and invest £32 million to support 40,000 industry placements annually.
- **Employer-Led Training:** An £80 million capital fund will be launched to help employers deliver tailored training. The Government is also committed to removing barriers and unlocking investment in training to support long-term economic growth.

Other Measures

- **UK Export Finance**: £2 billion will be allocated to increase UK Export Finance capacity, providing loans for overseas buyers of UK defence goods, thus creating new opportunities for British defence companies.
- **Military Family Homes**: Efforts will be made to secure better homes for thousands of military families in various regions, including Plymouth and Aldershot.

Reaction.

Political reaction

Following the Chancellor's speech, prominent Labour MPs have taken to social media to share their support of the Government's fiscal approach.

Unsurprisingly, the Opposition benches have reacted negatively. Responding to the statement**, Shadow Chancellor, Mel Stride** said the country is "weaker and poorer" as a result of the Chancellor's decisions. He told MPs: "The result is the worst of all worlds, a wholly inadequate level of savings on welfare, with welfare costs still spiralling ever higher, and changes that are likely to harm many vulnerable people."

MPs from the left of the Labour Party have also criticised the Chancellor, calling on her to "think again" about proposed changes to disability benefits and citing the impact assessment that projects that these changes will push a further 250,000 people into poverty.

The **Liberal Democrats** raised similar concerns, with Leader Ed Davey saying: "The Government is putting the big banks and gambling companies ahead of disabled people and carers. It is not just cruel, it is a false economy and I urge Ministers to think again."

From business, trade bodies and trade unions

In the **Institute for Fiscal Studies'** initial response to the Spring Statement, its director Paul Johnson highlighted the reactionary nature of the changes. He said: "This was just about the smallest fiscal event Rachel Reeves could have managed in the context of her fiscal rules and the minor forecast downgrade presented to her by the OBR.

"The fact that a fairly run-of-the-mill change to the forecast forced her to cut her spending plans reflects the tiny amount of headroom she chose to leave against her targets last October.

"In today's spring statement, departmental spending plans and, it seems, welfare policy have been fine-tuned to return to precisely the same amount of headroom that she had previously."

The **Federation of Small Businesses** cautiously welcomed the Statement but pushed Ministers to go further in prioritising growth across all departments. The FSB's Chair said: "The Chancellor has rightly kept her word not to further increase business taxes and we urge her to go further in her next full Budget and actually lower the tax burden, including delivering on the promises made by Labour in opposition to transform the out-dated business rates system and make it fit for purpose in a modern economy.

UK Hospitality highlighted the looming increases to NICs as a policy failure from Government, calling on Ministers to U-turn. Its chair said: "The Government's own analysis shows the failure to address the employer NICs threshold will force businesses to freeze recruitment."

The CBI reacted positively to the Chancellor's push on Civil Service Reform but warned of the impact of the upcoming Employments Rights legislation and its impact on businesses, saying: "It is the right approach that the government asks of the public sector the same as it has been expecting of business since the Budget - to absorb costs through agility, modernisation and innovation. Firms are already braced for a difficult few months ahead with NICs, and National Living Wage increases next week. In its current form, the Employment Rights Bill risks imposing a significant regulatory burden onto companies with damaging consequences for growth, jobs and investment."

Unite the Union has reacted negatively, saying ""Workers and their communities won't thank or forgive Labour for maintaining outdated financial discipline, while they face economic misery and can't make ends meet. This is the time for vision especially if we need growth."

Impact on Devolved Nations.

Scotland

Short-term implications: In the 2025/26 fiscal year, the Scottish Government will receive an additional £28 million due to slight increases in UK departmental spending. By 2029-30, the Scottish Budget is expected to be about £900 million worse off on the current spending side compared to earlier forecasts.

Long-term challenges: From 2028 onwards, significant funding reductions are expected for Scotland:

- Cuts of £200 million in 2028/29 and £435 million in 2029–30 in funding for the Scottish Budget.
- The PIP reforms are projected to further reduce social security funding adjustments, with cuts growing from £177 million in 2027/28 to £455 million in 2027/28.

Capital budget increases: However, the Scottish Government's capital budget is forecast to rise by approximately £250 million by 2029/30, mainly due to additional devolved capital spending allocations (excluding defence).

This points to a difficult financial environment for Scotland, particularly in managing its day-to-day spending. While some relief may come from increased capital investment. these changes will likely increase political pressure on Labour, ahead of the Scottish Parliament elections in 2026.

Northern Ireland

Short-term implications: There has been a mixed response in Northern Ireland to the Chancellor's Spring Statement, with the Northern Ireland Executive set to receive an additional £14 million under the Barnett Formula.

The First Minister, Michelle O'Neill, has been critical of the increase in UK defence spending, saying it is part of a "macho agenda of militarisation", while at the same time making changes to Universal Credit entitlement. Similarly, deputy First Minister, Emma Little-Pengelly, said Reeves has chosen to "punish those least able to take the burden". The deputy First Minister went onto say that defence spending was a "necessity", but that she believed that the Chancellor's decisions were "a consequence of a lack of economic growth". Northern Ireland's defence industry had, earlier this month, received a £1.6 billion deal from the UK Government to create 200 jobs and provide 5000 air defence missiles to Ukraine.

Long-term challenges: The Northern Ireland Executive faces a difficult year ahead financially, with budgetary cuts expected. With ongoing challenges to the funding of wastewater infrastructure, social housing waiting lists at an all-time high, and making childcare affordable, the scale of the task for the Executive is significant. It is hoped that the 2025/26 Budget will be the last single year budget, with the NI Executive beginning to set budgets on a multi-year basis to allow for a more long-term strategic approach.

Wales

Short-term implications: The Welsh Government will receive a modest increase of £16 million, on top of the additional £1.7 billion announced in the Autumn Budget last year. In the context of a £25 billion Welsh Government annual budget, this extra £16 million represents less than a 0.1% top-up. There may be additional defence spending in Newport, but no other major announcements for investment in infrastructure have been identified.

Long-term challenges: The changes to Universal Credit and PIPs will cause significant nervousness amongst Welsh Labour MPs. Many Labour-held constituencies in South Wales rank amongst the most deprived in western Europe, a public backlash could be extremely damaging to Labour's core vote in the 2026 Senedd election.

With an insurgent Reform Party threatening Labour in its heartlands, Welsh Labour MSs will be very concerned about the party’s prospects.