

Spring Statement briefing

March 2025.



Summary

Set in the context of what the Chancellor, Rachel Reeves, described as a 'changing world' with the war in Ukraine and headwinds from the US, the Spring Statement had already evolved from the relatively low key economic update the government originally framed it as to a broader set of measures to ensure that the Chancellor stays within her fiscal rules, which have come under significant pressure since the Autumn Budget.

Those fiscal rules require day-to-day public spending to be met by tax receipts, not borrowing, by 2029-30, and that debt is falling in the final year of that forecast period. In the context of a tightening of her fiscal headroom following the Autumn Budget and the downgrading of growth forecasts from the Office for Budget Responsibility (OBR), this meant that the Chancellor needed to announce savings and reforms now, even before the major cross-departmental Spending Review coming in June.

Many of the announcements had been trailed in the build-up, with cuts to welfare spending, efficiency savings in the civil service and increases in defence spending grabbing the headlines. The Chancellor confirmed an extra £2.5 billion for defence from April 2027, with funding drawn from recently cut international development budget, though importantly much of this reallocated spending now falls under the category of capital spending, rather than day-to-day.

The government has tied its success to the central goal of delivering economic growth and to this end the halving of the OBR's growth forecasts for 2025 to 1% will come as a blow to the Chancellor in the short term. In the longer term, the OBR's growth forecasts have been revised up for the remainder of the Parliament, but by the barest of margins, particularly given that these forecasts remain susceptible to the wider geopolitical context and the potential for future economic shocks, just as the original estimates for 2025 have proved. To add to the pressure, inflation is above previous expectations and continues to look sticky, as forecast at the Autumn Budget, with the 2% target set to be returned to in 2027.

In terms of the drivers of economic growth, Reeves reiterated Labour's commitment to 'backing the builders not the blockers'. This included announcing a £2 billion investment for social and affordable housing, with £600 million invested in upskilling the construction industry and pointing to the government's Planning and Infrastructure Bill and revisions to the National Planning Policy Framework as key ways of delivering this growth.



While the Spring Statement represents Reeves trying to claw back her fiscal headroom and adapt to a changing world, the situation remains precarious and subject to external factors beyond the government's immediate control. With the Spending Review in June and the Budget expected in the autumn, the next few months will be crucial if the government is to begin to see the long term economic growth it so badly needs and to ensure that the Chancellor is not forced into making even more difficult choices

Key figures

- > OBR forecasts predict GDP growth for 2025 revised down to 1% from 2% on its October 2024 forecast.
- > GDP growth forecasts of 1.9% in 2026, 1.8% in 2027, 1.7% in 2028, and 1.8% in 2029.
- > Fiscal headroom restored to £9.9 billion
- > Inflation down to 2.8% but still above Bank of England target of 2%.

Summary of key announcements

Business and Tax

- > The Chancellor confirmed that there would be no tax increases as part of the Spring Statement.

Work and Pensions

- > The OBR confirmed that the reforms in last week's *Pathways to Work* Green Paper will save £4.8 billion from the welfare budget in 2029-30.
- > The Chancellor confirmed that the government will invest in additional employment, health and skills support from 2026-27 to help people start or stay in work, scaling up to £1 billion per year by 2029-30.
- > The Chancellor also confirmed that the government will freeze the Universal Credit health element for existing claimants until 2029-30 and reduce to £50 per week for new claimants in 2026-27 and then frozen until 2029-30.
- > The government will also increase the Universal Credit standard allowance for new and existing claims above inflation from April 2026, reaching CPI + 5% from April 2029. Alongside this the government will also increase checks on potential Universal Credit claimants by introducing more ways to verify the amount of savings they hold, as well as their earnings and expenses.
- > In addition to these changes, the government will undertake a fundamental review of the Personal Independence Payment (PIP) assessment.

Energy, Net Zero and Environment

- > There were no new announcements on policy areas relating to energy, environment and Net Zero.



Financial Services

- > The government has published an updated Financial Transaction Control Framework, which sets out how the government will deliver financial transactions, where it acquires or sells financial assets like loans or equity.
- > The Chancellor confirmed that the government is looking at options for reforms to Individual Savings Accounts (ISAs), and will also be working with the Financial Conduct Authority (FCA) at options for encouraging more people to invest. This follows recent speculation that ISAs may be reformed to encourage greater investment in equities over cash savings.
- > The government confirmed that it will continue to work with leading entrepreneurs and venture capital firms on how policy supports the UK business environment, including the role of tax reliefs such as the Enterprise Management Incentives Scheme, the Enterprise Investment Scheme and the Venture Capital Trust Scheme. This included a commitment to hold a series of roundtables with key stakeholders over April.
- > The government will also publish a draft statutory instrument providing an exemption from Stamp Duty and Stamp Duty Reserve Tax for PISCES share transactions.
- > HMRC has published a technical note, which provides guidance on the tax implications for companies and employees where a company has shares traded on PISCES.

Planning and Housing

Housing and planning

- > The Chancellor confirmed an additional £2 billion investment in social and affordable homes between 2026 and 2027, delivering up to 18,000 new homes.
- > The government also confirmed that from 1 October 2026, new residential developments in England will incur the Building Safety Levy, to raise revenue directed at building safety. Exemptions include affordable housing and developments with less than ten units.
- > The Chancellor also provided an update on the government's predicted delivery against its overarching housing targets, predicting that it would build 305,000 homes per year by the end of the forecast period.

Transport, Infrastructure and Public Services

Public Sector Reform

- > The Chancellor announced the creation of a £3.25 billion Transformation Fund to support public services reform and to bring down costs of running government by the end of the forecast period.
- > This includes £150 million for government employee exit schemes, with the Chancellor of the Duchy of Lancaster Pat McFadden spearheading this work to reduce the cost of running government by 15% by 2030.
- > Alongside this, the government will also provide £8 million for new technology to allow probation officers to focus on reducing reoffending rather than providing an administrative service.



- > The Chancellor also confirmed an additional £25 million for the fostering system, funding the recruitment of 400 new fostering households.

Defence

- > In the headline announcement on defence spending, the Chancellor confirmed that defence spending is to be increased by £2.2 billion from April 2027, a minimum of 10% of which is to be invested in new equipment and include air defence lasers for Royal Navy ships, AI-enabled technology and new novel technologies.
- > The Chancellor confirmed that £2.26 billion in loans to Ukraine to procure military equipment will be paid for from profits generated from immobilised Russian sovereign assets in the EU.
- > The Chancellor announced the UK Defence Innovation (UKDI), which will aim to simplify and consolidate the current Ministry of Defence (MOD) structures for innovation in line with the government's state agenda. A protected budget of £400 million in the MoD will rise in future years to further support the government agenda for UK innovation.
- > The Chancellor also announced a reform to the defence procurement system, with a new segmented approach, along with timescale targets to enable MoD to tailor acquisition processes to capability, supplier and risk involved.
- > This new Defence Reform model will commence operation from 1 April 2025, and the Defence Secretary and Chancellor will co-chair a new Defence Growth Board.
- > Provision of £200m for investment in Barrow was announced, as well as further investment in Portsmouth Naval Base and military housing in Plymouth, York and Aldershot.

Transport

- > The Chancellor confirmed £4.8 billion in funding for the Strategic Road Network in 2025-27, which includes £1.3 billion for road renewals, and £1.6 billion for local road maintenance.

Education and skills

- > The Chancellor also announced £625 million to train up 60,000 skilled construction workers and will build capacity with £100 million to established ten new Technical Excellence Colleges across the country.
- > An additional £100 million will be provided to support 35,000 constructions focused skills bootcamp places, and a further £40 million for up to 10,000 new places on additional construction Foundation Apprenticeships.
- > £165 million will be committed to delivering more construction courses, and a new Teacher Industry Exchange scheme will be used to attract industry experts to teach in FE.
- > The Spring Statement also outlined the government's investment in additional employment, health and skills support from 2026-27. Aimed at helping people stay in, or start work, this will scale up to £1 billion a year by 2029-30.