Resolution Foundation

Mission impossible?

Five things to look out for at next week's pivotal Spending Review

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After a shaky start on the economy, Ministers have been happy to emphasise three trade agreements and some better-than-expected growth in recent weeks. They will hope the Spending Review (SR), on 11 June, can be a chance to build (build, build) on this, and to flesh out more concrete plans on the Government's other 'missions'. Having spent the best part of a year managing expectations down and announcing painful tax rises and more borrowing, the Government finally gets to reap the benefits of dishing out some spending goodies. So this is a big deal politically. But, as the first 'zero-based' review in 17 years, it is also a big deal for the country with spending priorities set for the rest of this Parliament.

The hype around the SR has been of a return to austerity, but the reality is that the Government has pencilled in nearly £400 billion more in spending since the election. But how this SR feels inevitably comes down to health, with the size of its settlement mattering for every other department. If NHS day-to-day spending was to increase by 2 per cent a year in real terms over the SR period, rather than the long run average of 3.6 per cent, that would free up around £11 billion to spend elsewhere. Not blowing the budget on health would also allow the Government to prioritise important 'in kind' benefits from public services that materially affect families' day-to-day lives, and spending more on services used by poorer families would provide a material and popular boost to those struggling most with the cost of living. Likewise on investment, where the SR will give more details on how the Government will spend its over £100 billion increase in planned projects, there's an opportunity to boost growth but also make a tangible difference to the housing crisis by investing in more affordable homes.

Some decisions are small in the overall fiscal arithmetic but will be particularly important for living standards. Free school meals provision directly affects poverty rates. Employment support can work at boosting employment rates – a key driver of living standards, so let's see whether the Government sticks to its back-loaded 'cuts before support' approach. The SR also provides an opportunity to put on a permanent footing the crisis support provided through the Household Support Fund.

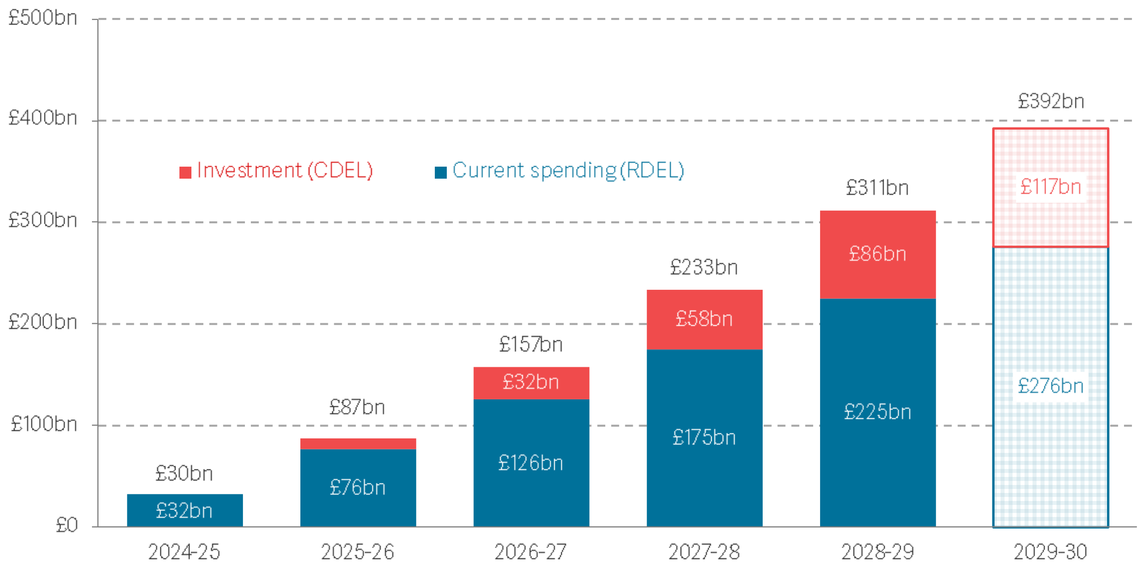
The bad news is that higher trade uncertainty and interest rates mean that the SR is taking place outside the fiscal reality in which those factors have likely wiped out the

Chancellor's 'headroom' at the Spring Statement. Although it was not the original plan, the Government could also choose to set out further details on changes to its Winter Fuel Payment policy, and pay for it through lower departmental settlements. Or it could pile that too into the Chancellor's fast growing autumn in-tray.

Let's be honest: when it comes to the economy, the past 11 months have hardly been the start the Government was hoping for. Growth slowed in the second half of last year, confidence slipped, financial markets have been jittery, and Donald Trump's tariffs are the new headwind that nobody needed.

Since the election, all voters have heard is how difficult the fiscal inheritance is, with painful announcements on higher borrowing and the biggest tax-raising Budget on record. But, with a week to go to the SR, as Rachel Reeves finalises the haggling with Cabinet Colleagues, the good news is that she can now say the Government has concluded three trade agreements, got some growth, and can finally dish out some spending goodies. As shown in Figure 1, spending plans have been massively increased since Labour came to power last July, with nearly £400 billion more in departmental spending compared with plans made under the Tories (departmental spending has already risen by £87 billion in 2024-25 and 2025-26, with most of the detail of a further £305 billion of spending between 2026-27 and 2029-30 to be set out next Wednesday).

Figure 1 **The Government has increased departmental spending plans massively**
Cumulative change in departmental spending plans between March 2025 Spring Statement and March 2024 Spring Budget, 2025-26 prices: UK



Notes: Comparison for 2029-30 assumes March 2024 spending continued at 2028-29 growth rates.
Source: HMT, Spring Statement 2025 and Spring Budget 2024.

But the SR is not *all* about the Government's political fortunes. We'll get spending plans for the rest of this Parliament and, as this is the first 'zero-based' review in 17 years, and the first three-year review since 2021, it will be a key moment for our struggling public services. Unlike most previous standalone spending reviews, this could also come with changes to welfare policy, if (for example) the Government sets out details of its 'U-turn' on Winter Fuel Payments.

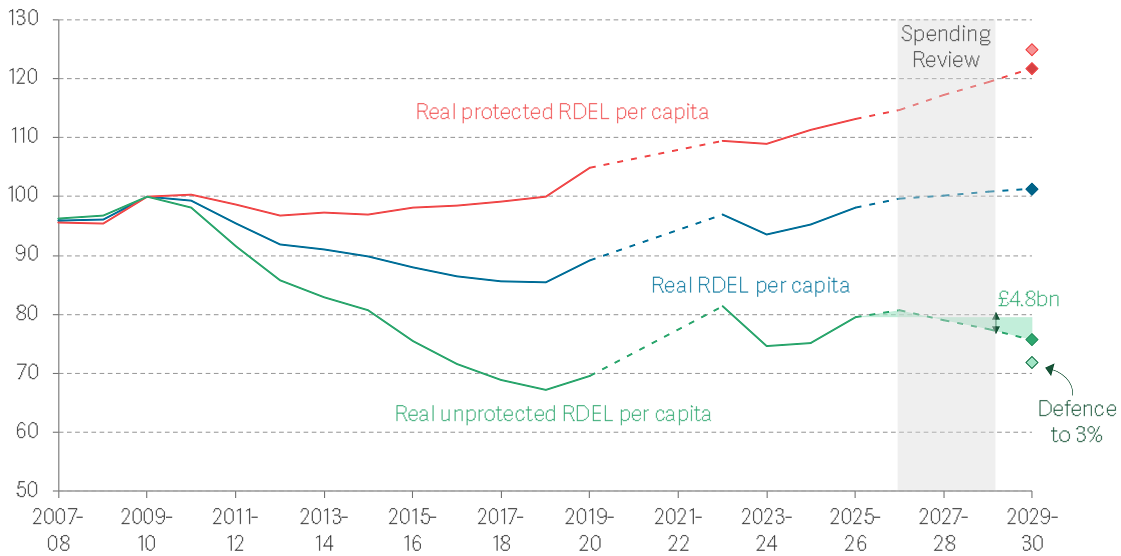
All this means that the SR is officially A Big Deal. So in this Spotlight we set out five things you need to know about next week's big event.

1) The SR is not (just) about cuts…

With expectations' management in overdrive, the vibes can make it feel like a return to the austerity years (indeed 54 per cent of people think we're already in a period of austerity). Admittedly we (and others, to be fair!) have highlighted that the plans could involve continued cuts for the so-called 'unprotected' departments that were most affected by austerity (everyone apart from NHS, schools, defence and overseas aid; see Figure 2). Cuts for those 'unprotected' departments of nearly £5 billion in cash terms are required between 2025-26 and 2028-29 *if* assumptions about what is needed for health and education hold. That includes some struggling departments – including the Home Office, Justice and Local Government – where measures of public service performance have deteriorated significantly. But in a zero-based review, there's all to play for. Crucially, plans imply that real-terms day-to-day public services spending is set to increase by a whopping 8.4 per cent between 2023-24 and 2026-27 – by far the largest growth rate over a three-year period (excluding the pandemic) since the financial crisis. So this is clearly not a return to austerity. Indeed, in levels terms, by the end of this Parliament in essence all of austerity will be undone. Put another way, Rachel Reeves is a victim of her own success in the sense that the outer years look tight largely because of a huge increase in the baseline.

Figure 2 **Settlements are tight towards the end of this Parliament but cuts will not be the experience overall**

Indices of real per-capita resource departmental expenditure limits (2009-10=100), all departments, 'unprotected' departments and 'protected' departments



Source: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

Notes: Deflated using the OBR forecast for the GDP deflator to 2024-25 cash terms. Protected budgets include NHS, schools, defence and ODA. NHS budget is assumed to grow by 3.6 per cent a year in real terms; core schools budget keeps per pupil funding constant; defence spending reaches 2.5 per cent of GDP in 2026-27; and ODA shrinks to 0.3 per cent of GNI in 2026-27. Figures include the impact of Barnett consequentials.

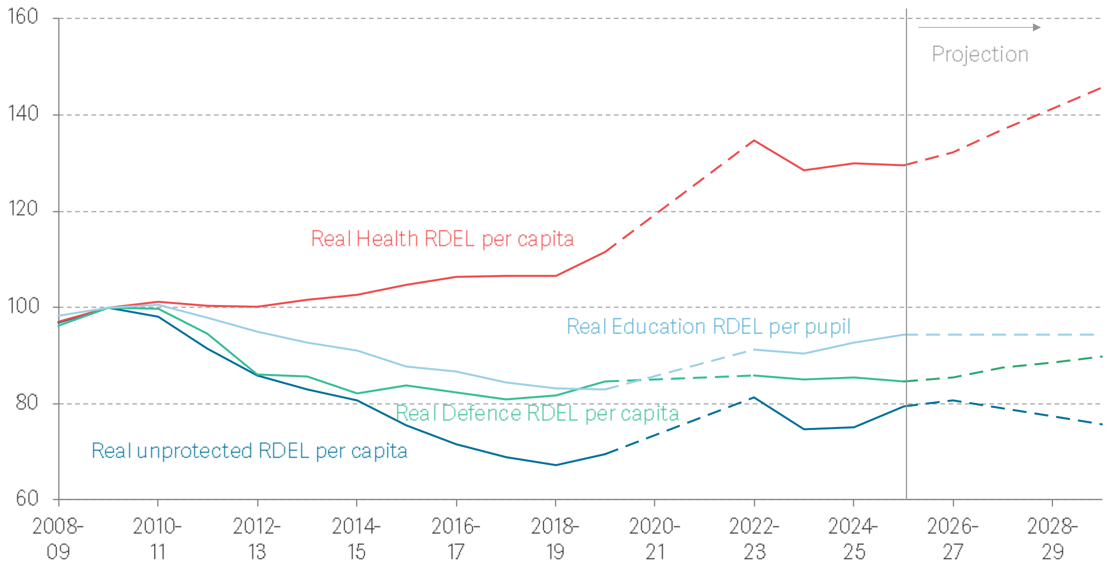
2) …but it *is* all about health spending

If the nation's economy is not doing well, the only thing faring worse is our health. Apart from anything, that is creating problems for the Government with more people out of work and on health-related benefits (in case you've been hiding in a cave, here's our take on the challenges in this space). This, combined with growing pressures from an ageing population, not to mention the Government's mission to bring down waiting lists, means the reality is that health spending will continue to expand.

But the thing to watch out for at the SR is the speed of that expansion and the extent to which it comes in the form of higher investment spending. As shown in Figure 3, when it comes to day-to-day spending, it has been a case of 'health up, everything else down'. Spending outturns for health grew at an inflation-adjusted growth rate of around 1.8 per cent per year in the 2010s, while unprotected departments were cut by 2.9 per cent. The pandemic turbocharged that trend, with the NHS England workforce increasing by more than a fifth since the end of 2019. But, over the same period, measured public healthcare output has increased by around half that. Put another way, we have an NHS productivity problem (as well a national productivity problem…).

Figure 3 **Health spending will continue to rise rapidly**

Indices of real per-capita resource departmental expenditure limits (2009-10=100), by selected departments and 'unprotected' departments



Source: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various; Explore Education.
Notes: Deflated using the OBR forecast for the GDP deflator to 2024-25 cash terms. Unprotected budgets include NHS, schools, defence and ODA. NHS budget is assumed to grow by 3.6 per cent a year in real terms; Education budget keeps per pupil funding constant; Defence spending reaches 2.5 per cent of GDP. Figures include the impact of Barnett consequentials.

So, yes, there will be a chunky settlement for the NHS – and that's clearly important (not to mention popular). But how much day-to-day spending goes on health matters hugely for all other public services: if NHS day-to-day spending was to increase by 2 per cent a year in real terms over the SR period, rather than the long run average since 1949 of 3.6 per cent, that would free up around £11 billion (in 2028-29) to spend elsewhere. But one way through the conundrum could be a capital-heavy health settlement that addresses productivity challenges and puts some of this pressure into the bit of spending where the Government has more flexibility.

3) Don't forget about growth...

The Government is fond of telling us that it is all about growth. But now is the time for it to put its (literal) money where its mouth is. You'll hear a lot about plans here in the coming weeks – with infrastructure announcements trailing the SR already, and industrial and infrastructure strategy set pieces also coming this month.

The Government should lead from the front when it comes to boosting beleaguered investment, and, by spending more itself, this is one area where it can shift the dial on the growth. A surprisingly vast body of research (seriously, there's more than one 'meta' study in this area – see here and here) suggests that the best way to invest for growth is to spend big on economic infrastructure – roads, rail, energy and information networks. So don't be surprised if we get a continuation of the 'build, baby, build' approach to investment.

A key area to watch in this space will be net zero. Here the Government has 'green energy superpower' ambitions. The big question is whether its manifesto commitments in this area will survive contact with cost-of-living worries and the rise of Reform. Another is housing. Here we've previously argued that where houses are built will matter for growth; the ideal is that the home-building programme allows more workers to live in the high-productivity parts of the country. Again, the Government should take the lead here, not least given our miserable recent record of building affordable homes. As we have previously said, this is a place where the Government can drive growth, as well as providing a much-needed contribution to bringing down the housing costs of lower-incomes families.

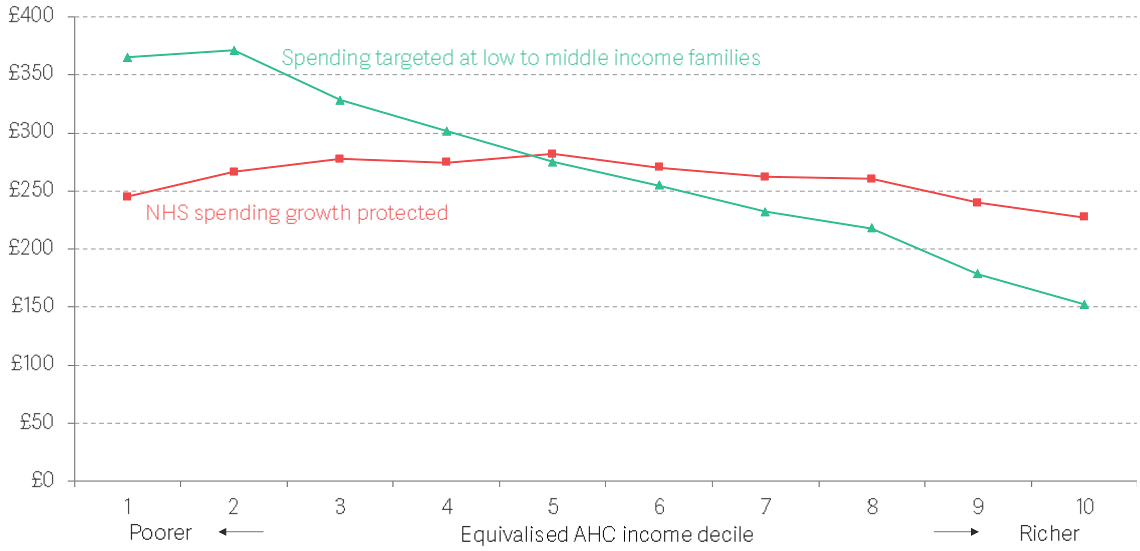
4) …and there's also a chance to make a difference for lower-income families

Improving growth is ultimately about driving up living standards which have been in the doldrums since the financial crisis. That's been worse for lower-income families with that made all the more miserable by crumbling public services which are disproportionately used by poorer families. Those services provide important 'in kind' benefits which affect the lives of all that use them.

This is important for the SR, and the Government, as boosting public services can make a large and noticeable difference to the lives of many voters. To show just how important this is, Figure 4 compares an NHS-heavy settlement (in the red line) in which real spending grows at 3.6 per cent with an alternative in which increases are limited to 2 per cent (green line). In the latter scenario, the extra money is spent on public services that our research shows have been poorly funded and which are used intensively by families in the poorer half of the income distribution, including boosting social-care provision and tackling child poverty via the extension of Free School Meals to all Universal Credit recipients. Under an NHS-heavy settlement, families across the income distribution see a similar boost to in-kind benefits of around £270 a year. But a less health intensive package would be a much larger deal for lower-income families (around £370 at the bottom), and would also improve public services beyond the NHS.

Figure 4 **There is an opportunity for the Government to target spending at areas which benefit lower-income families**

Annual real terms increase in in-kind benefits by household income decile (£ 2025-26): England, 2025-26 to 2028-29



Notes: For full assumptions see Annex 1 of: C Aref-Adib, E Fry & Z Leather At your service? Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.
Source: RF Analysis of DWP, Households Below Average Income; Family Resources Survey; ONS, Wealth & Assets Survey; Understanding Society; National Travel Survey.

Other decisions we will be watching for particularly closely here at Resolution Foundation include employment support and the Household Support Fund. In the spring, the additional money allocated for employment support programs into work was heavily backloaded. Given the urgency the Government has explained around youth inactivity and rising health-related inactivity rates more broadly, hopefully they will bring this support forward, not least so it is available alongside the cuts to health-related benefits biting. And the Household Support Fund has helped millions of families through the cost of living squeeze, but the Spending Review provides an opportunity to make that money permanent and more effective.

5) This might be the summer of spending but it will be an autumn of fiscal reality

The unfortunate, lonely people among you that are not signed-up fiscal nerds may have missed the fact that next week will be a fiscal event that lacks one of the major protagonists of recent fiscal dramas: the OBR. In fact, decisions taken at the SR will happen in a bubble in which the reality of Donald Trump's tariffs are yet to hit the fiscal forecasts. Instead, the 11 June just involves the Government telling us exactly how it will spend the money that it has already set aside for public services. That's pretty unusual: of the past four SRs, only one has not come alongside a full fiscal event and updated forecast.

This matters because, despite the much-hailed better growth data in [April], the outlook has deteriorated since Spring Statement in March. For starters, longer-term interest rates are up around 0.2 percentage points, with benchmark 10-year gilt rates close to 4.7 per cent at the time of writing, with most of that rise coming in May. On top of that, trade uncertainty is likely to slow the world economy beyond what the OBR expected in March (consistent with recent markdowns to IMF and OECD forecasts for UK growth). In March, the OBR released scenarios that reflected its view of the impact of tariffs of the sort of scale that the US currently seems to be planning (although the wild oscillations in tariff rates emanating from the Oval Office mean this exercise has a 'whack-a-mole' quality to it). We estimate that the combined impact of higher rates and weaker growth suggests that the margin for error (or 'headroom') the Chancellor had against her fiscal rules will be all but wiped out if the OBR were to update its forecast today. And that mark down would be much worse if the OBR judged that 'trend' productivity growth has proven to be weaker than expected, as suggested by recent disappointing data. The OBR has previously shown that a 0.5 percentage point markdown would add more than £40 billion to borrowing (see Chapter 5 of the November 2023 EFO).

To be clear, much could change between now and the autumn, and it's a fool's errand to predict a forecast this far out. But it would be foolish too for Ministers to do this Spending Review on the prayer that better growth will pay for higher settlements in the future (don't forget we get to do this all again in two years' time). This is because the Prime Minister has recently promised any proceeds from growth to multiple pots already, such as easing off on planned benefit cuts and to progress the ambition to get defence to 3 per cent of GDP. Furthermore, growth doesn't need to be better than *now*, it needs to be better than *forecast*. The latter is a much harder task given the OBR is more optimistic than some on future prospects, and has already given the Government credit for some of its growth measures. Better to face the reality as it presents today and prioritise accordingly.

The SR is a chance for the Chancellor to boost the Government's economic fortunes

So there is *a lot* coming at next week's SR, and Rachel Reeves will be trying to hit multiple targets at one event. The biggest of those is to change the narrative around the economic fortunes of this Government, but she has some room – if not a lot – to shift the dial on where the country is heading for the rest of this decade. Doing so would mean making some big, bold choices that make a difference to those who have been hit hardest by the past two decades of stagnant living standards. As ever, we at RF will help you through it with overnight analysis and a post-SR event.