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BRIEFING

A healthy State?

Putting the 2025 Spending Review into context

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Executive summary

For a Government elected to deliver change, particularly for our crumbling public services, the Spending Review was a defining moment – allocating departmental budgets (about half of all public spending) right through to the next election.

First and foremost, the decisions in this Spending Review were about allocating spending for the next few years: three years for day-to-day resourcing, four for capital investment plans. The big picture is dominated by day-to-day spending, which constitutes around four-fifths of the total, but the pattern and implications are very different, so it makes sense to consider them separately.

The big winner – both overall and in terms of day-to-day spending – was health, which by the last year of this Parliament sees its annual day-to-day budget being boosted by £17.2 billion. This is disproportionate, even allowing for its giant share of the total public service budget, and leaves health and care sweeping up a remarkable 90 per cent of all the planned increases in day-to-day departmental budgets through the three years of this Spending Review. While rapid by today's standards, this growth looks modest through an historical lens: annualised growth will be 2.8 per cent against 3.6 per cent since the inception of the NHS. Whether – or not – that is sufficient for the Government to deliver on its mission to slash waiting lists and build a society "where everyone lives well for longer" will depend a great deal on whether the Government can turn around the post-pandemic collapse in NHS productivity. A flat real capital settlement for health over the next three years will not make that easy.

Most other services will nonetheless look on at the new health settlement with envy. Education is also up (by 1.3 per cent annually per pupil) but the effects in classrooms and colleges will be muted by the need to cover the Government's welcome extension of free school meals and rising pressures relating to Special Educational Needs. Elsewhere, there are losers. On average, spending on everything apart from health, defence, education, and overseas aid falls slightly in real per person terms between 2025-26 and 2028-29 (by 1.3 per cent on average, or £2.4 billion). The departments with the biggest cuts include foreign aid (as we knew), and transport (which sees real-terms day-to-day per person cuts of 5.4 per cent a year as post-Covid rail subsidies are reduced).

All this means that, in very many areas, hopes for improvement now rely on making existing resources stretch further. One potentially troubling case in point is the Department for Work and Pensions, where the revolution in employment support that was recently promised to sweeten sharp disability benefit cuts will now have to be funded out of essentially frozen day-to-day per person budgets over the next three years.

But the difficulties represented by cut or frozen budgets over the next three years depends crucially on the starting point. Last autumn, the Chancellor funded sizeable increases in public spending both last year and this year. Initially she was at pains to stress she was filling inherited black holes. But now she has been through every line of public spending and thrashed out new plans for the rest of the Parliament – plans that all build on the expenditure baseline she had already increased.

When we consider this Parliament as a whole, health and care continues to rank as the big winner, taking up the lion's share of the total boost in annual budgets across departments on a 2023-24 baseline. But after allowing for the increases that were already secured for other departments, some – such as DWP and Justice – do look to be faring relatively better than they do when the new Spending Review is considered in isolation.

Stepping back, the real level of day-to-day (i.e. non-investment) departmental spending per person is returning to roughly where it was in 2009-10. After the roller-coaster of austerity, the brief burst of Boris Johnson boosterism, and then the vast bills of the pandemic, real day-to-day resources per person have ended up back where they started. But the shape of the state has changed significantly. Over the near-two-decades between 2009-10 and 2028-29, health and care looms ever larger, rising from 34 per cent of day-to-day departmental spending directly controlled by Westminster to 49 per cent. By contrast, education has stagnated: starting at 21 per cent of day-to-day spend, and set to end up at 21 per cent too. On this longer view, many other services have faced – and continue to face – a serious squeeze. Day-to-day per person resources will, for example, have fallen by 16 per cent for Justice, by 31 per cent for Work and Pensions, and by 50 per cent for Housing, Communities and Local Government over the same period.

The Government is especially keen to trumpet its long-term capital spending plans, which were unlocked by last year's rewriting of the fiscal rules. These plans boost capital spending in 2029-30 by £33 billion above what the previous Government had planned, maintaining investment at its highest sustained rate since the 1980s. Plans don't always come off – Johnson had similar ambitions which didn't survive context with the pandemic – but the hope is that this is a serious break with the productivity-sapping British tradition of volatile and excessively low public investment.

Just as with day-to-day resourcing, though, it is important to keep an eye on the evolving balance of investment. The biggest investment winner in this Spending Review was Defence. Indeed, once increases in financial transactions are stripped out, the £7.3 billion a year real-terms increase in defence contrasts sharply with the £3.6 billion cut to real investment across all other departments. As it allocates such a big chunk of the increased capital spending plans to defence, in the light of a world that has changed since those totals were set last autumn, the Government will need to hope that more military equipment can contribute to its growth ambitions as well as its defence ones.

Over the Parliament, the big picture is of a roughly stable non-defence investment budget as a share of the economy. This allows previous increases in, for example, energy investment to be maintained. Relative to the previous Government's planned cuts, this extra investment should result in a much-needed boost to growth. And a welcome increase in funding for affordable housing means annual budgets will be higher than since 2010 but lower than at the end of the last Labour government.

After the passing political drama of a Spending Review at Westminster, what really matters to us all – and particularly the less well-off – is the delivery of public services. Compared to plans of the previous Government, this Spending Review delivers a boost to benefit in-kind income for households of £1,400 for a typical family in 2028-29. That gain is bigger still – at an average of £1,700 – for the poorest households. Some specific decisions this week – notably the expansion of free-school meals to many more low-paid working families, and the renewal of the Household Support Fund – contribute to this progressive slant.

So what have we learnt today about the Government's priorities? With health and defence the relative winners, we can deduce that shorter hospital waits and national security are top of the political wish-list. That leaves significant ambitions elsewhere to be delivered without significant extra resources. Looking ahead, a bright summer of spending is likely to become a darkening autumn of fiscal reality. The combination of higher gilt yields (up around 0.2 percentage points since March), a weakening in most forecasts for economic growth and other pressures – including the unfunded £1.25 billion 'U-turn' on Winter Fuel Payments and any funds needed to support the Child Poverty Strategy – could well require the Chancellor to raise taxes further meet her fiscal rules in her next Budget towards the end of the year.

Overall, this Spending Review was about the Government pinning its colours to the mast on its top priorities. But it was also symptomatic of the deep dilemmas at the heart of the UK's public finances. The state is forecast to grow roughly in line with the economy (and thus, quite slowly). Absent further tax rises, any fiscally responsible government will struggle to do much better than that. With demand and prices for healthcare rising much faster than the economy, how are we going to pay for it? Either everyone else will be squeezed without end, or the tax side of the equation will have to change.

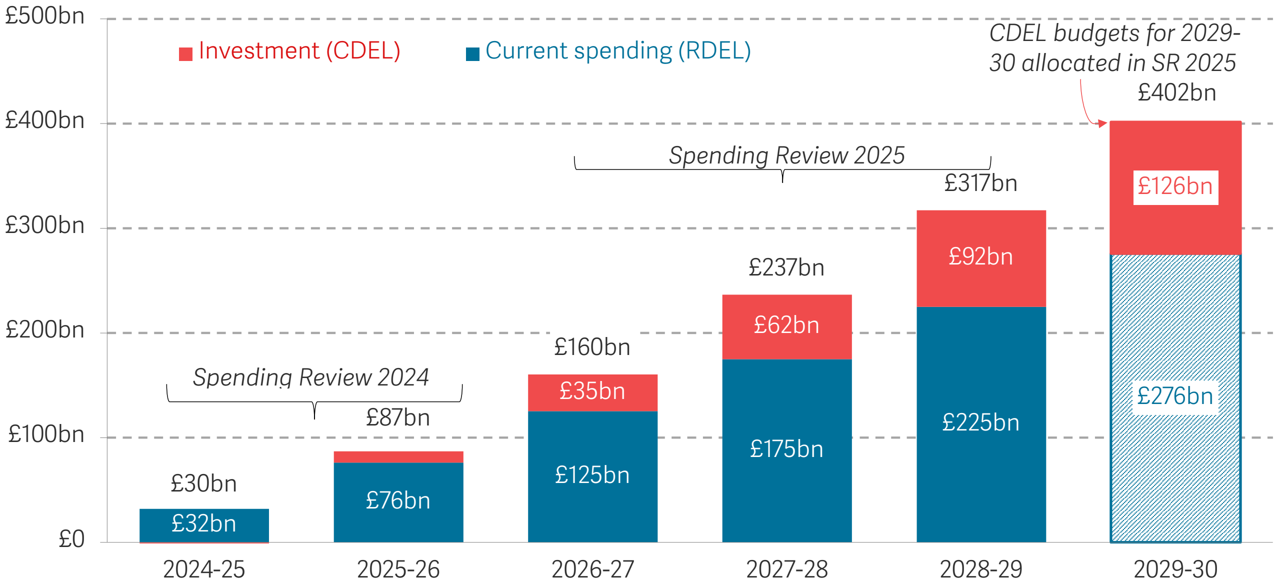
The Spending Review was a pivotal event for the Government

The real consequences of the Spending Review will be felt by all families in the UK for many years, as the ones who both use and fund public services. And as the first 'zero-based' review since 2008, the first stand-alone Spending Review since 2019, and the first three-year plan since 2021, this is clearly a defining event. Most obviously, this was the Government's chance to say what its priorities are after painful announcements on higher taxes and borrowing, and welfare cuts, at the Autumn Budget and Spring Statement. In short, this Government is spending a lot more than the last had planned, and the Spending Review told us how it wants to allocate that cash.

Relative to the plans set out by the previous Government, the Spending Review detailed how the Government will spend £224 billion extra over the next three years (2026-27 to 2028-29) – roughly two-thirds of which is day-to-day and one-third is capital, as shown in Figure 1. This comes off the back of an already hefty uplift of £87 billion in 2024-25 and 2025-26. Combined with the plans for an extra £81 billion in 2029-30, this Government is set to increase total departmental spending across all five years by £392 billion since it came into office last July.

FIGURE 1: **The Government has massively increased departmental spending compared to its predecessor's plans**

Cumulative change in departmental spending plans between June 2025 Spending Review and March 2024 Spring Budget, 2025-26 prices: UK

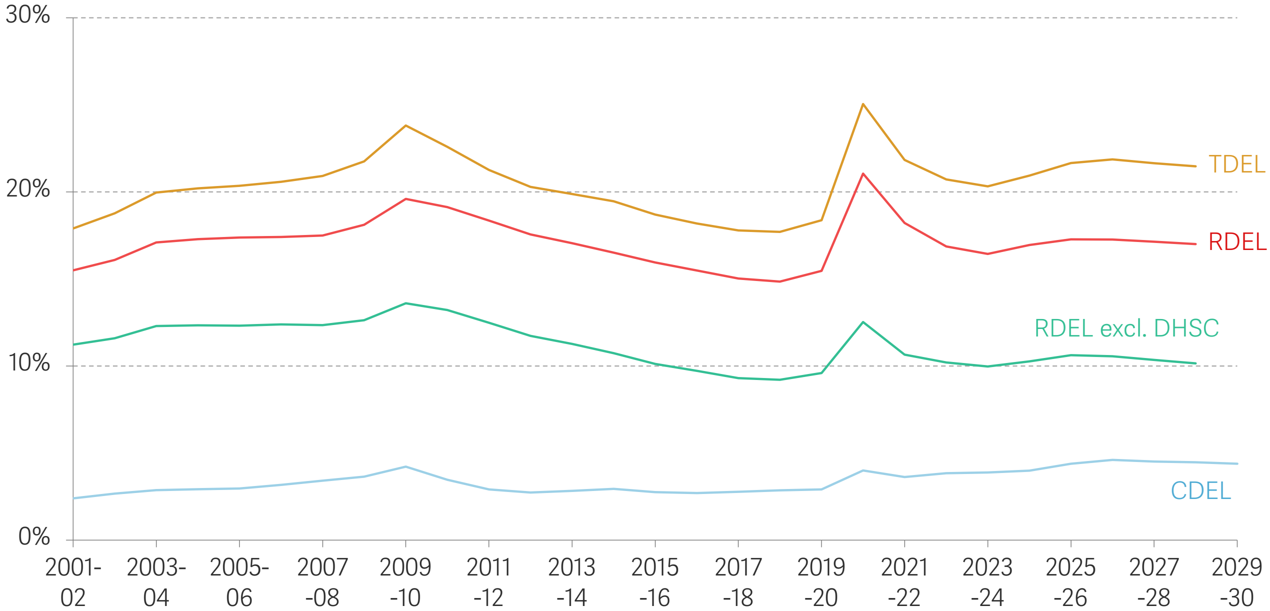


NOTES: Comparison for 2029-30 assumes March 2024 spending continued at 2028-29 growth rate.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

Total departmental spending (or TDEL) will average around £530 billion a year over the Spending Review and accounts for around half of total government spending. TDEL is set to grow by 1.5 per cent a year in real terms over the years of the Spending Review and 2.3 per cent annually over the course of the Parliament (from 2023-24 to 2028-29). As shown in Figure 2, that leaves it broadly flat over the Parliament at just over 20 per cent of national income. This is a level comparable to the early 2000s, with recent decisions having locked in the post-Covid increase in the size of the state.

FIGURE 2: **The Government is maintaining the size of the state**

Selected departmental spending totals as a share of GDP



NOTES: Departmental spending totals from 2023-24 onwards are based on the latest HMT figures. Totals for earlier years are backed out using growth rates from OBR EFO and HMT PESA tables. DHSC refers to the Department for Health and Social Care.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget, Spending Review documents and PESA tables, various; DWP, Benefit expenditure and caseload tables 2025.

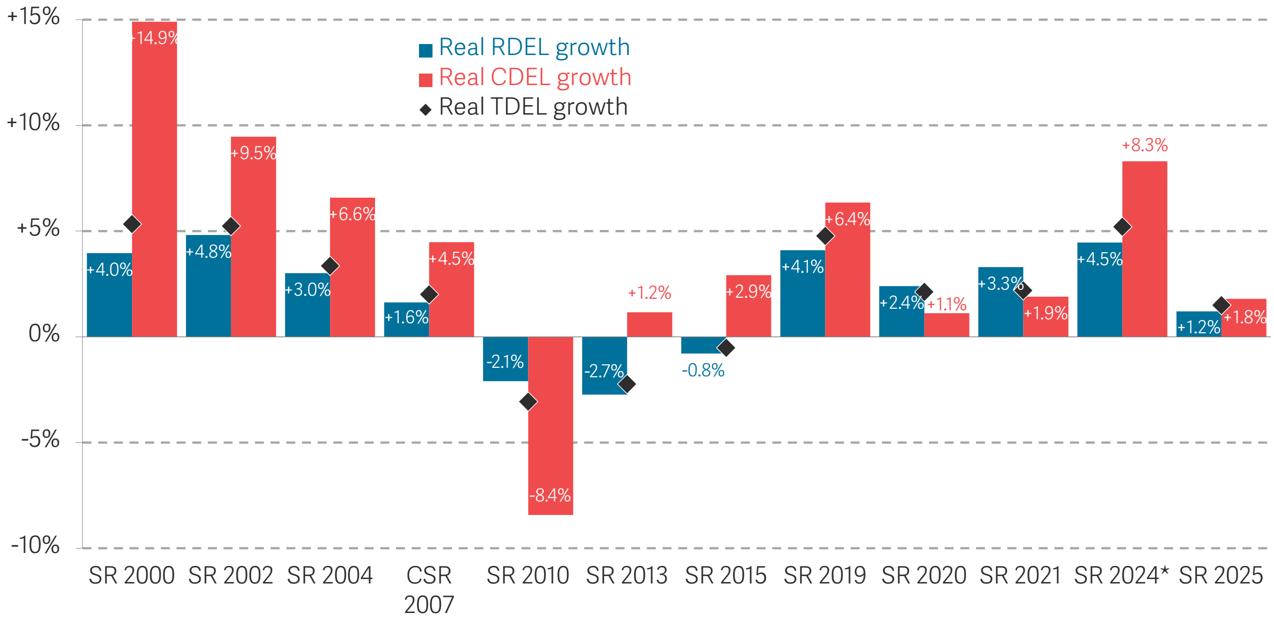
In the rest of this briefing note we set out the decisions taken at the Spending Review and discuss what they mean for people, public services and policy for the rest of the Parliament. We start with day-to-day public services spending before turning to investment.

This isn't a return to austerity, but growth in departmental spending plans are at their weakest outside it

How does this Spending Review compare to those of the past? In real terms, day-to-day spending on public services is set to grow at an average of 1.2 per cent over the three years to 2028-29. That makes this Spending Review weaker than all but the three austerity-period Spending Reviews following the 2007-08 financial crisis. It's a similar story on the Government's capital spending plans, where growth is just 1.8 per cent on average: above austerity levels, but weaker than other recent settlements (see Figure 3).

FIGURE 3: **This Spending Review sets out the weakest growth in departmental spending outside of austerity**

Average annual change in real day-to-day (RDEL), capital (CDEL) and total departmental spending (TDEL), as detailed at each spending review: UK

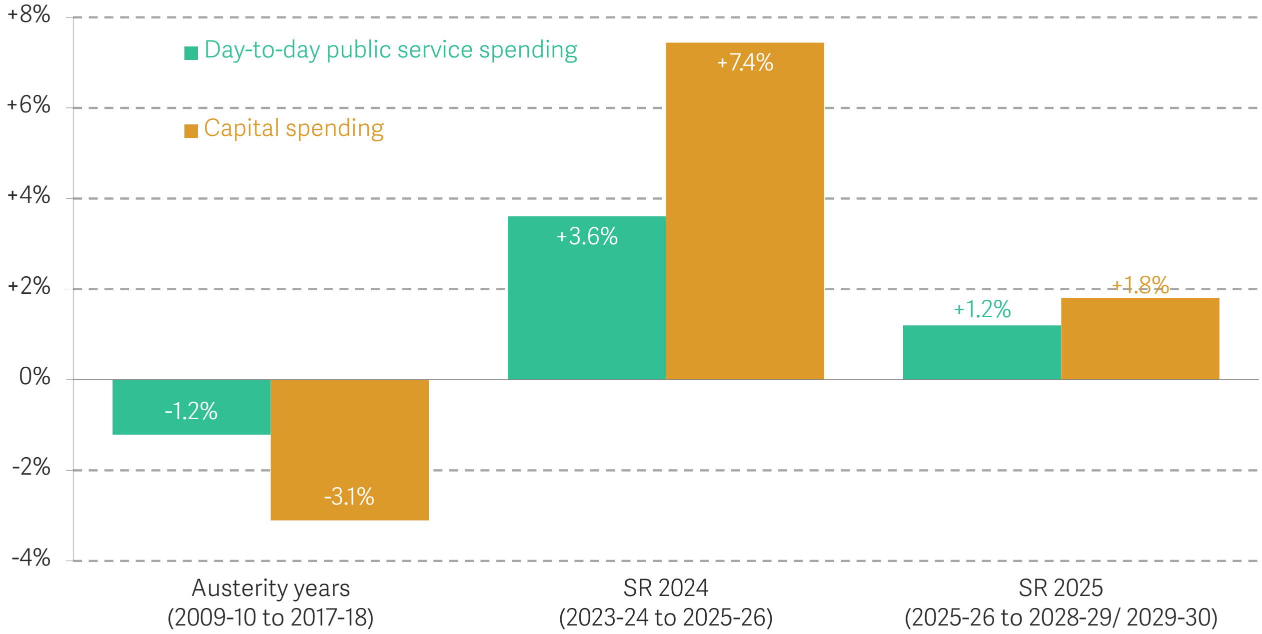


NOTES: Nominal RDEL & CDEL are deflated using contemporaneous forecasts of the GDP deflator. SR 2020 figures are deflated using a smoothed GDP deflator to adjust for the pandemic-driven volatility in the GDP deflator. SR 2024 figures include uplifts to 24-25 budgets, as well as the additions to 25-26.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

But it's essential to view this weakness in the context of front-loaded increases announced at Spending Review 2024 last autumn. Between 2023-24 and 2025-26, day-to-day spending on public services grew by an average of 3.6 per cent in real terms, and capital spending increases were an impressive 7.4 per cent. Growth in the latter years of this Spending Review is decidedly modest, but this Parliament clearly does not mark a return to outright austerity. As shown in Figure 4, during the peak of austerity (between 2009-10 to 2017-18) day-to-day spending on public services fell by 1.2 per cent on average compared to a rise of 1.7 per cent annually over the course of this Parliament (2023-24 to 2028-29).

FIGURE 4: **Spending over this Parliament is a tale of two halves**

Average annual change in real day-to-day (RDEL) and capital (CDEL) departmental expenditure limits, selected time periods: UK



NOTES: Departmental spending totals from 2023-24 onwards are based on the latest HMT figures. Totals for earlier years are backed out using growth rates from OBR EFO and HMT PESA tables.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

The big decision this Government has taken is to concentrate day-to-day spending towards health

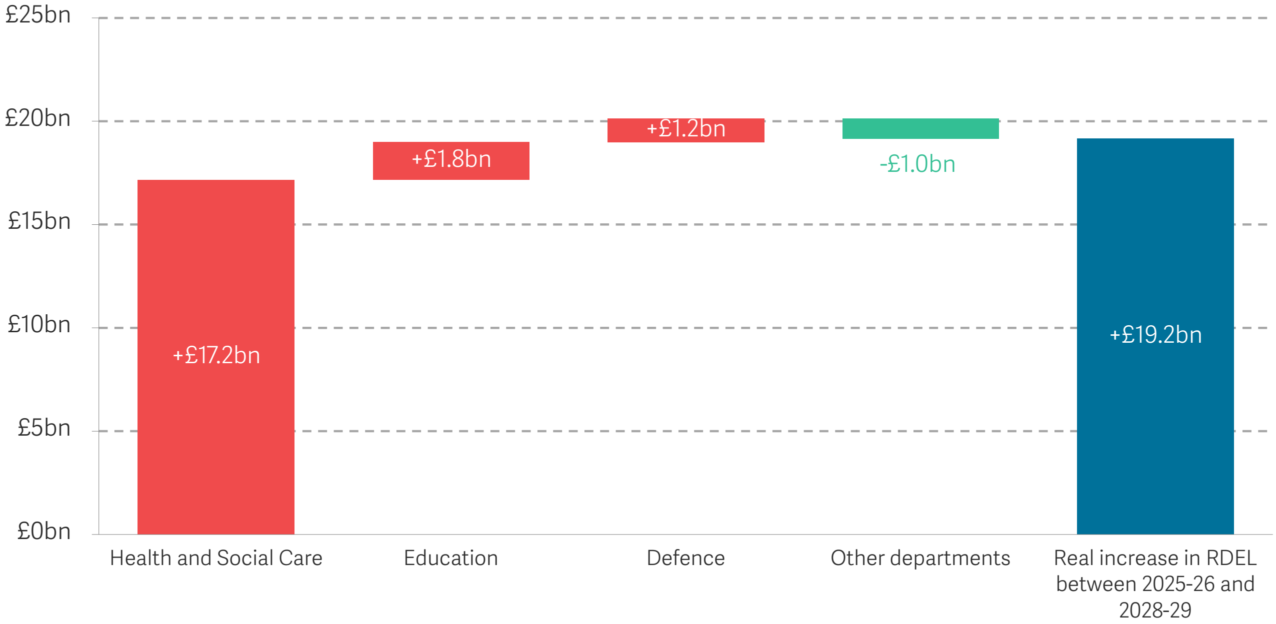
Following the sharp increase in day-to-day spending announced at the 2024 Autumn Budget, many departments came in to Spending Review 2025 in healthier financial shape than they had been in 2023-24. Larger departments discussed heavily during the election campaign secured large rises: Health and Education secured two-year rises of 5.1 per cent each (£10 billion and £4.5 billion in 2025-26 respectively). But some departments that had previously been subject to large cuts also received large increases; there was an increase of 7.3 per cent for Justice (£900 billion in 2025-26), for example. Of course, there are spending winners and losers across departments. The long squeeze since austerity continued for Environment, Food and Rural Affairs, Culture, Media and Sport and Transport which shrunk by a further 3 per cent and 5.3 per cent respectively at the Autumn Budget.

With growth in the envelope for the Spending Review much lower, the trade-offs were sharper at the Spending Review than they were last autumn. Of the £19.2 billion in real increases in annual spending between 2025-26 and 2028-29, 90 per cent (£17.2 billion) has been set aside for Health and Social Care, with 9 per cent (£1.8 billion) going to the

Education and just £1.2 billion going to Defence as it scales up to a capital-intensive 2.6 per cent of GDP by 2027 (Figure 5). This leaves other departments dividing up real-terms cuts of £1 billion between them.

FIGURE 5: **Health gobbles up 90 per cent of the increase in RDEL by 2028-29**

Change in planned day-to-day departmental spending between 2025-26 and 2028-29 (£ 2025-26): UK



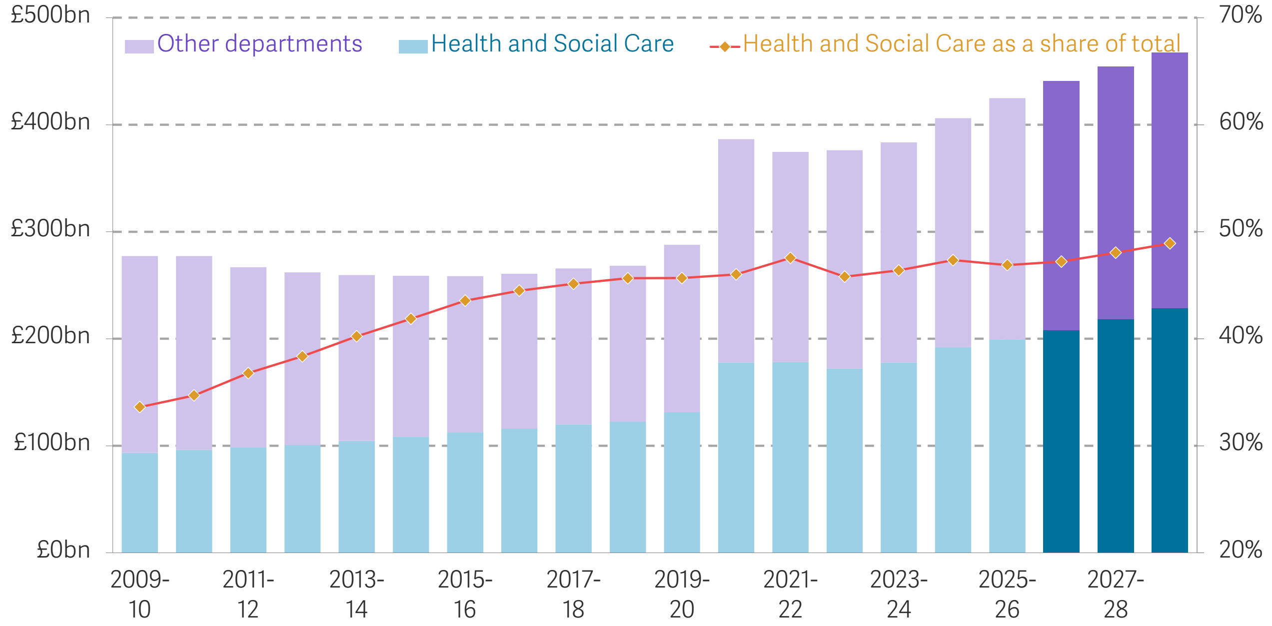
NOTES: The departmental analysis is based on the Treasury's measure of RDEL, including non-PSCE RDEL but excluding any assumptions about underspending. We exclude the additional funding for NICs and SCAPE from these figures.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

The Chancellor's key decision was to allocate 3 per cent real annual growth for the NHS (and 2.8 per cent real growth per year for the Health and Social Care department overall). This is below the post-1949 average of 3.6 per cent per year, but more than 1 percentage point higher than the 1.7 per cent growth in the 2010s. As it is by far the largest department this choice has major implications. A 3.6 per cent annual growth rate would have cost £5.5 billion more by 2028-29. Alternatively, holding health to the 1.2 per cent average set for other departments would have freed £10 billion for other departments.

This Health-focussed settlement increases the share of RDEL which goes to the Department for Health and Social Care. Indeed, nearly half (49 per cent) of all day-to-day departmental spending controlled by Westminster will go to Health and Social Care by 2028–29, up from 46 per cent in 2025-26 and just 34 per cent in 2009-10 (Figure 6). By contrast, education has stagnated: starting at 21 per cent of day-to-day spend in 2009-10 and being set to end up at 21 per cent in 2028-29.

FIGURE 6: **Nearly half of Westminster departmental spending will go to health by 2028-29**

Nominal day-to-day spending on DHSC (left axis) as a share of total spending (right axis) controlled by Westminster: UK



NOTES: Total excludes block grants to Northern Ireland, Scotland and Wales. Departmental spending adjusted for NICs and SCAPE.
SOURCE: RF analysis of HMT, PESA tables, various and Spending Review 2025.

This focus on health will be popular with voters. Previous Resolution Foundation and YouGov research found broad support among adults in all income groups for more funding for NHS: hospitals and GP services are the top two priority areas by the public for additional funding.[1] The big question for the Government is whether the increases confirmed in the Spending Review are enough to tackle stubbornly long waiting lists, with just 60 per cent of people receiving treatment 18 weeks following referral, a country mile below the Government's 92 per cent target.[2]

The Government has also committed to raise defence spending to 2.5 per cent of GDP by 2027-28 and to 3 per cent of GDP during the next Parliament. In the near term, almost all this increase will come from capital spending (CDEL), rather than RDEL. Meanwhile, Official Development Assistance (ODA) spending will fall from 0.5 per cent to 0.3 per cent of national income (GNI) by 2027. These sharp cuts are helping fund a £1.2 billion real-terms increase in Defence spending in 2028-29, as well as boosting other public services, especially health.

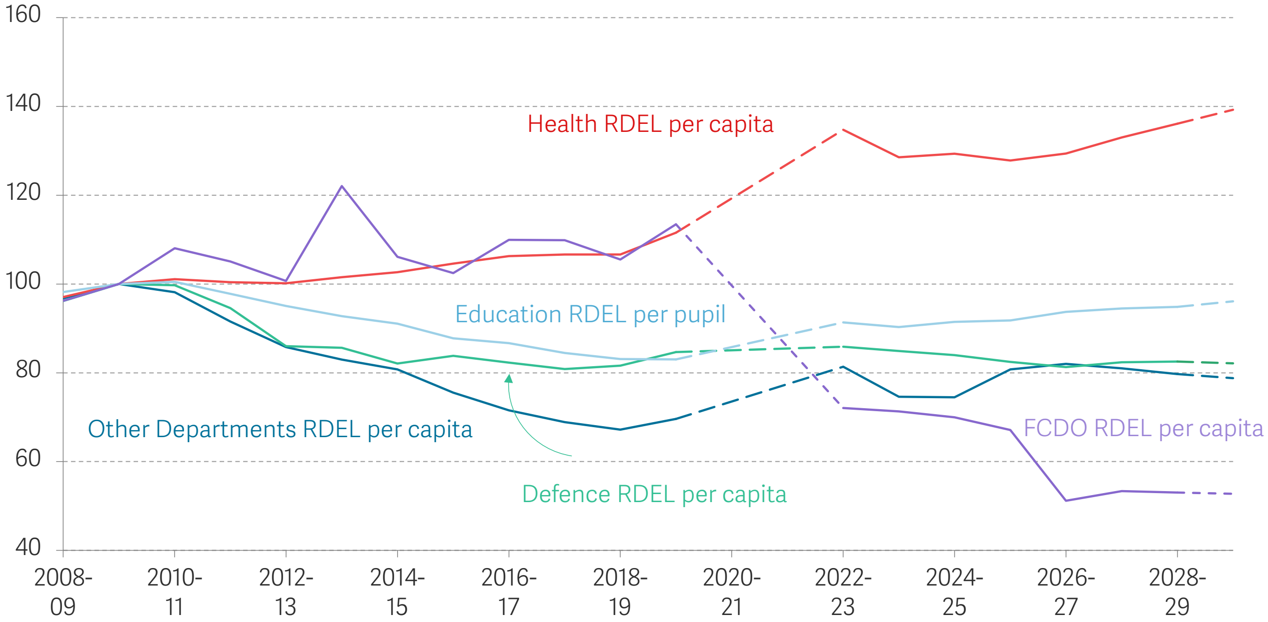
Demands on public services will increase with the size of the population, though. If we taking this into account too, then the Government's plans imply a £2.4 billion real-terms

1 C Aref-Adib, E Fry & Z Leather, At your service?, Resolution Foundation, April 2025.
2 10 Downing Street, Over two million extra NHS appointments delivered early as trusts handed £40 million to go further and faster, February 2025.

per person cut for departments other than health, education, defence, and FCDO over the Spending Review period (see Figure 7).[3]

FIGURE 7: **Per student, education spending is still below its 2009-10 levels while health storms ahead**

Indices of real per person resource departmental expenditure limits (2009-10=100), by selected departments and other departments: UK



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. Other departments include everything apart from DHSC, Education, Defence and FCDO. Figures include the impact of Barnett consequentials. FCDO is responsible for more than seven in ten pounds spent on ODA. Education shown per pupil.

Stepping back, this Spending Review offers insights into how the Government's priorities have already evolved over the first year of the Parliament. The Autumn 2024 Budget focused on 'fixing the foundations', with around 60 per cent of departments receiving real per person funding increases. In contrast, fewer than half of departments saw rises this time, with all expected to deliver at least an 11 per cent real-terms cut to their administration budgets by 2028-29.

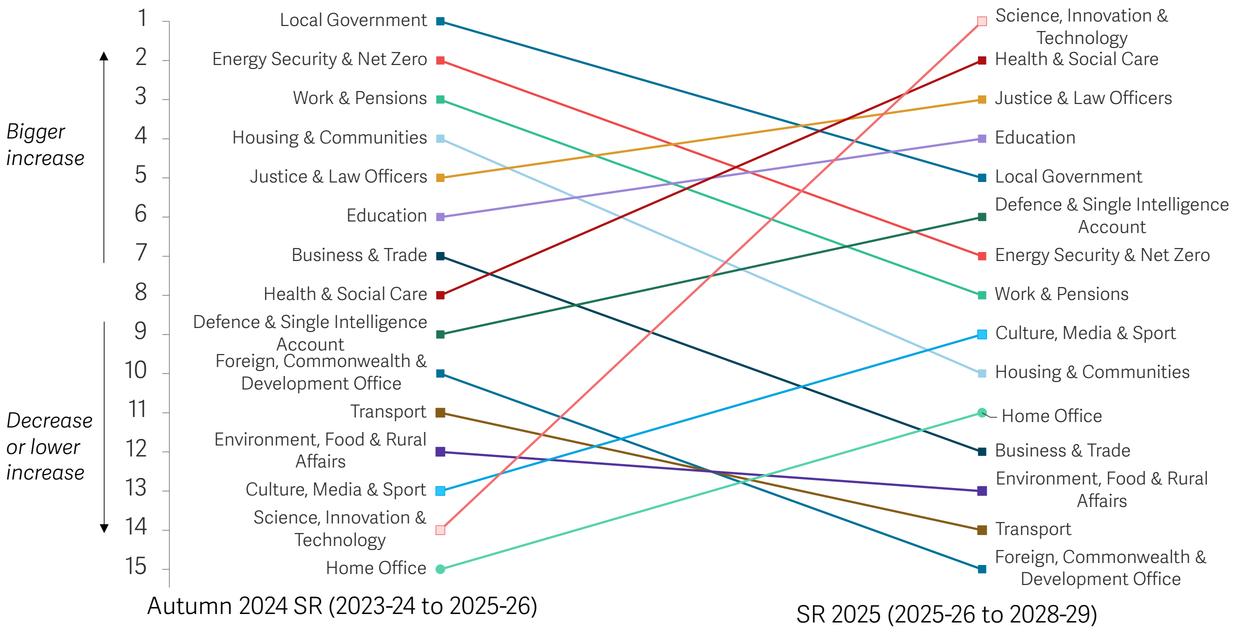
The Spending Review also reveals different priorities from the Autumn Budget. As shown in Figure 8, priority departments that received relatively large increases last autumn, such as Energy Security and Net Zero, Work and Pensions and Housing and Communities faced smaller uplifts, and even per person cuts in this Spending Review. Other priorities, like Education and Justice, remained steady. Two big winners are Science and Technology, and Health, which have both climbed to the top of the rankings from

3 According to ONS projections, the population is expected to grow by around 0.4 per cent per year between 2025-26 and 2028-29, slower than the 0.7 per cent annual growth seen in the 2010s.

far down the pack. The main departmental losers this time are Transport, as it scales its back post-Covid rail subsidies, the Home Office, which has been charged with shrinking spending on asylum by £1 billion per year by 2028-29 compared with 2024-25, and the Foreign, Commonwealth and Development Office, which bears the brunt of ODA cuts.

FIGURE 8: **From emergency surgery to settled priorities**

Ranking of increase at the Spending Review 2025 vs Autumn 2024 SR by department



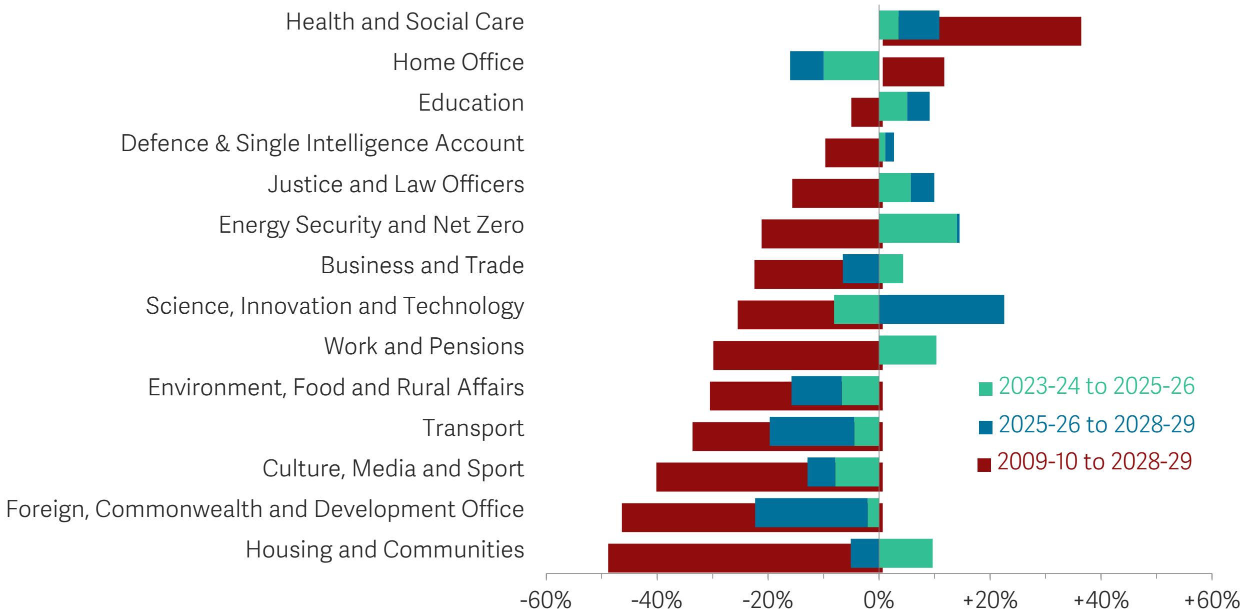
NOTES: Cabinet Office, HMT and HMRC are not shown. Defence shown with Single Intelligence Account and Justice shown with Law Officers. Education per pupil, all other departments per population.
SOURCE: RF analysis of HMT Spending Documents.

Where does this leave departmental spending?

While the austerity of the 2010s is now history, its legacy will live on. Whereas Spending Review plans imply that real, per person funding for health will increase by 36 per cent between 2009-10 and 2028-29, current plans imply falls by 16 per cent for Justice, a 31 per cent fall for DWP, and a 50 per cent fall for Housing and Communities (see Figure 9). Top-ups to these three departments over this Parliament (of 10 per cent to Justice, 10.3 per cent to Work and Pensions, and 4 per cent to Housing and Communities) have gone some way to undoing these deep cuts, but some scarring remains.

FIGURE 9: **Despite increases over the next three years, some departments' day-to-day budgets are still set to be significantly below 2009-10 levels by 2028-29**

Percentage change in real-terms per person departmental expenditure limits: UK



NOTES: RDEL growth rates have been adjusted to account for employer NICs changes, Machinery of Government changes, increased pension contributions (SCAPE), and budget cover transfers in 2023-24. Education shown per pupil, all other departments per population.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various

As well as pressures on services themselves, the trade-offs faced at the Spending Review will be affected by the extent of public-sector pay awards. So a key question here is whether additional real pay rises are required to recruit and retain the public-sector workers needed to deliver improvements in public services. Box 1 assesses where things stand.

BOX 1: **Where do things stand when it comes to public sector pay?**

Pay is the biggest ticket item in department budgets, accounting for half of day-to-day spending. At the Autumn 2024 Budget the Government factored in public sector pay increases of 2.8 per cent for 2025-26. But, following the recommendations of the pay review bodies, the Government has since accepted recommendations for higher pay increases ranging from 3.6 to 4.5 per cent. The average award of around 4 per cent follows increases of 4.75-6 per cent per cent in 2024-25, and implies around £3.3 billion more spending than previously assumed.

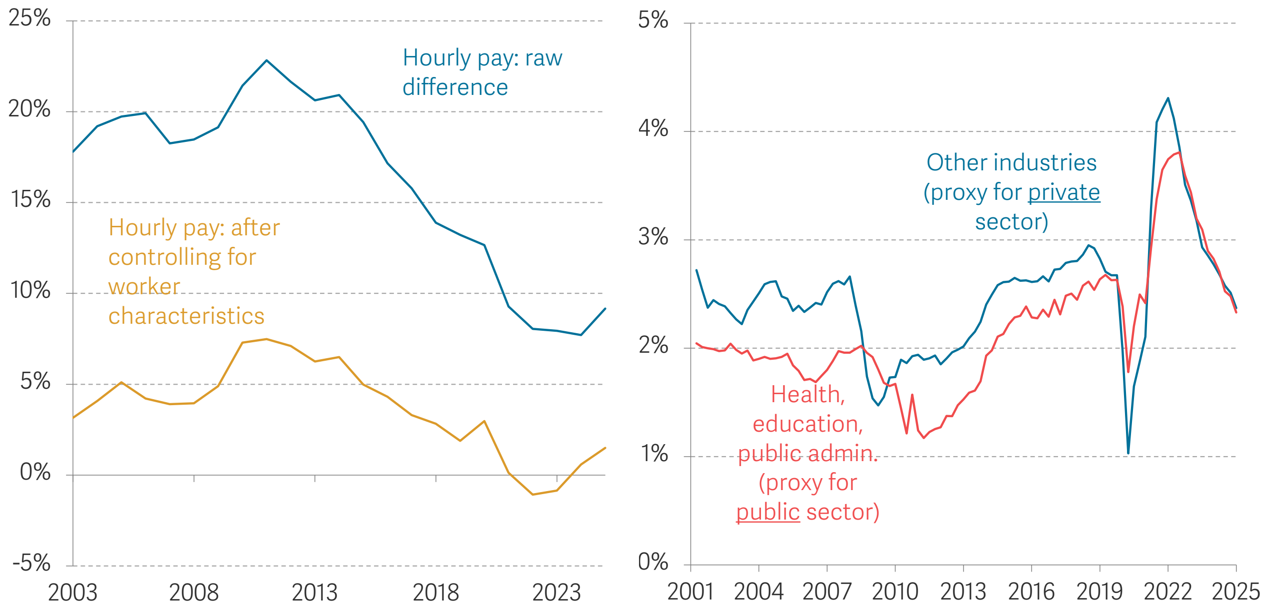
A key question then, is to what extent are high public sector pay increases needed to help with the recruitment and retention of workers? In the short run, the Government has some latitude to restrain or accelerate pay. But over the long run, it has little choice but to pay enough to attract and retain staff who have the option to work in the private sector. So public-sector vacancy rates and the difference in earnings between public- and private-sector workers are key indicators of near-term public sector pay pressures.

The available data suggest that the Government may be under somewhat less pressure on pay in the near future than over the recent past. Following the big pay deals, the pay premium in the public sector has recovered slightly and vacancy rates have normalised (see Figure 10). Meanwhile, the labour market overall is loosening, and the OBR forecasts that average earnings growth will decelerate sharply from 4.7 per cent in 2024 to 2.1-2.5 per cent over 2026-29. If these forecasts play out, it seems unlikely that the Government will need to repeat the relatively large pay increases of the past two years.

However, with most departments seeing real-terms cuts or flat budgets, any pay settlement that exceeds inflation will require trade-offs – either through efficiency savings or reduced service provision elsewhere.

FIGURE 10: **Relative pay has recovered and vacancy rates have fallen in the public sector**

Pay in the public sector relative to the private sector, with and without controlling for worker characteristics (left-hand chart) and vacancy rates in the public and private sectors (right-hand chart)



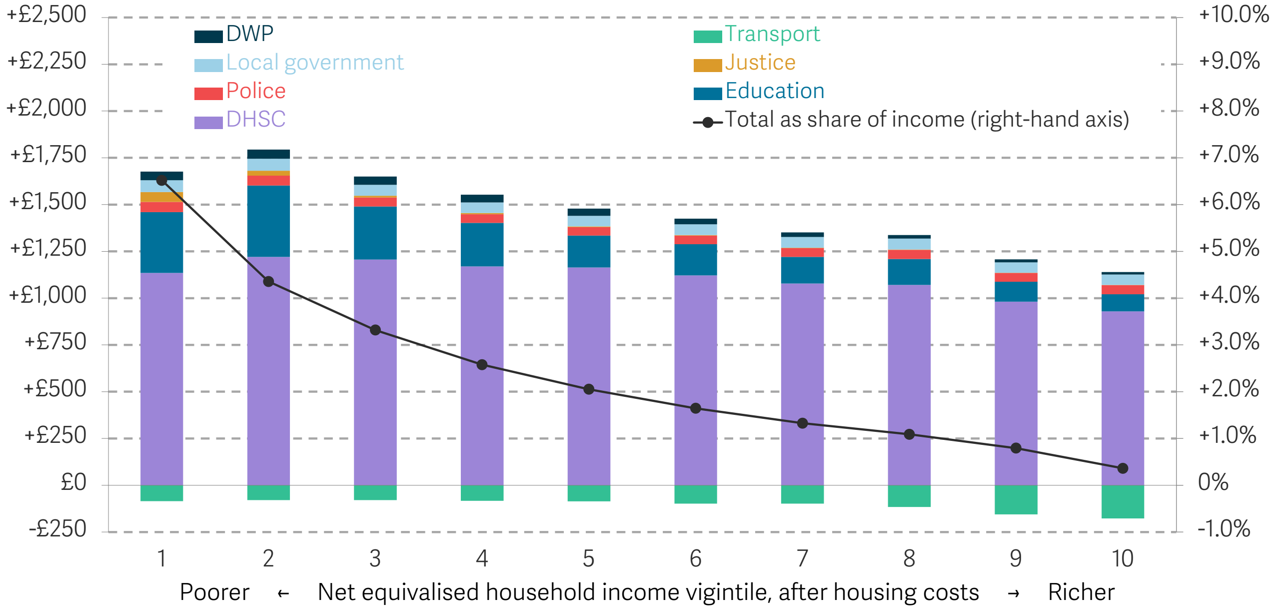
NOTES: Hourly pay comparison comes from analysis of the Labour Force Survey microdata. Worker characteristics controlled for are age, experience, gender, and region.
SOURCE: RF analysis of ONS, Vacancies and jobs in the UK; ONS, Labour Force Survey.

Low-to-middle income oriented spending

The spending decisions taken by the Government will result in a big boost to in-kind benefits from public services for low-to-middle income households. Compared to the plans of the previous Government, Figure 11 shows that, on average, households will receive an extra £1,400 of in-kind benefits from public services in 2028-29. And the benefits are larger for the poorest households: the bottom fifth of households (ranked by equivalised household income) will receive £1,700 of in-kind benefits, worth 5 per cent of their disposable income. This is largely down to increases in funding for the departments of Health and Social Care and Education.

FIGURE 11: **The Government has increased in-kind benefits from public services for the poorest households compared to the previous government's plans**

In-kind benefits in cash terms (left-hand side) and as share of income (right-hand side) from the Government's plans compared to previous Government's plans, by equivalised household income decile: England, 2028-29



NOTES: See Annex 1 in C Aref-Adib, E Fry & Z Leather, At your service?, Resolution Foundation, April 2025 for assumptions. Police funding is treated as Home Office excluding asylum.
SOURCE: RF Analysis of HMT Spending documents; DWP, Households Below Average Income; Family Resources Survey; ONS, Wealth & Assets Survey; Understanding Society; National Travel Survey.

The Spending Review also contained some welcome policies that will benefit low-to-middle income families directly, specifically: the extension of Free School Meals eligibility to all children in families claiming Universal Credit; the extension of the Household Support Fund – rebranded as the Crisis and Resilience Fund – for three years; and increased funding for employment support.[4] Extending Free School Meal eligibility to all families on Universal Credit in England from September 2026 is an important first

4 C Aref-Adib, E Fry & Z Leather, At your Service?, Resolution Foundation, April 2025.

step in the Government's efforts to reduce child-poverty.[5] The Government estimates that around 500,000 additional children will become eligible in 2026-27 at a cost of £250 million, increasing to £410 million in 2028-29. In the long term, we estimate that around 2 million children gain eligibility for FSMs in the long-term and an estimated 100,000 will be lifted out of poverty, at a cost of around £1 billion per year.[6] The short-term impact of the change is made complicated by transitional protection rules put in place as families have migrated from legacy benefits to Universal Credit: these meant that some the children who will become eligible under the new rules would have received FSMs anyway while they are in their current school phase. There will be some losers from the change, however: transitional protection will now come to an end next year, meaning that children currently receiving transitional protection whose families have moved out of Universal Credit eligibility all together will lose FSMs next year.

The extension of the Household Support Fund (HSF) – rebranded as the Crisis and Resilience Fund – across the Spending Review period is also a very welcome move. Comprehensive crisis support is an important feature of an effective social security system, and the HSF has provided vital support to millions of families since its inception in 2021. Short-term funding of six months, or a year, has hindered local authorities' delivery of the scheme so far, so the first multiple-year settlement of funding will help to make the scheme more effective.[7] The Government has kept the funding for this frozen in nominal terms at £1 billion a year. As was the case in 2025-26, this sum includes what was previously separate funding for Discretionary Housing Payments, meaning that the amount of money in the future Crisis and Resilience Fund will, by 2028-29, be 32 per cent lower in real terms than when it was introduced in 2021-22.

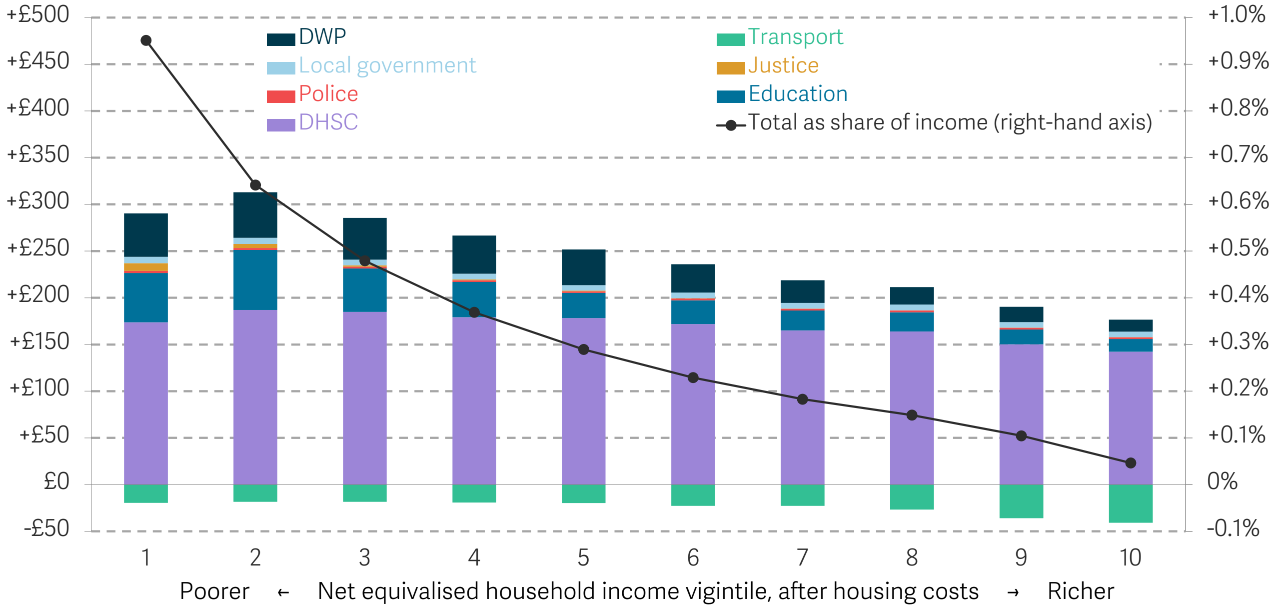
Funding provided to DWP for employment support will increase to £3.5 billion in 2028-29. This total supposedly includes the additional funding to help sick and disabled people into work, as set out in the Pathways to Work Green Paper, but the Spending Review gave no more detail on what form this will take.[8] As announced at the Spring Statement, this additional support will be backloaded towards the end of the Parliament, reaching £400 million per year in the Spending Review period before (allegedly) ramping up to £1 billion in 2029-30, meaning that benefit cuts could bite for many before the bulk of the new employment support is in place. However, the DWP's real per person RDEL budget doesn't grow across the Spending Review, meaning the increased employment support funding will need to be funded by efficiency savings and other cuts within the department.

5 The income threshold of £7,400 will continue to apply to Pupil Premium funding, so children who become eligible for FSMs under the new rules will not attract Pupil Premium funding for their schools (although those who were receiving FSMs with transitional protection will continue to get it for 6 years).
6 See A Clegg & A Corlett, Turning the tide: what it will take to reduce child poverty in the UK, Resolution Foundation, February 2025.
7 A Clegg et al., Renew and improve: Setting up the Household Support Fund for the future, Resolution Foundation, May 2025.
8 Department for Work and Pensions, Pathways to work: reforming benefits and support to get Britain working green paper, March 2025.

Although the in-kind benefits confirmed in the Spending Review are large and skewed towards low-to-middle income households, they were front loaded and arise partly due to the counterfactual of assumed cuts. When just assessing the decisions taken in the spending review (rather than including all the decisions taken by this Government), then the increase in the value of in-kind benefits falls. As shown in Figure 12, the average increase in in-kind benefits from public services as result of the Spending Review will be £200 for households. This will be higher for the poorest 20 per cent of households, standing at £250 (or 0.8 per cent of their income).

FIGURE 12: **The gains from in-kind benefits from the boost to public services are front loaded, leaving smaller gains across the rest of the Parliament**

Annual real terms increase in in-kind benefits in cash terms (left-hand side) and as share of income (right-hand side) by household income decile (£ 2025-26): England, 2025-26 to 2028-29



NOTES: See Annex 1 in C Aref-Adib, E Fry & Z Leather, At your service?, Resolution Foundation, April 2025 for assumptions. Police funding is treated as Home office excluding asylum.
SOURCE: RF Analysis of HMT Spending documents; DWP, Households Below Average Income; Family Resources Survey; ONS, Wealth & Assets Survey; Understanding Society; National Travel Survey.

Of course, the in-kind benefits from increased public services spending should be seen in the context of the £39.7 billion tax rises announced at the Autumn Budget 2024 and £3.6 billion of benefit cuts announced at Spring Statement 2025 (both in 2028-29) – worth £1,550 per household per year – which have helped to pay for them.

Finally, it is worth remembering that a lot of the in-kind benefits from public services come from local councils, and, as discussed in Box 2, there has been an increase in local government core spending power following a big decline during austerity.

It is important to be clear that the scale of these benefits comes because of the comparison to the previous Government's plans, where quite significant cuts had been pencilled in.

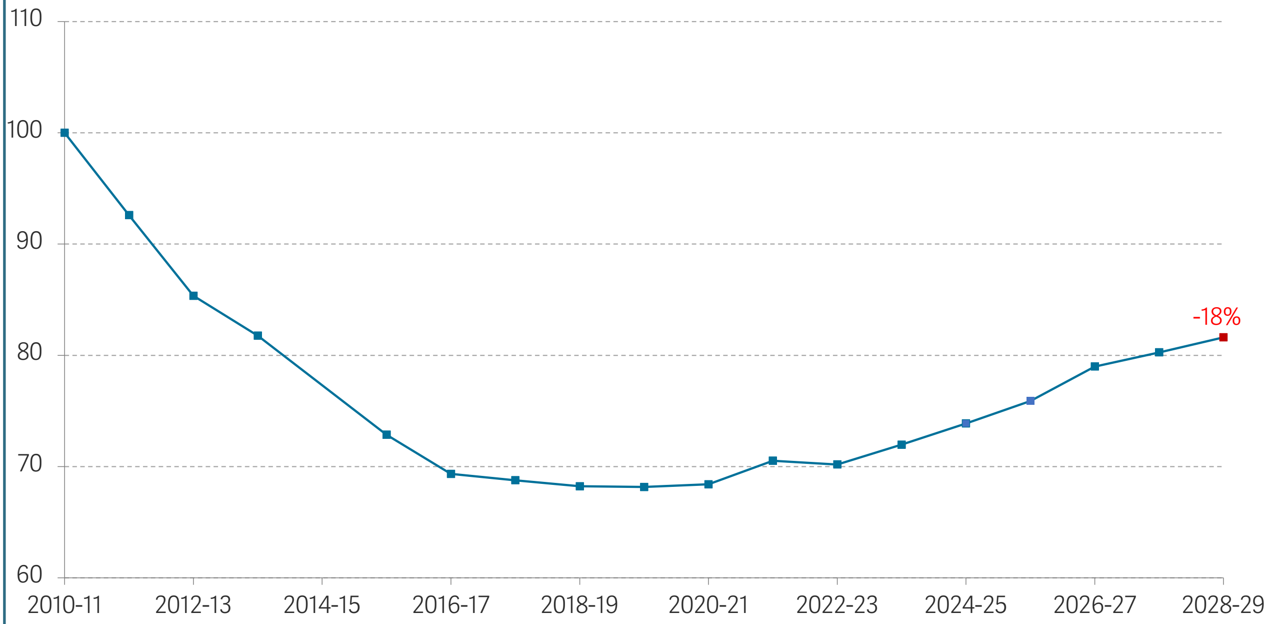
BOX 2: **Local government core spending power**

Local Government spending is financed through a combination of central government funding (RDEL and AME), which includes grants from the MHCLG and other departments, as well as retained business rates revenue and Council Tax revenue. Putting these sources of funding together, we get a term known as 'local government core spending power'.

Local Government core spending power per person fell dramatically during the austerity years, and was 32 per cent lower by the start of the pandemic than it had been in 2010-11. Since the pandemic, though, there has been a recovery in core spending power. The Spending Review continued this upward trajectory, meaning that core spending power in 2028-29 will be only 18 per cent less in per person real-terms than in 2010-11. But, much like the previous Government, the Government's assumptions around core spending power include that local authorities raise council tax by the maximum 5 per cent permissible (without a referendum or special permission from the national government) each year. In per person real terms, this will mean the council tax requirement of core spending power is set to rise by 14 per cent over the course of this Parliament.

FIGURE 13: **Local government core spending power will continue to recover, albeit at much lower levels than pre-austerity**

Real per person local government core spending power (2010-11=100): England



NOTES: Assumes England population numbers over this time period have changed in a similar way to the UK population.
SOURCE: RF analysis of HMT, Spending documents; MHCLG, Core Spending Power table: provisional local government finance settlement 2025 to 2026; MHCLG, Spending power by local authority, 2013; MHCLG, Government confirms progressive settlement and fair deal for communities, January 2011.

And so, although core spending power is slowly recovering, this is reliant on councils raising council tax – a highly regressive tax that hits poorer households hard.[9]

This Government has significantly increased public service spending over the course of the Parliament, but with a much tighter settlement between 2025-26 and 2028-29. When we consider this Parliament as a whole, health and care continues to rank as the big winner, taking up the lion's share of the total boost in annual budgets across departments relative to 2023-24. But after allowing for the increases that were already secured for other departments, some – such as DWP and Justice – do look to be faring relatively better than they do when the new Spending Review is considered in isolation. But compared to 2009-10, only Health and the Home Office have seen real gains, and all other departments remain worse off.

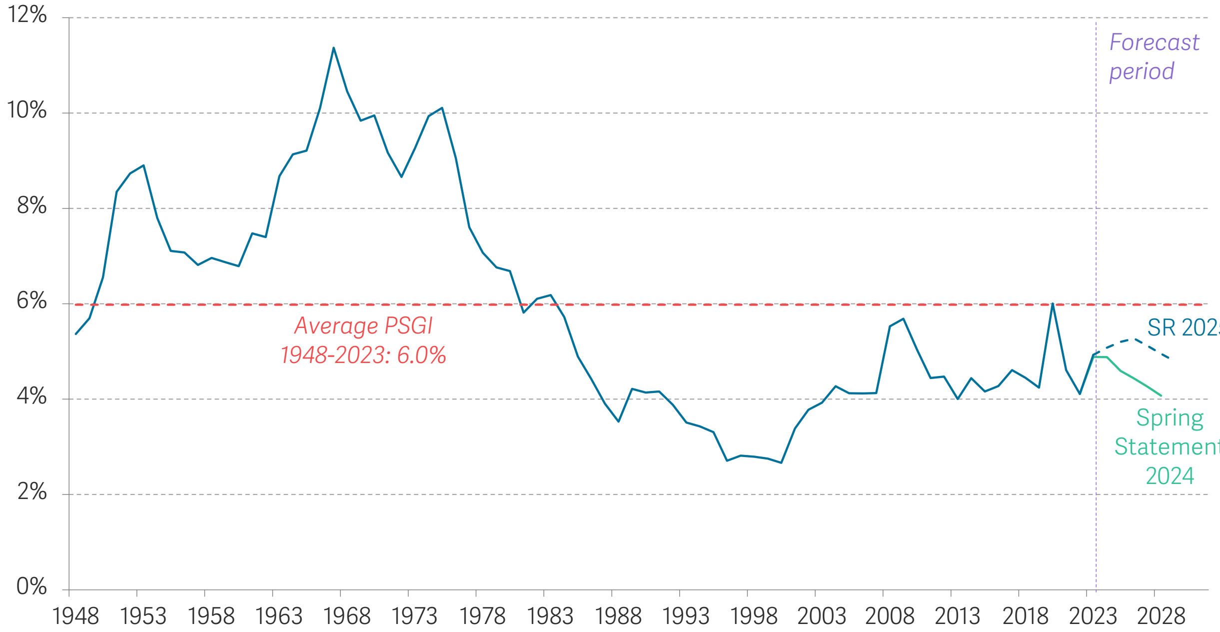
9 L Try, Money, money, money, Resolution Foundation, February 2025.

On investment, the winner was defence

Having boosted capital spending sharply in the first two years of this Parliament, the 2025 Spending Review set out a plan to keep investment roughly constant as a share of GDP (see Figure 14). The 1.8 per cent annualised real-terms increase in CDEL between 2025-26 and 2029-30 follows average increases of 7.4 per cent in the previous two years, taking the annualised average over this period to 3.6 per cent. The Government has also reprofiled some investment spending within the overall envelope announced in last October's Budget to further front-load spending over the next four years – investment is set to grow 6.9 per cent in real terms in 2026-27 and remain basically flat after that.

FIGURE 14: **Public sector investment is set to remain broadly flat but above the average of the last 30 years**

Public Sector Gross Investment (PSGI) in CDEL as a share of GDP: UK



SOURCE: RF analysis of HM Treasury, Spending Review 2025; OBR, Economic and Fiscal Outlook, March 2024 and March 2025.

These plans are a big step up from the sharp cuts pencilled in by the previous Government, adding an extra £33 billion of investment in 2029-30 alone compared to the path implied by Jeremy Hunt's final Spring Statement.[10] The plans should result in a welcome boost to the efficiency of public services and the wider economy. Back in October 2024, the OBR estimated that the Government's plans for public investment, which are very close to what was announced in the 2025 Spending Review, would boost the level of GDP by 0.14 per cent by 2029-30, and by more in subsequent years.

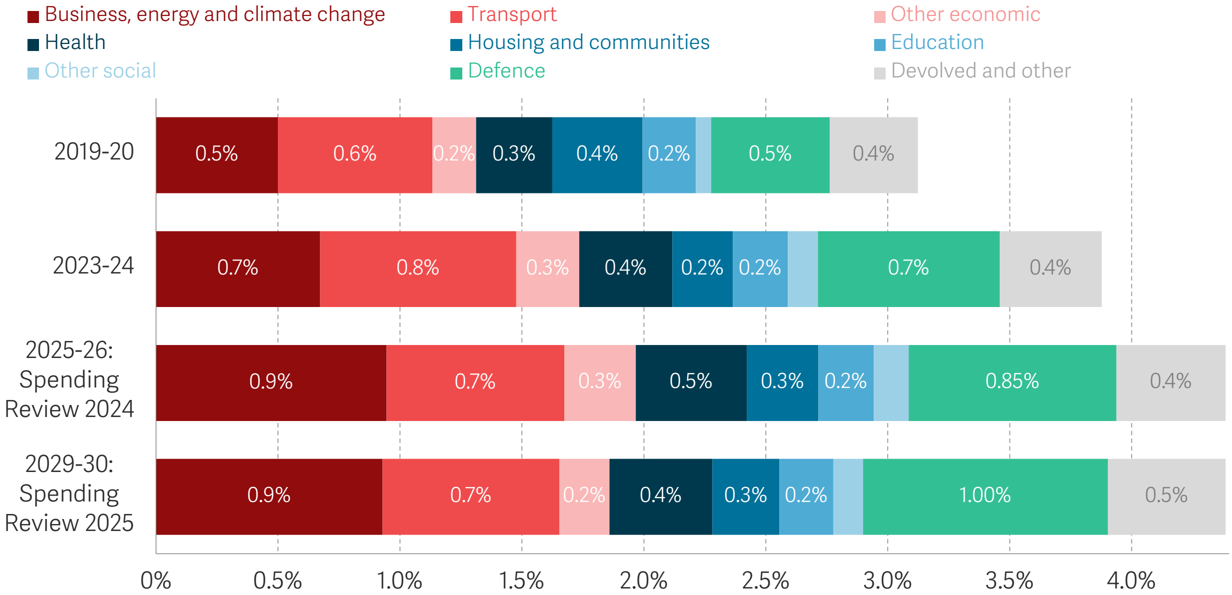
10 The fiscal forecasts that accompanied the March 2024 Spring Statement contained a CDEL envelope that ended in 2028-29. For this comparison, we extend it by one year based on final-year growth.

The Government has maintained investment in economic infrastructure at the new high level

Many kinds of investment in public services can also be good for the economy. But broadly, investment can be categorised as either 'economic infrastructure' (such as roads, R&D and energy infrastructure), or 'social infrastructure' (such as capital investment in schools, hospitals and prisons).[11] The Government has largely stuck with decisions taken throughout this decade by its predecessor to focus on economic infrastructure rather than social infrastructure (see Figure 15).

FIGURE 15: **The overall rise in public capital spending during the 2020s is being driven by more investment in economic infrastructure and defence**

Capital departmental expenditure limits (CDEL) by department, as a proportion of GDP: UK



NOTES: Business, energy and climate change refers to Business, Energy and Industrial Strategy in 2019-20 and the combination of Energy Security and Net Zero, Business and Trade, and Science, Innovation and Technology from 2023-24 onwards. Housing and communities refers to DLUHC in 2019-20 and MHCLG from 2023-24 onwards. Defence includes the Single Intelligence Account in all periods. Other economic refers to FCDO, DCMS, HMRC, HM Treasury, Cabinet Office and the Growth Mission Fund. Other social refers to the Home Office, Justice, Law Officers' Departments and DWP. Devolved and other refers to devolved nations, small and independent bodies, reserves and provision for intra-governmental leases. Financial year GDP data is taken from the OBR's March 2025 forecast.
SOURCE: RF analysis of HM Treasury, Spending Review 2025, Spending Review 2024 and Autumn Budget 2021; OBR, Economic and Fiscal Outlook, March 2025.

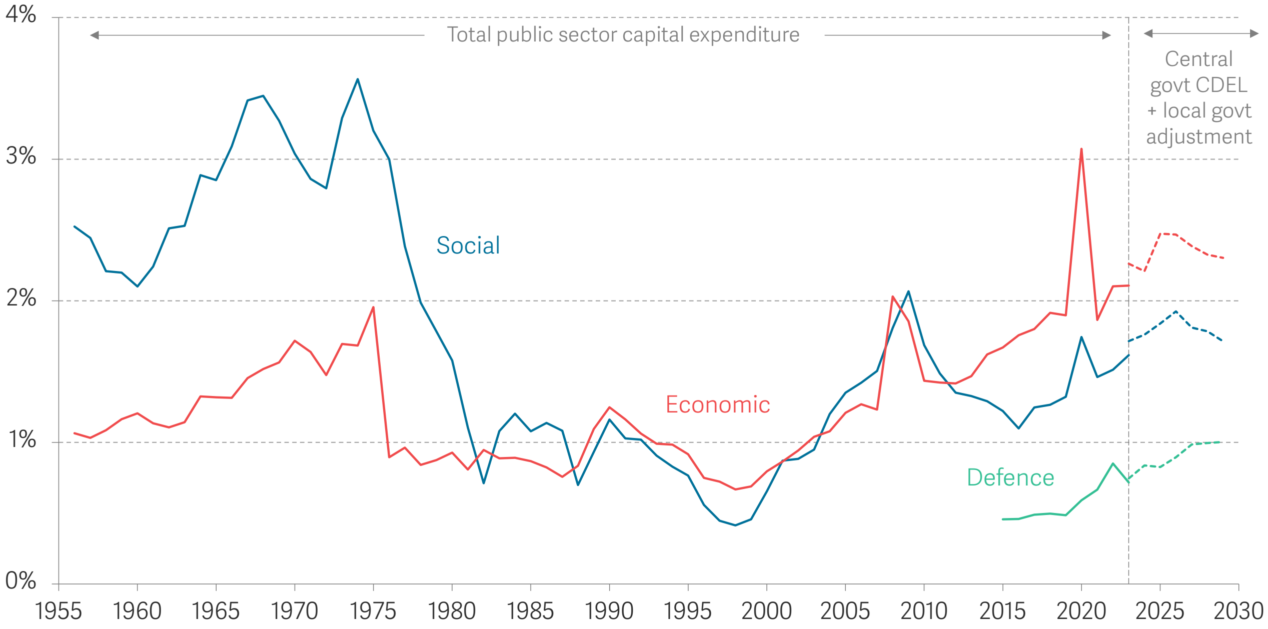
And looking further back in time, this continued emphasis on economic investment becomes clearer still. Investment in economic infrastructure is set to remain at levels not sustained in the past 50 years (see Figure 16). Social investment is also set to remain

11 Z Leather et al., Capital gains: Public investment priorities for the 2025 Spending Review, Resolution Foundation, April 2025.

strong – especially compared to typical levels since the late-1970s decline of public house building – but the increase has been less pronounced.

FIGURE 16: **Public investment in economic infrastructure is being held at the highest sustained level in history**

Public sector capital expenditure and capital departmental expenditure limits (CDEL) by function, as a proportion of GDP: UK

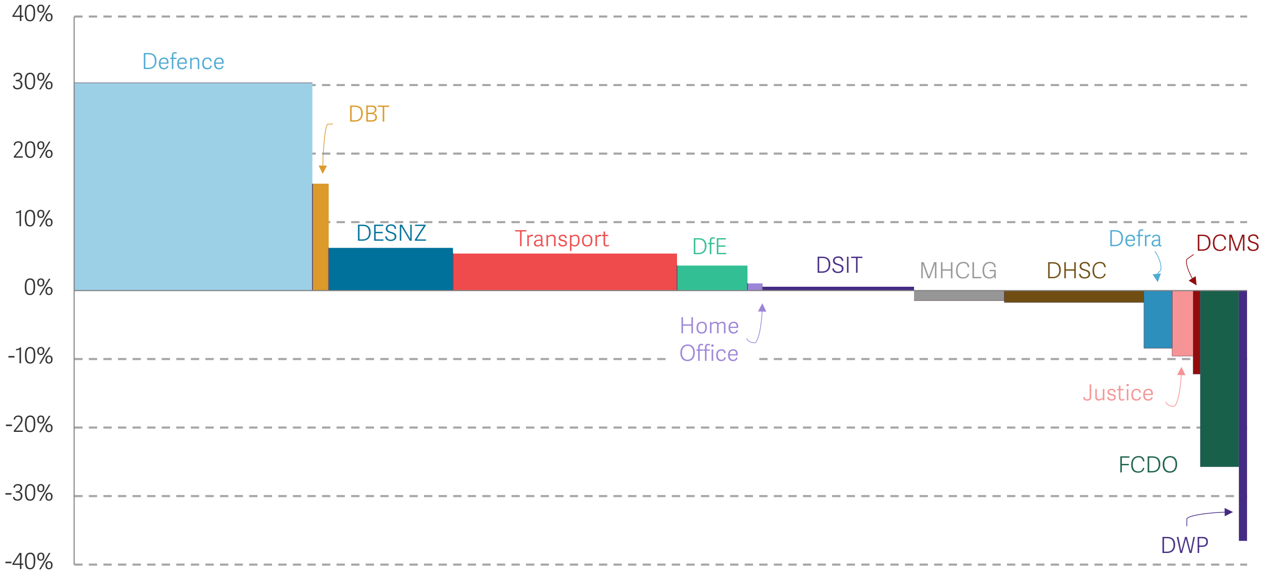


NOTES: Excludes CDEL reserves and provision for intra-governmental leases. Departmental CDEL figures from 2023-34 onwards are converted to functions based on each department's split of spending across functions in 2023-24, including for local government. Total capital spending by local government is projected by growing the 2023-24 outturn for capital expenditure on services by local government in line with the OBR's forecast for total gross capital expenditure by UK local authorities. Defence is only shown from 2015, as the reclassification of single-use military equipment (SUME) between current and capital spending complicates prior comparisons of defence capital spending. Years refer to financial years and financial year GDP data is taken from the OBR's March 2025 forecast.
SOURCE: RF analysis of IFS, 'Twenty-Five years of falling investment? Trends in capital spending on public services', November 2001; HM Treasury, Public Expenditure Statistical Analyses, various; HM Treasury, Spending Review 2025; OBR, Economic and Fiscal Outlook, March 2025.

Within this growing envelope of investment spending, there are big winners and losers (see Figure 17). The most significant winner is defence. It is set to receive almost three-quarters of the total rise in capital spending over the Spending Review period (£7.5 billion out of £9.7 billion in 2025-26 prices), pushing real per person defence spending up by 30 per cent. Among the other big capital-spending departments with sizeable increases were transport at 5.4 per cent real growth per person (22.2 per cent excluding HS2) and DESNZ at 6.2 per cent. However, in both of these cases, special factors are at play, as we explore below. In contrast, the cuts programmed for MHCLG conceal a more generous settlement for affordable housing.

FIGURE 17: **Defence accounts for the vast majority of increased capital investment over the next four years**

Real per person growth in CDEL, by department, scaled to 2029-30 allocation: 2025-26 to 2029-30



SOURCE: RF analysis of HM Treasury, Spending Review 2025; OBR, Economic and Fiscal Outlook, March 2025.

Net zero will continue to see high investment, but increasingly from loans rather than grants

Net zero was the big winner of last Autumn's spending review, with the Department of Energy Security and Net Zero (DESNZ) seeing a huge 48 per cent annualised real increase in per person investment between 2023-24 and 2025-26. This includes funding for some of Labour's key climate commitments – £13.2 billion for the Warm Homes Plan and £8.3 billion for GB Energy.

The Spending Review has maintained this budget, with annualised real per person growth in the capital budget of 1.5 per cent between 2025-26 and 2029-30. This puts our estimate of Government spending on climate related priorities at a cumulative £49 billion in current prices between 2025-26 and 2029-30, well within the range of public investment that the Climate Change Committee recommended in March of this year.[12]

But these numbers include a growing switch between grant-based capital spend and financial transactions towards the end of the spending review period. Unlike grant-based capital spend, financial transactions are loans expected to be repaid. As such, they aren't

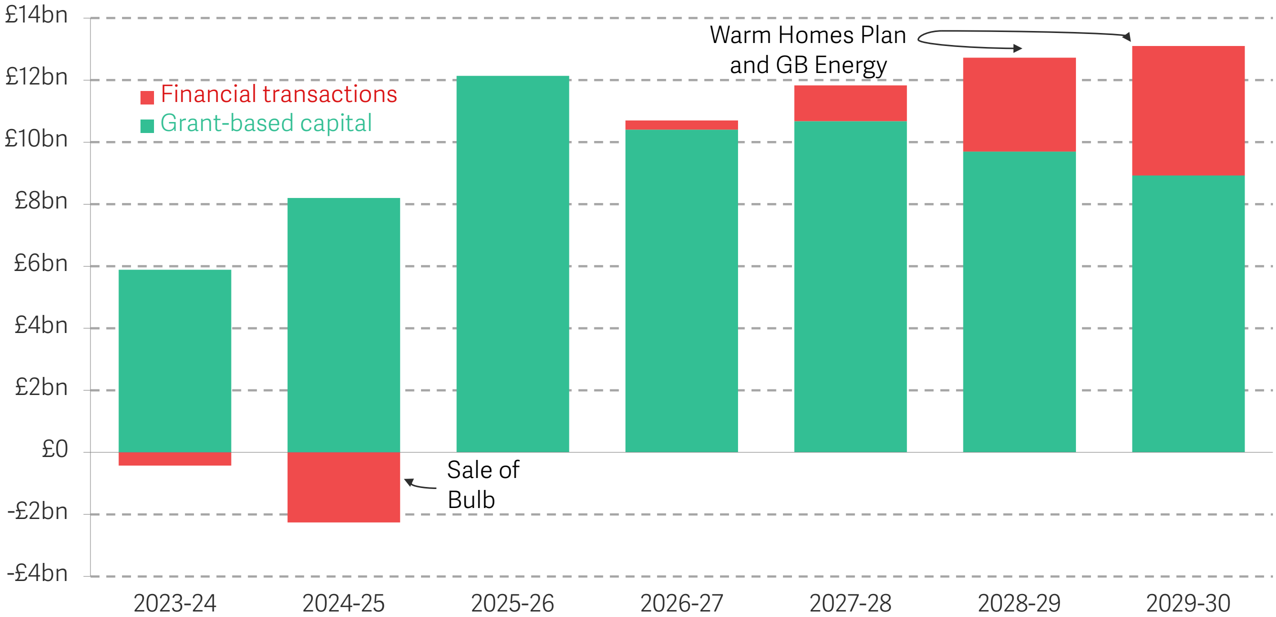
12 Climate related spending includes DESNZ spending between 2025-26 and 2029-30 but excludes the Nuclear Decommissioning Authority and R&D. It also includes a promised £2.6 billion spend on transport decarbonisation allocated within the Department for Transport budget. The Climate Change Committee estimated that the Government should be spending between £30 billion and £76 billion between 2025 and 2029. Source: Climate Change Committee, Seventh Carbon Budget dataset, February 2025.

constrained by fiscal rules in the same way, as they count as financial assets as well as outgoings. This approach to increasing the overall CDEL envelope means that some beneficiaries of the Warm Homes Plan and GB Energy will receive credit, rather than direct financial grants. These two policies are together expected to account for £9 billion in financial transactions in cash terms between 2025-26 and 2029-30.

Figure 18 shows that these financial transactions help to maintain the cash injection into DESNZ announced last Autumn; if these financial transactions are excluded, then DESNZ in fact sees a reduction in its grant-based CDEL budget between 2025-26 and 2029-30 (though to a level still 47 per cent above 2023-24 in real per person terms, thanks to the spending decisions taken in the autumn 2024 Budget).

FIGURE 18: **Capital spending on energy and climate is increasingly going to come from loans rather than grants**

Real capital budget for the Department of Energy, Security and Net Zero, by type: UK



SOURCE: HMT, Spending Review 2025.

This switch to financial transactions particularly affects the Warm Homes Plan, and means that over a third of the £13.2 billion spent on home upgrades for households will now need to be repaid by recipients. Increasing the availability of affordable loans for home upgrades, such as for solar panels, is a policy goal that we have previously recommended.[13] But relying more than expected on loans to meet the £13.2 billion spending plan will reduce the impact that the Warm Homes Plan has on living standards.

13 Z Leather, Sunny day savings: Assessing Government support for solar panels, Resolution Foundation, February 2025.

Transport investment will see spending on local projects gradually replace HS2

Transport is one area where the Government is keen to show a big increase in infrastructure spending, but the Department for Transport's (DfT) capital budget will change little throughout the spending review. Real per person investment by DfT will in fact be 4.1 per cent lower in 2029-30 than it was in 2023-24. So the main change to DfT's capital budget over this parliament is a reallocation, rather than a big change in its size. Principally, this is due to HS2, with capital spending on HS2 due to fall 40 per cent in real per person terms between 2023-24 and 2029-30. But the Government have decided to keep this funding within the DfT budget, allowing capital spend on other projects to rise 16 per cent in real terms over the same period. This has allowed the Government to confirm infrastructure projects that were announced (but not necessarily previously funded) by the last Government. Most notably, the Sunak Government announced £15.4 billion of transport capital funding for mayoral authorities between 2027-28 and 2031-32, which has been re-announced with a slight increase (to £15.6 billion). This will provide secure funding for projects like West Yorkshire mass transit, first proposed in 2022.[14]

Even though these projects were previously announced, they are only affordable because this spending review increased DfT's capital allocation by a cumulative £16.9 billion in real terms between 2024-25 and 2029-30 compared to the 2024 Spring Statement, which had pencilled in cash terms cuts for the department. So the Chancellor should be credited for reversing the cuts, thereby allowing the previous Government's transport investment plans to become a reality.

Housing will see investment rise to levels not seen since New Labour

The Chancellor's announcement of £39 billion for affordable housing over the next ten years represents the largest such commitment since 2008. It amounts to an average of £3.5 billion per year between 2026-27 and 2035-36, much higher than under previous iterations of the Affordable Homes Programme (AHP) – see Figure 19. It also builds on commitments announced previously, such as the £500 million top-up to the current AHP due to end in 2026, as well as a further £350 million announced in February 2025.[15]

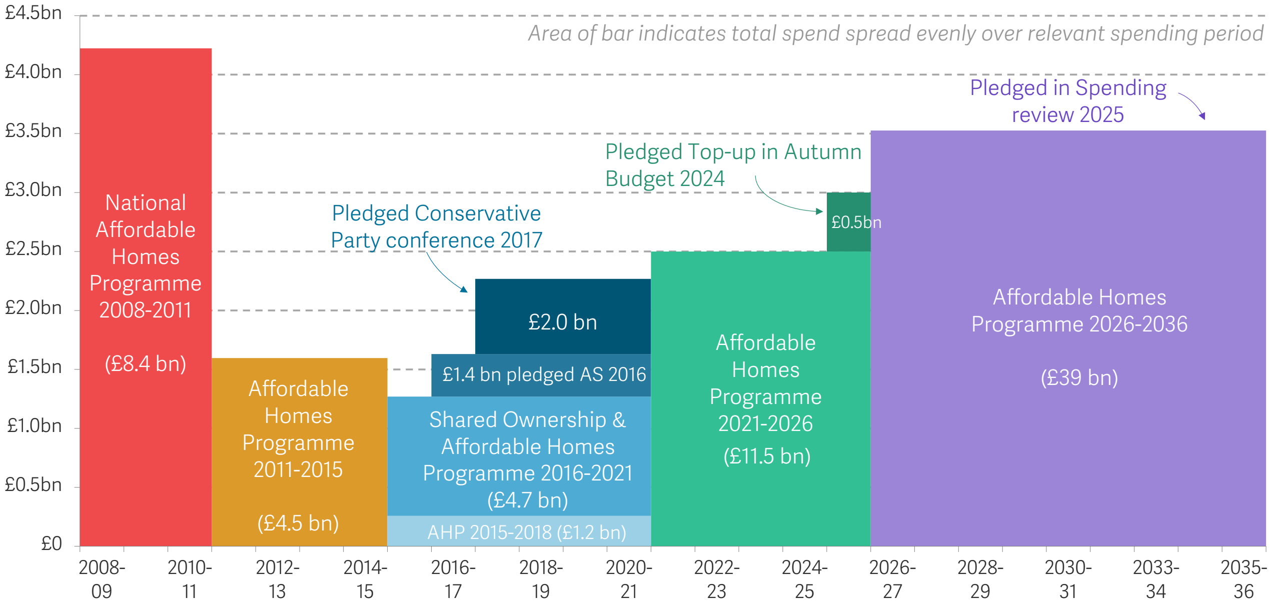
The Chancellor described this as 'direct government funding to support housebuilding especially for social rent' (our emphasis). This is a welcome acknowledgement of the particular importance of social housing within affordable housing. Just 15 per cent of new affordable homes in 2023–24 were for social rent, compared to over 85 per cent in the early 1990s. With over 1.3 million households on social housing waiting lists, temporary accommodation at an all-time high, and more than 160,000 children living in insecure conditions, government spending on housing support has ballooned. Increasing

14 West Yorkshire Combined Authority, West Yorkshire Mass Transit Vision 2040, October 2022.
15 MHCLG, "Thousands to benefit from the security of a safe homes", February 2025.

the supply of social rented housing would not only relieve pressure for those facing the sharpest end of the housing crisis, but also deliver long-term fiscal savings and ease the burden on local authorities. As the plans to spend this money are developed, it will be important for the Government to follow through on the Chancellor's pledge to focus on social rent.

FIGURE 19: **Spending on affordable homes is set to rise further over the coming decade**

Affordable housing commitments in 2025-26 prices: England, 2008-09 to 2035-36



NOTES: The Affordable Housing Programme 2015-18 was operational only between April 2015 and November 2015, at which point it was replaced by the Shared Ownership and Affordable Housing Programme 2016-2021. Annualised funding commitments in nominal terms at the point they were announced have been deflated annually to 2025-26 prices then added together to create a new real commitment that is then split evenly over the spending period. All the figures quoted in the Area bars are nominal while the area of bars indicates total spend spread evenly over the relevant spending period in real terms.
SOURCE: HM Treasury, Chartered Institute for Housing, UK Housing Review, various.

Defence eats the increases in the investment budget twice over

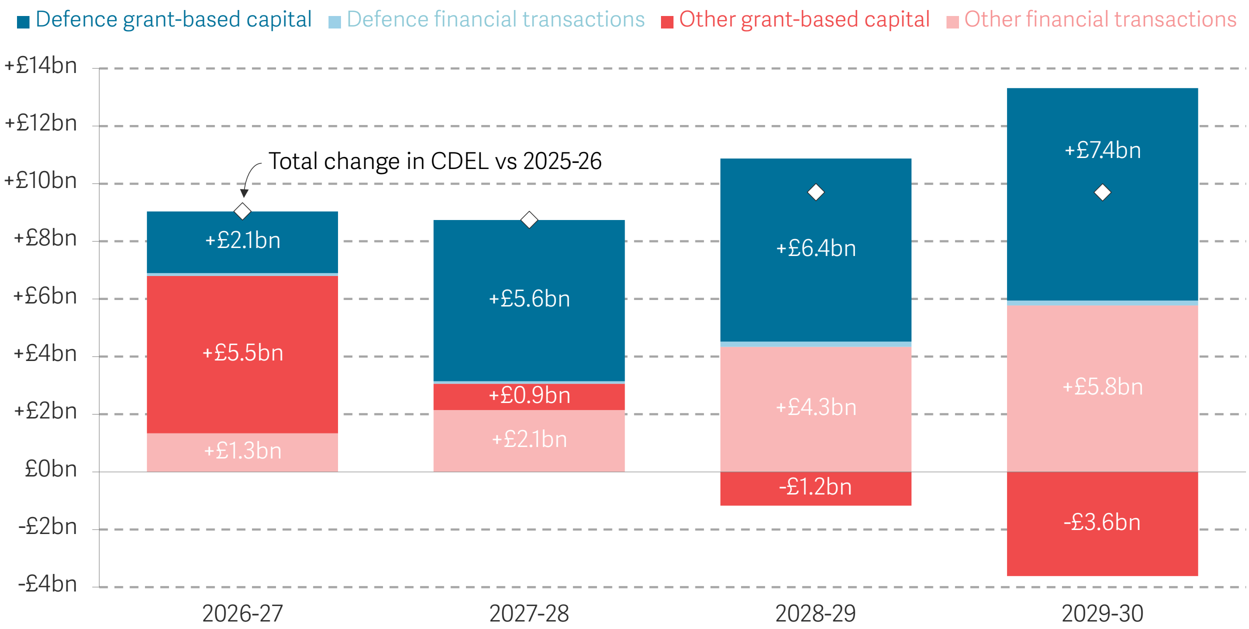
The biggest decision the Government took with the capital budget in this Spending Review relates to defence. Since the last Budget, the global security situation has deteriorated. The Government has responded to this with an investment-heavy increase in defence spending. But, crucially, it has financed this within the pre-announced investment envelope rather than through higher taxes or higher borrowing.

The result is that, following two years of more broad-based increases in public investment, after excluding financial transactions, the £7.4 billion increase in defence CDEL from 2025-26 to 2029-30 comes roughly equally from a £3.8 billion increase in the real CDEL budget, and a cut of £3.6 billion in real investment across all other departments (see Figure 20).[16] In other words, defence accounts twice over for the real-terms increase in grant-based investment over the next four years.

Zooming out from the decisions made in this Spending Review, however, the big picture (evident in Figure 2) is of a roughly stable non-defence investment budget as a share of the economy. Relative to the previous Government's planned cuts, this boost to investment should result in a boost to growth. But viewed in absolute terms, the extra spending and resulting growth boost are much smaller.

FIGURE 20: **Increased CDEL in the Spending Review was funded by capital grants for defence and financial transactions for other departments**

Contributions to the real-terms change in capital departmental expenditure limits (CDEL) relative to 2025-26: UK



NOTES: Data is in 2025-26 prices.
SOURCE: RF analysis of HM Treasury, Spending Review 2025.

A summer of spending could become an autumn of fiscal reality

After the pain meted out in the form of the Autumn Budget's tax and borrowing increases and the Spring Statement's benefit cuts, the Spending Review was much more in the Government's comfort zone: an opportunity to allocate spending rises across public services. In doing so, we learnt where the Government's priorities really lie. On day-to-day spending, the clear winner was health, taking up the lion's share of increases announced at the Spending Review. On investment, the winner was defence, which gobbled up nearly all of the increase in capital spending across the Spending Review. It's clear, then,

16 CDEL including financial transactions grows by £9.5 billion over this period, of which roughly three-quarters is defence.

that over the next three years the Government is focused on shorter hospital waits and national security. Growth in these areas of spending has come at the cost of further pain to departments beyond health, defence and to some extent education, with relatively little investment in social infrastructure. That leaves the Government's wider ambitions – including on safer streets, clean energy and housing – to be achieved with scant extra resource. So this was a Spending Review that confirms the reshaping of the British state towards health, rather than one that will go a long way to fixing crumbling public services more widely. Despite that, the decision to increase public spending significantly relative to the previous Government's plans will deliver 'benefits in kind' to households that are much more significant for lower-income families than higher ones.

The dark cloud hanging over the Spending Review is the fiscal reality due to hit at the Autumn 2025 Budget thanks to the worse economic outlook, and extra spending pressures. This pressure is building partly because the cost of servicing the national debt has been rising: borrowing rates on government debt have risen by 0.1-0.2 percentage points at horizons relevant for government borrowing since the OBR's March forecast. This is not huge, but is enough to put a dent of up to £3 billion in the £9.9 billion margin for error that the Chancellor had against her fiscal rules at the Spring Statement. More significantly, the growth outlook has deteriorated with the trade uncertainty emanating from Donald Trump's ever-changing tariffs. Private-sector growth forecasts have been marked down by an average of 0.3 percentage points for both this year and next.[17] And the Government needs to find the funds to cover some additional non-departmental spending – not least from the unfunded £1.25 billion 'U-turn' on Winter Fuel Payments, and perhaps also for any further funds needed for the promised Child Poverty Strategy. Put these together and it's plausible that the Chancellor will see her narrow headroom wiped out, meaning that she may need to follow up this Spending Review with tax rises or welfare cuts at the Autumn 2025 Budget.

17 Source: Bank of England, Market Participants Survey results, various; and HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, various.

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