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# SmartMoney

GUIDE TO THE

# Spring Forecast 2025

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# Welcome

Economic growth will require time, tough decisions and persistent effort

The Chancellor, Rachel Reeves, delivered her Spring Statement 2025 on Wednesday 26 March. Keeping to her promise of one fiscal event per year, she made no new tax announcements. Instead, she focused on measures to boost housebuilding and defence spending while making substantial welfare cuts.

**T**he Office for Budget Responsibility (OBR) has lowered the UK's 2025 growth forecast from 2% to 1%, but it expects improved growth in the years leading up to 2029. Reeves acknowledged the challenges, stating that achieving economic growth will require time, tough decisions and persistent effort. However, she mentioned that people would be 'on average over £500 a year better off' under a Labour government – a figure she claimed the OBR has confirmed.

Labour's welfare cuts are expected to save £4.8 billion, with reductions deeper than initially anticipated. Day-to-day

spending remains safeguarded, except for the aid budget. Defence spending is set to increase by £2.2 billion next year, aiming for 2.5% of GDP in the future. Due to Labour's planning reforms, housebuilding is projected to reach its highest level in 40 years. ◀

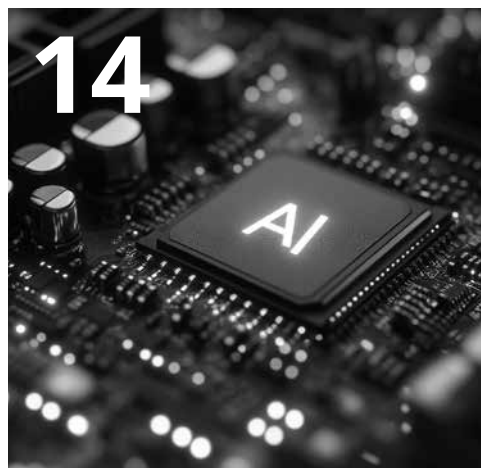
## WHAT DOES THE SPRING STATEMENT 2025 MEAN FOR YOU?

Our guide to the Spring Statement 2025 examines the main announcements and their potential implications. If you would like to learn more or discuss the announced measures, please contact us.

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# Spring Statement 2025 at a glance

Chancellor says, 'No shortcuts to economic growth; it will require long-term decisions.'

**C**hancellor Rachel Reeves said that the Office for Budget Responsibility (OBR) has downgraded growth projections for 2025 but has upgraded forecasts for every year thereafter for the remainder of this parliament. She told MPs: 'There are no shortcuts to economic growth. It will require long-term decisions. It will demand hard work. It will take time for the reforms we are implementing to have an impact on the everyday economy.'

Our Guide to Spring Forecast Statement 2025 summarises the key points announced.

## ECONOMY

- The Office for Budget Responsibility (OBR) downgrades growth forecast from 2% to 1%.
- Growth estimates for the next four years upgraded: 1.9% next year, 1.8% in 2027, 1.7% in 2028 and 1.8% in 2029.
- Inflation forecast: 3.2% average this year (up from 2.6% previously forecast), 2.1% in 2026.
- 2% inflation target set to be achieved by 2027.

- Last year's changes to England's planning system to boost housebuilding by 170,000 over five years, adding 0.2% to the economy.

## SPENDING

- Without action, the OBR announced the government would miss its 2030 target of the spending vs. taxes balance rule.
- Due to higher debt costs, Treasury announced £9.9bn headroom from October's Budget wiped out.
- Public debt projected to fall as a share of the economy remains at a 51% likelihood.

## WELFARE

- Health-related universal credit for new claimants to be halved from April 2026 and frozen in cash terms until 2030.
- Universal credit standard allowance to rise to £106 per week by 2030 (down from £107 previously planned).
- Stricter eligibility tests for Personal Independence Payments (PIPs) from November 2026.

- Incapacity benefits will be frozen at £97 per week for existing claimants from April 2024, with top-up payments for severe conditions remaining.
- No universal credit incapacity benefit claim top-ups for under-22s.

## DEFENCE AND OVERSEAS AID

- An additional £2.2 billion in funding will be allocated to the Ministry of Defence (MOD) in the coming year.
- Military expenditure to reach 2.36% of national income next year, aiming for 2.5% by 2027.
- Spending to be funded by reducing overseas aid from 0.5% to 0.3% of gross national income in 2027 and Treasury reserves.

## PUBLIC SERVICES

- Government departments to reduce administrative costs by 15% by 2030.
- Around 10,000 civil service jobs are to be cut, including roles in HR, policy advice, communications and office management.

# Slower economic growth forecast for the UK

## Chancellor reveals the updated projections during the Spring Statement

According to the government's latest forecast, the UK economy is expected to grow more slowly this year than initially predicted. Revealing the updated projections during her Spring Statement, Chancellor Rachel Reeves highlighted that the Office for Budget Responsibility (OBR) anticipates a growth rate of just 1% in 2025. This marks a notable reduction from its October estimate of 2%.

'I am not satisfied with these numbers,' the Chancellor said, expressing her determination to address this setback. Growing the economy has been a central pillar of Reeves' vision for the country's future, and she remains committed to achieving that goal. Yet the economic outlook is not universally bleak, as the OBR has revised its growth expectations upwards for subsequent years. According to its estimates, the economy is set to expand by 1.9% in 2026, 1.8% in 2027 and 1.7% in 2028, before stabilising at 1.8% in 2029.

### GOVERNMENT REFORMS AND HOUSING TARGETS

The Chancellor said that the positive revisions for later years reflect the anticipated impact of government actions, including substantial planning reforms and ambitious housebuilding targets. These measures, first introduced when Labour assumed office in July, are expected to contribute an additional 0.2% to GDP by the end of the current parliament and 0.4% within the next decade.

Importantly, the OBR predicts that these reforms will push housebuilding to a 40-year high, with annual construction expected to reach 305,000 by the end of the forecast

period. Reeves emphasised the significance of this achievement, stating, 'The OBR has concluded that our reforms will result in unprecedented levels of housebuilding, bringing us within reach of fulfilling our manifesto promise.' The Labour Party has committed to delivering 1.5 million new homes in England by 2029/30, a pledge that now appears increasingly achievable.

### INFLATION AND HOUSEHOLD INCOMES IN FOCUS

While economic growth has attracted significant attention, inflation and its effects on households remain critical issues. The OBR now expects inflation to reach 3.2% this year, higher than previously projected. However, it forecasts a gradual return to the Bank of England's 2% target by 2027. Although this timeline offers some reassurance, challenges are expected in the interim.

On a brighter note, real household disposable income per person is projected to grow by an average of 0.5% annually. The Chancellor said that this improvement is partly due to stronger wage growth, a trend that has slightly exceeded earlier forecasts. Reeves emphasised the tangible benefits for families, noting that households would, on average, find themselves £500 better off annually under Labour's economic oversight than the previous government.

### BALANCING FISCAL RULES AND GLOBAL RISKS

Managing public finances remains a delicate balancing act. In October last year, the OBR projected that Reeves would have £9.9

billion in day-to-day spending headroom by 2029/30. However, the Chancellor said that shifting global economic conditions have significantly altered that scenario. Rising government borrowing costs, for example, would have eroded this headroom by £4.1 billion if left unaddressed.

To counteract these pressures, Reeves unveiled a series of measures to restore fiscal stability. 'The adjustments we announced today, including changes to departmental spending and broad welfare reforms, have fully restored our financial headroom to £9.9 billion,' the Chancellor said. This demonstrates a calculated approach to maintaining economic resilience while pursuing key policy goals.

### UNCERTAIN GLOBAL OUTLOOK

Despite these efforts, the OBR has warned that the international landscape continues to present risks, some of which could undermine the UK's fiscal position. The Chancellor announced that the agency recognised complications such as tariff disputes or geopolitical tensions could significantly impact economic growth. In a worst-case scenario, such factors could even 'almost entirely eliminate the headroom against the fiscal mandate,' Reeves cautioned.

Nonetheless, the government remains committed to overcoming these challenges while fostering long-term economic recovery. For Chancellor Reeves, the priority is to fulfil promises that offer stability and opportunity for the nation while ensuring that the foundations for growth remain secure for future generations. ◀



# Building Britain's future

## The Chancellor's plan for stability, security and growth

The Chancellor, Rachel Reeves, announced that the UK government has an ambitious vision to secure the nation's future, anchored in its Plan for Change. She said that this comprehensive strategy aims to drive economic growth, strengthen the National Health Service (NHS) in the coming years and ensure national security.

She also stated that this forward-thinking agenda was characterised by a significant reset in public spending during last autumn's Budget. The government established a more sustainable fiscal pathway by addressing £22 billion in financial pressures for the year, most of which were recurring. Additionally, groundbreaking tax reforms were introduced to protect working households and enforce stable, robust fiscal rules. These measures have helped safeguard public finances while supporting vital investment in public services and economic growth.

### SUPPORTING INCOMES WITH A RENEWED FOCUS ON FAIRNESS

The Chancellor said last year's announcement raising the National Minimum Wage provided long-needed pay increases to millions while freezing fuel duty to alleviate the cost-of-living burden on households. She said that these decisive actions have already begun to yield results, with the Bank of England reducing the Bank Rate three times since the beginning of the parliamentary term. By the end of 2024, she indicated that real wages were growing at their fastest pace in over three years, reflecting the tangible impact of these policies on the average working family.

The Chancellor commented that this progress underscores the effectiveness of the policy direction; however, new challenges are reshaping the economic landscape. The global environment has become increasingly unpredictable, with geopolitical tensions in Europe posing a generational security challenge. Furthermore, economic uncertainty among Britain's key trading partners has escalated, characterised by slowed growth and rising borrowing costs in advanced economies worldwide. Despite these adversities, according to the Chancellor, the UK remains resilient as an open trading economy, steadfast in the face of these global headwinds.

### THRIVING AMIDST A CHANGING WORLD

Even with the shifting global context, there are reasons for cautious optimism, the Chancellor said. She continued that forecasts now suggest Britain's economy will grow faster than expected from 2026 onwards, outpacing estimates made at last year's Budget. Interestingly, swift and decisive action from the government since the autumn Budget has allowed the nation to meet its fiscal rules a full two years earlier than planned. For instance, the restored stability rule, coupled with a £15.1 billion buffer for the investment rule in its target year, demonstrates the government's capacity to balance fiscal discipline with growth-oriented policies.

Having laid this stable groundwork, the government is adopting even bolder measures to ensure the nation's long-term security and prosperity. These steps include a commitment to improving public services,

driving economic growth and prioritising national security. Central to this approach is safeguarding the financial futures of working individuals while strengthening the broader social fabric.

### A RENEWED PLEDGE TO NATIONAL SECURITY

The Chancellor announced that one of the most striking commitments outlined in the Spring Statement is the government's fully funded pledge to increase NATO-qualifying defence spending. By 2027, defence expenditure is projected to reach 2.5% of Gross Domestic Product (GDP). To accomplish this, an additional £2.2 billion will be allocated to the Ministry of Defence (MOD) next year alone. These measures, the Chancellor said, emphasise both the growing importance of global security partnerships and the UK's unwavering dedication to playing a leading role within them.

Efforts to reform the state are also pivotal in this strategy. The government aims to make public services more agile and productive while ensuring that welfare spending reaches those who need it most. Alongside this, a focus on robust tax collection aims to ensure that owed taxes are paid in full, further supporting the public purse.

### DRIVING GROWTH THROUGH INVESTMENT AND INNOVATION

The Chancellor said that investment remains a key component of the Plan for Change. Over the next five years, the government has committed £13 billion to capital infrastructure projects and launched a construction skills initiative to train up to 60,000 additional workers. To tackle the UK's housing



The Office for Budget Responsibility (OBR) has forecast that updates to the National Planning and Policy Framework (NPPF) will result in the construction of 170,000 extra homes over the coming years.

challenges, £2 billion will also be invested in social and affordable housing schemes.

The government's planning reforms are predicted to have a profound impact. The Office for Budget Responsibility (OBR) has forecast that updates to the National Planning and Policy Framework (NPPF) will result in the construction of 170,000 extra homes over the coming years. By 2029/30, this is expected to increase real GDP by 0.2%, injecting £6.8 billion into the economy. By 2034/35, GDP growth could exceed 0.4%. The Chancellor said these gains come at no direct fiscal cost, underscoring the reforms' effectiveness.

**BEYOND HOUSING:  
TRANSFORMATIONAL REFORMS  
FOR LASTING GROWTH**

The benefits of these planning reforms extend well beyond housing. The projected economic boost is expected

to decrease public borrowing by £3.4 billion by 2029/30, thereby helping to secure the nation's financial health. These accomplishments arise from the government's efforts to promote growth through supply-side enhancements such as increased capital investment, regulatory updates and a newly proposed Planning and Infrastructure Bill.

The Chancellor announced that this ambitious set of policies demonstrates a government committed not only to navigating current challenges but also to building the UK's long-term resilience. The Plan for Change represents a holistic approach, balancing immediate action with visionary goals to secure Britain's future as a thriving, inclusive and globally competitive economy.

By combining fiscal responsibility, strategic investments and relentless reform, the Chancellor announced that

the UK is poised to emerge stronger, providing tangible benefits to people while securing stability for decades to come. This approach is not merely policymaking for the present but a roadmap to a brighter future for everyone. ◀



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# UK's stability, prosperity and the safety of its citizens

Going further and faster on defence to safeguard the nation's future

**C**hancellor Rachel Reeves said that national security is a fundamental duty of government. It forms the bedrock of the UK's stability, prosperity and citizens' safety. Reflecting this commitment, the government, as part of its Plan for Change, has established clear priorities to address evolving threats. The interconnected nature of global security, economic conditions and technological innovation drives vital adjustments in policy, particularly in defence spending.

Reeves remarked that maintaining and enhancing the nation's defence capabilities is essential to address future challenges. With this goal in mind, significant progress is being made. The government intends to increase NATO-compatible defence spending to 2.5% of GDP by April 2027, aiming to eventually reach 3% in future parliamentary terms, as economic conditions permit. This strategy balances international security requirements with fiscal responsibility.

## **STRENGTHENING THE MINISTRY OF DEFENCE**

An additional £2.2 billion in funding will be allocated to the Ministry of Defence (MOD) in the coming year. The Chancellor said that this funding would not only strengthen the country's security but also promote economic growth. This is more than just numbers; its impact will extend to innovation, research and development, and a strong defence industrial strategy.

The upcoming Strategic Defence Review paves the way for a modernised and future-ready military. Concurrently, initiatives within the Defence Industrial Strategy are anticipated to strengthen industries vital to defence, generating jobs and reinforcing the UK's status as a global leader in military technology.

## **MOVING FASTER TO REFORM PUBLIC SERVICES**

Economic constraints present unavoidable challenges, yet they also serve as a catalyst for boosting efficiencies and enhancing

public services. The Chancellor announced that reforms are essential to ensuring taxpayer money is spent effectively while providing high-quality services to the public. The government has taken significant steps to reshape its approach.

At its core, the Chancellor announced these efforts recognise the increasing pressure on vital services like the NHS. Encouragingly, NHS waiting lists have been steadily decreasing for five consecutive months. Furthermore, breakfast clubs in primary schools are prioritised to assist families. These are tangible results of a targeted approach to public welfare.

## **CUTTING COSTS AND DRIVING CHANGE**

The Spring Statement highlights a £3.25 billion Transformation Fund designed to overhaul public services. This initiative seeks to seize opportunities presented by advanced technologies like artificial intelligence and digital innovation.





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Reeves said this would not only improve service delivery but also yield long-term savings.

Meanwhile, the welfare system is being restructured to make it fairer and more sustainable. According to the Office for Budget Responsibility (OBR), reforms will save £4.8 billion by the end of the decade, ensuring welfare spending declines as a share of GDP. Actions such as bringing NHS England back within the remit of the Department of Health and Social Care are further examples of innovative cost-saving measures.

### A MISSION TO GROW THE ECONOMY

Economic growth remains at the heart of government ambitions. The Chancellor said the focus is firmly on laying the groundwork to establish the UK as a global leader in innovation and prosperity. To achieve this, the government is prioritising stability, investment and reforms.

Last autumn, the government committed to an additional £100 billion in capital investments over the parliamentary term. Beyond investment figures, tangible results are being pursued. Plans for a modern industrial strategy aim to identify high-growth sectors, supported by the National Wealth Fund, while regulatory reforms are streamlining planning for major infrastructure projects.

### BUILDING HOMES AND SKILLED WORKERS

Key sectors like housing and construction are being targeted for development. Reeves said the government has allocated an additional £2 billion for social and affordable housing by 2026/27, laying the foundation for an ambitious plan to build 1.5 million homes within this Parliament. To ensure the construction industry has the capacity to meet these goals, £625 million is being earmarked for skills development, with a target to produce 60,000 new skilled workers.

Opportunities within emerging fields, such as artificial intelligence, continue to be a priority. Through the AI Opportunities Action Plan, the government is outlining pathways to harness AI's potential, aiming to revolutionise industries and boost economic impact.

### SECURING LONG-TERM ASPIRATIONS

The Chancellor said achieving the highest sustained growth among G7 nations is a defining mission. This is not just about metrics; it translates into more people in good jobs, higher living standards and improved productivity throughout the nation.

Looking ahead to the Spending Review in June and the forthcoming Budget in the autumn, the government's commitment to its economic growth mission remains steadfast. It's clear that the focus will remain on fostering stability, promoting intelligent investments and enacting reforms that deliver transformational change. ◀

# Supporting individuals in starting or maintaining employment

Enhancing opportunities, improving employment rates and raising living standards

Chancellor Rachel Reeves said the UK faces a pressing challenge with economic inactivity due to ill health. Currently, 2.8 million individuals are unable to engage with the workforce fully because of health-related issues. Tackling this issue is viewed as a crucial part of the government's broader economic growth mission. However, the welfare system, in its present form, is proving to be more of a barrier than a stepping stone. It often encourages individuals to focus on what they cannot do, rather than empowering them to highlight their abilities and potential. Inadequate support for disabled individuals to secure meaningful jobs and enhance their skills only worsens the problem.

Reeves announced that supporting individuals in starting or maintaining employment is not only a social imperative but also an economic one. This initiative aims to enhance opportunities, improve employment rates and raise living standards while ensuring fiscal sustainability. Alarmingly, one in ten working-age adults now claims incapacity or disability benefits, with spending on these benefits increasing by £20 billion since the pandemic. This marks a striking two-thirds rise in just a few years.

## PATHWAYS TO REFORM

On 18 March, the government unveiled its 'Pathways to Work' Green Paper, a significant document that explores reforms

to incapacity and disability benefits. The proposed measures aim to save £4.8 billion in welfare expenditure by 2029/30 while creating a welfare system that encourages work and sustains fiscal health. The Chancellor said that these changes would reform the system to address today's challenges and future opportunities. Furthermore, the government has pledged to invest heavily in employment, health and skills support programmes, with funding projected to scale up to £1 billion annually by the end of the decade.

This investment aims to prevent individuals from entering prolonged economic inactivity. It will expand existing initiatives such as WorkWell, Connect to Work and the Get Britain Working trailblazers. These programmes seek to provide targeted employment and health support to those receiving out-of-work benefits while facing health challenges. The Chancellor stated that these measures reflect a progressive approach to social support, balancing empathy with efficiency.

## INCENTIVISING WORK THROUGH UNIVERSAL CREDIT

One aspect of these reforms is the rebalancing of Universal Credit payment levels. Over the last decade, changes in benefits have widened the gap between incapacity benefits and other forms of assistance, inadvertently leading to an

increase in claims. To address this issue, the government will enhance the Universal Credit standard allowance for both new and existing claimants above inflation starting in 2026/27. For instance, the weekly rate for a single adult aged 25 or older will rise from £92 in 2025/26 to £106 by 2029/30.

At the same time, changes will be made to the Universal Credit health element. For existing claimants, this element will remain unchanged until 2029/30. For new claims, it will be reduced to £50 per week starting in 2026/27 and will also be frozen until 2029/30. The Chancellor said that this recalibration aims to foster a more work-focused welfare system while protecting those who are truly unable to work.

## PROTECTING THE MOST VULNERABLE

Reforms also involve a commitment to safeguarding the incomes of individuals with the most severe lifelong conditions. An additional premium within Universal Credit will be introduced to provide targeted support to these individuals. The Chancellor said this acknowledges the unique challenges faced by those with significant disabilities and aims to ensure that their quality of life is maintained.

To address the gap between current welfare assessments and changing societal needs, the government will conduct a review of the Personal Independence Payment (PIP) assessment. Policy experts, stakeholders and



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the disabled community will be invited to participate in this review.

Changes to PIP entitlements are forecast to affect 370,000 current recipients and 430,000 people who would have been entitled to claim it in the next five years. They will lose an average of £4,500 a year. The analysis shows that 3.8 million families – some current claimants and some future recipients – will gain from the changes, with their benefits lifted by an average of £420 in real terms.

Reeves said these estimates did not include the impact of the £1 billion a year, by 2029/30, of funding for measures to help people back into work, which it expects to offset some of the poverty impacts. She said this demonstrates a commitment to inclusivity, aiming to ensure that the system remains relevant and responsive as health conditions and societal expectations change.

### RESTORING TRUST AND FAIRNESS

While reforming benefits to make them more work-friendly, the government is also taking steps to restore confidence in the welfare system. Measures include restarting Work Capability Assessment reassessments for groups whose circumstances may have

changed and increasing the capacity for PIP award reviews. This approach is intended to ensure that everyone receives the appropriate level of support, neither less nor more than they require.

Additionally, steps are being taken to combat fraud and errors in the system. Preventative checks in Universal Credit claims will be enhanced, and over 500 staff will be recruited to focus on detecting and preventing fraud. The Chancellor said this investment would save an estimated £240 million by 2029/30, ensuring that taxpayer money is used efficiently and fairly.

### A FORWARD-LOOKING WELFARE SYSTEM

At the core of these reforms lies a vision of a welfare system that is both compassionate and sustainable. The Chancellor said that it is essential for benefits to act as a safety net for those in need while also promoting self-reliance and opportunity whenever possible. Through strategic investment, systemic recalibration and an emphasis on fairness, these reforms aim to uplift individuals and communities, bringing society closer to an inclusive and prosperous future.

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These proposed changes present a balanced approach to address the deficiencies of the current welfare system. Yet, their success will depend on careful implementation, ongoing monitoring and a clear commitment to both fiscal responsibility and the wellbeing of recipients. By viewing work not just as an economic activity but as a vital aspect of social inclusion, the government hopes to empower millions while creating a stronger, more resilient economy. ◀

# Building a secure economy for future growth

Significant steps taken to address a stagnating economy

**C**hancellor Rachel Reeves announced that achieving growth rooted in resilience and stability has become a central focus for the government. At the Budget last autumn, significant steps were taken to address a stagnating economy, she said. This involved a fundamental overhaul of the fiscal framework, introducing rules to maintain sustainable public finances while enhancing investment in infrastructure. The aim was clear – laying the groundwork for long-term growth.

While stability and investment are critical, they need to be paired with structural reforms that yield tangible results. Reeves said that these principles are at the core of recent changes. For instance, in December, the government introduced ambitious reforms to the National Planning Policy Framework (NPPF). These reforms aim to simplify the building process, igniting construction and development across the country. According to the OBR (Office for Budget Responsibility), these measures are projected to raise GDP levels by 0.2% by 2029/30 and by over 0.4% by 2034/35.

## STEADY GROWTH AMIDST RISING BORROWING COSTS

Since last autumn, global borrowing costs have surged, impacting economies worldwide. In response, the government acted swiftly to ensure that its fiscal rules, especially its stability rule, are fully maintained. Restoring economic headroom has been a crucial step in preserving financial stability, the Chancellor announced. Boosting growth also strengthens public finances, as policies enhance growth without fiscal consequences.

For example, the planning reforms introduced by the government are estimated to reduce borrowing needs by £3.4 billion by 2029/30. These efforts demonstrate a commitment to tackling environmental and economic uncertainty head-on, ensuring the country's fiscal health remains in order. Reeves said that this mission to secure stability while driving growth is not only a financial necessity but also a platform for future prosperity.

## NAVIGATING A VOLATILE GLOBAL ECONOMY

Economic policy uncertainty on the global stage has escalated. Stability within the UK

has never been more vital, as the country is deeply integrated into global markets. The impact of international developments is visible through multiple channels. The Chancellor noted that fluctuating global oil prices have led to higher costs at the pump, while rising global gas and electricity prices continue to inflate consumer bills. These trends have influenced the OBR's Consumer Prices Index (CPI) inflation forecast, which is now expected to peak at 3.8% by July 2025.

Similarly, rising government bond yields in advanced economies, including the UK, have increased debt servicing costs. This increase affects businesses and consumers, creating a more difficult environment for investment and spending. The Bank of England attributes much of the rise in UK gilt yields to global factors. These dynamics, combined with heightened market volatility, have diminished consumer sentiment and business confidence, dampening economic activity.

## OVERCOMING ECONOMIC CHALLENGES HEAD-ON

The UK's challenges extend beyond global influences and include structural issues



Despite daunting global trends, the UK remains poised for resilient growth, the Chancellor said.

that have persisted for years. For instance, annual productivity growth, which averaged 2.1% before the 2008 financial crisis, stalled to just 0.6% between 2010 and 2019 and has barely moved since. These challenges are compounded by a high inactivity rate, particularly among those who are out of work due to long-term illness, which now affects 2.8 million people.

Trade intensity has also declined since 2019. Recognising these hurdles, the government's Plan for Change aims to address these deep-rooted issues while pursuing growth. The Chancellor emphasised that this initiative focuses on improving living standards throughout the UK, tackling regional inequalities and ensuring fairness. By accelerating reforms and supporting the workforce, the government seeks to unlock potential and protect those who genuinely cannot work.

#### **PRIORITISING ECONOMIC AMBITION**

Despite daunting global trends, the UK remains poised for resilient growth, the Chancellor said. The Organisation for Economic Co-operation and Development (OECD) recently revised its forecasts, predicting the UK will be the second-fastest growing economy within the G7 for 2023 and 2024. Staying competitive in a turbulent international landscape requires both ambition and decisive policy action.

Reforms to fiscal principles, policy priorities and structural frameworks demonstrate the government's vision. The task is complex; however, the Chancellor announced that delivering growth bolstered by resilience ensures the economy can withstand challenges and seize future opportunities. By concentrating on investment, innovation and inclusion, the government aims not only to recover but also to thrive, making this mission one that benefits everyone across the UK. ◀



The UK's challenges extend beyond global influences and include structural issues that have persisted for years. For instance, annual productivity growth, which averaged 2.1% before the 2008 financial crisis, stalled to just 0.6% between 2010 and 2019 and has barely moved since.



# Strengthening the nation's defences

Innovation, modernisation and collaboration at its core

**N**ational security stands as the foremost responsibility of any government. This is reflected in the UK's Plan for Change, which underscores the necessity of a robust, modern defence strategy, Chancellor Rachel Reeves said. She said recent years have witnessed seismic shifts in global stability, marked by events such as Russia's aggression in Ukraine, growing threats from hostile actors and the rapid evolution of technology.

Recognising this, the UK government has taken steps to address these challenges. Last year, the Prime Minister reaffirmed the nation's support for Ukraine by committing £3 billion annually in military aid, aimed at deterring Russia's unlawful invasion. Complementing this, the Chancellor announced an additional £2.26 billion in loans to Ukraine for acquiring essential military equipment. Notably, these loans will be financed through profits generated from immobilised Russian sovereign assets held within the EU.

## A BOLD COMMITMENT TO NATO

Reeves announced that the government's commitment extends beyond support for allies. On 25 February 2025, the Prime Minister announced a significant increase in NATO-qualifying defence expenditure, aiming for 2.5% of GDP from April 2027, with a goal to reach 3% in the following years, depending on economic conditions. To initiate this plan, the Chancellor announced a £2.2 billion increase to the Ministry of Defence (MOD) budget for the fiscal year 2025/26.

These investments will enable the armed forces to modernise, strengthening their resilience and adopting cutting-edge capabilities essential for staying ahead of evolving threats. The focus extends to replenishing depleted stockpiles and reinvigorating essential supplies, a strategy adapted to meet the demands of today's security environment.

## CUTTING-EDGE DEFENCE ENHANCEMENTS

The funds allocated for 2025/26 will drive several advancements. Among these is the enhancement of joint NATO exercises, ensuring that the UK and its allies remain prepared to respond collectively to emerging global threats. The Chancellor said the government is also making bold moves to adopt advanced technologies such as Directed Energy Weapons, which promise to revolutionise defence capabilities.

Additionally, the MOD is capitalising on the reacquisition of Service Families housing stock to refurbish defence estates. This initiative strengthens military infrastructure and provides service families with the quality housing they deserve. According to the Chancellor, this represents the largest sustained increase in defence spending since the Cold War, a clear indication of the government's prioritisation of security.

## PIONEERING DEFENCE INNOVATION

A driving force behind these investments is the integration of innovation within the defence sector. Later this year, the forthcoming Strategic Defence Review and

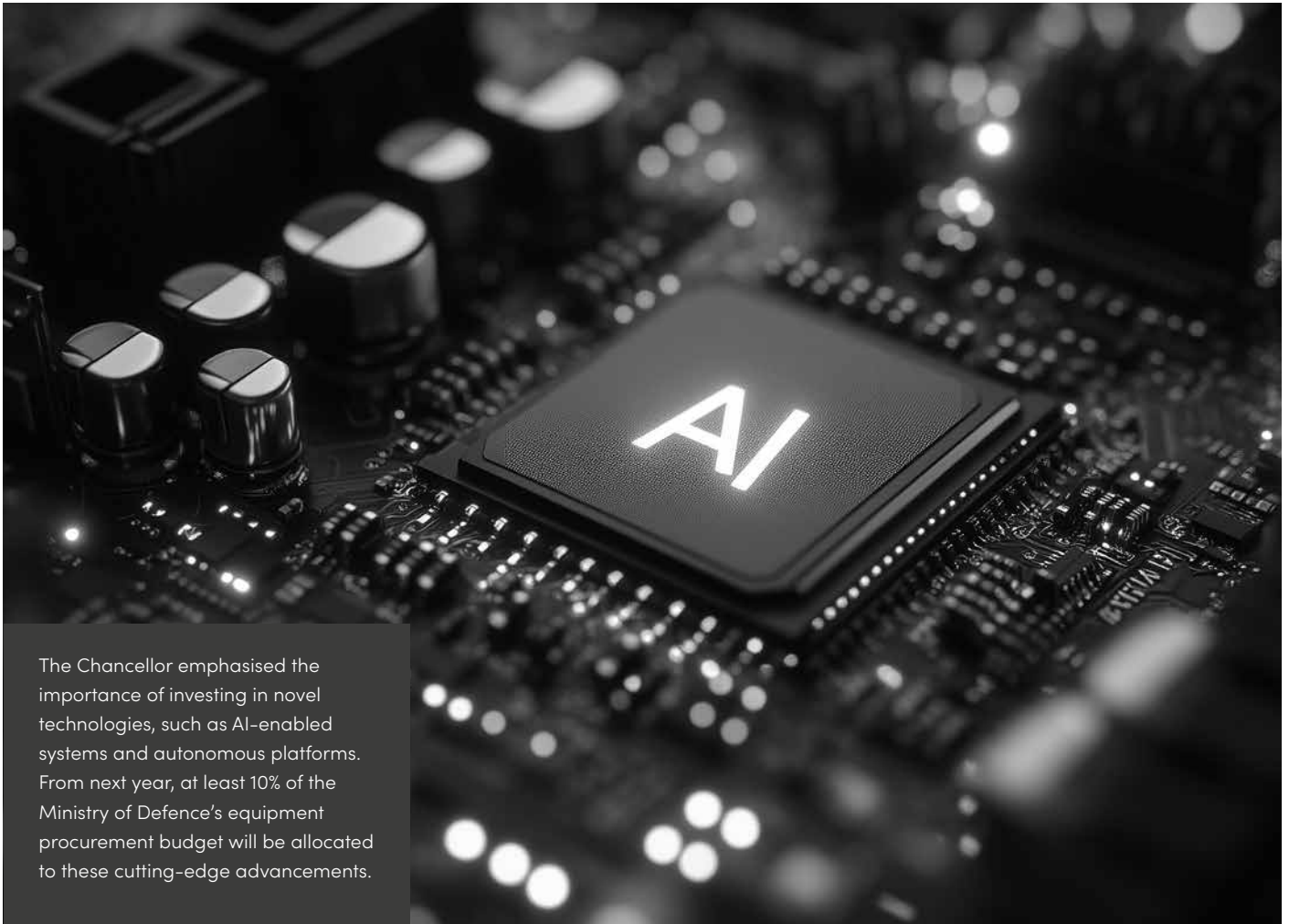
Defence Industrial Strategy will outline the transformation of the UK's defence industry into a growth engine. The Chancellor explained that this approach will ensure the sector can rapidly adopt new technologies and enhance military capabilities.

Central to this transformation is UK Defence Innovation (UKDI), a newly launched initiative that is funded with an initial budget of £400 million, which will increase in the following years. UKDI aims to simplify pathways for innovative companies, enabling them to scale and secure faster procurement. This streamlined process will facilitate the transition of groundbreaking technologies from concept to frontline deployment, ensuring the UK maintains a decisive edge in the face of global challenges.

## REVOLUTIONISING ACQUISITION

Another hallmark of the government's defence strategy is a segmented procurement model designed to customise the acquisition process according to the type of capability, supplier and associated risks. This approach establishes clear timeframes, including reducing the average contracting period for major platforms such as tanks and aircraft from six years to two.

Reeves has also emphasised the importance of investing in novel technologies, such as AI-enabled systems and autonomous platforms. From next year, at least 10% of the Ministry of Defence's equipment procurement budget will be allocated to these cutting-edge advancements. This strategy not only provides strategic military advantages but also promotes economic



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growth by bolstering the burgeoning UK defence technology sector.

**DEFENCE SPENDING AND ITS BROADER IMPACT**

The impact of the government’s defence spending reaches well beyond military capability. This sector supports 434,000 jobs across the UK. According to the Chancellor, 68% of defence spending is distributed to regions outside London and the South-East, ensuring that the benefits strengthen economies across the UK, from Northern Ireland to the North-West.

One of the undertakings within this strategy is the modernisation and renewal of the UK’s nuclear deterrent. Considered some of the most complex engineering projects in the country’s history, this renewal drives considerable investment in research, development and skills across various regions.

**CHOOSING ECONOMIC STABILITY**

To facilitate the increase in defence expenditure, the government has reduced the



The funds allocated for 2025/26 will drive several advancements. Among these is the enhancement of joint NATO exercises, ensuring that the UK and its allies remain prepared to respond collectively to emerging global threats.



Official Development Assistance (ODA) from 0.5% to 0.3% of Gross National Income (GNI) by 2027. The Chancellor explained that this

shift reflects the changing nature of threats and ensures economic stability, a core aspect of the Plan for Change. However, there remains a commitment to return to 0.7% of GNI for ODA once fiscal conditions stabilise.

The government is boosting efforts to modernise international development, collaborating with partners to mobilise private capital for global development and climate initiatives. Multilateral development banks continue to be at the forefront of this strategy, enhancing the UK’s global contribution.

**SECURING THE FUTURE**

The Chancellor announced that these investments will not only strengthen the nation’s defences but also energise its industrial base, ensuring that all regions of the UK benefit from the generated prosperity. With innovation, modernisation and collaboration at its core, this strategy positions the UK to confront and overcome the complex challenges of an uncertain world. ◀

# Reform and closing the tax gap

Chancellor's plans to tackle depriving essential public services of much-needed funding

**A** key pillar of restoring the United Kingdom's economic stability and fiscal responsibility is tackling the long-standing issue of unpaid tax, Chancellor Rachel Reeves said. Every year, a significant amount of tax goes uncollected, depriving essential public services of much-needed funding. This also creates a competitive imbalance, as businesses that dutifully pay their taxes are often left at a disadvantage compared to those that do not.

In the autumn Budget, the government outlined its most ambitious plan yet to close this tax gap. During the Spring Statement, Reeves announced an even more robust package of measures projected to raise over £1 billion in additional gross tax revenue annually by 2029/30. These actions aim to create a fairer system and ensure that individuals and businesses contribute their share to the economy.

## TACKLING THE TAX DEBT CRISIS

The Chancellor said the figures surrounding unpaid tax debt are staggering. By the end of December 2024, HMRC reported tax

debt liabilities surpassing £44 billion, more than twice the amount seen five years ago. Alarming, around £20 billion of this debt is over 12 months old, making it increasingly challenging to recover.

To address this crisis, the government is ramping up HMRC's ability to manage and recover outstanding debts. This includes a pilot programme aimed at automating debt collection processes and focusing on older debts. Additionally, investments are being made to recruit 500 more compliance staff on top of the 5,000 announced last year. Expanding HMRC's workforce will enable more rigorous enforcement and ensure debts are pursued efficiently and effectively.

## MODERNISING TAX THROUGH DIGITALISATION

Another key focus is the digital transformation of the tax system. The rollout of Making Tax Digital (MTD) for income tax Self Assessment (ITSA) is set to accelerate. From April 2028, sole traders and landlords with incomes exceeding £20,000 qualify to join this digital framework. The Chancellor has

emphasised the importance of MTD, noting that digitalisation will ultimately prepare businesses for a competitive future by simplifying how tax obligations are managed.

Efforts are also being made to extend the benefits of digitalisation to smaller taxpayers. The government is exploring ways to enhance reporting systems for the estimated four million taxpayers earning below the MTD threshold. Meanwhile, stricter penalties for late payments are being introduced for VAT and ITSA taxpayers, further encouraging timely compliance.

## ADDRESSING TAX AVOIDANCE AND NON-COMPLIANCE

Cracking down on more deliberate forms of non-compliance is another key priority. Earlier this year, the government launched a series of consultations on important measures aimed at closing the tax gap. These include plans to enhance the use of third-party data for automation, bolster HMRC's power against tax advisers who facilitate non-compliance and curb marketed tax avoidance schemes that leave clients with hefty, unexpected bills.





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The Chancellor explained that these efforts would not only increase accountability but also create a level playing field for honest taxpayers. For example, a new tax fraud initiative will increase criminal prosecution, particularly targeting wealthy individuals, corporation-led fraud and offshore tax evasion. HMRC intends to deliver 600 annual charging decisions for serious tax fraud cases by 2029/30, up from 500 currently.

**ENCOURAGING WHISTLEBLOWING AND TACKLING ‘PHOENIXISM’**

Part of the government’s approach includes initiatives to reward whistleblowers. Inspired by successful models in the United States and Canada, the Chancellor said HMRC’s updated informant reward scheme will offer financial incentives connected to the amount of tax recovered as a result of their tips. By targeting complex schemes involving large corporations, wealthy individuals and offshore accounts, this scheme is expected to significantly bolster tax collection.

Simultaneously, a joint task force with HMRC, Companies House and the Insolvency Service aims to tackle ‘phoenixism’, where businesses dissolve to avoid tax and debt repayment. Stringent measures will include upfront payment demands, personal liability for directors and doubling enforcement efforts, ultimately protecting £250 million in tax by 2026/27.

**OFFSHORE TAX REFORM AND TECHNOLOGY INTEGRATION**

To strengthen its offshore tax enforcement, Reeves said HMRC is also investing in private sector expertise and advanced technologies such as artificial intelligence and analytics. This approach will better identify individuals and entities attempting to conceal wealth abroad. Over the next five years, HMRC plans to recruit an additional 400 tax specialists, expected to generate £500 million in recovered revenue over this period.

Additionally, the government is fast-tracking broader modernisation in tax and customs operations. The introduction of voice biometrics, AI in customer service and

partnerships with international bodies like US Customs signal a shift towards leaner, tech-driven processes. Streamlining these systems will reduce administrative burdens for businesses and taxpayers, helping them focus on what they do best.

**A ROADMAP FOR FAIRNESS AND GROWTH**

At its core, these reforms represent a drive for fairness and sustainability. The Chancellor said these measures are critical to closing the tax gap, ensuring reliable funding for public services and fostering economic growth. Furthermore, the government’s commitment to innovation promises to reduce complexities often associated with tax compliance.

With HMRC’s transformation roadmap expected this summer, these initiatives offer a glimpse of a modernised tax system built around fairness and efficiency. As these reforms take shape, taxpayers and businesses alike can anticipate a fairer and more streamlined system designed for long-term economic success. ◀

# Programme to reform the public sector

## Measures to address inefficiencies and modernise public service delivery

**C**hancellor Rachel Reeves said the British government has embarked on an ambitious programme to reform the public sector, emphasising boosting productivity, delivering value for money and improving essential services for working people. Tackling significant challenges, such as backlogs in health and immigration, has been central to the government's approach, alongside measures to address inefficiencies and modernise public service delivery.

According to Reeves, public services faced considerable hurdles by the beginning of this Parliament. For instance, the NHS had a backlog of 7.6 million elective care cases, with around 300,000 people waiting over a year for treatment. Within the asylum and immigration system, financial pressures reached an unsustainable £6.4 billion, coupled with a mounting case backlog requiring immediate action.

### **A BALANCED APPROACH TO ACCOUNTABILITY AND INNOVATION**

The Office for Value for Money (OVfM) ensures that public funds are spent wisely. It shapes decisions during key Spending Reviews and recommends reforms to enhance expenditure strategies. The Chancellor said the government is dedicated to making public services sustainable while

improving long-term outcomes for citizens. One example of this commitment is the decision to streamline NHS England by integrating it into the Department of Health and Social Care, reducing bureaucratic redundancies while boosting efficiency.

Beyond system overhauls, the government has made targeted allocations from its newly established £3.25 billion Transformation Fund. This fund accelerates the adoption of digital technology and Artificial Intelligence (AI) to modernise frontline services. By reducing bureaucratic hurdles and generating savings for taxpayers, the Transformation Fund demonstrates the government's commitment to the future of public service delivery.

### **TECHNOLOGICAL ADVANCEMENTS REDEFINING SERVICES**

Several initiatives from the Transformation Fund demonstrate these approaches to reform. For instance, £42 million has been allocated to three pioneering Frontier AI Exemplars, led by the Department for Science, Innovation and Technology (DSIT). These projects use AI to enhance government operations' efficiency while minimising unnecessary administrative burdens. The Chancellor announced that these advancements promise to optimise performance and improve outcomes for citizens by streamlining processes.

Another example is the investment in children's social care, which includes an additional £25 million to bolster the fostering network. This funding enables recruiting 400 new fostering households, addressing the need for stability for vulnerable children while easing financial pressures on local government. Meanwhile, the probation system is becoming more efficient, thanks to an £8 million technology fund that allows probation officers to focus more on rehabilitation and less on paperwork.

### **A LEANER, MORE RESPONSIVE PUBLIC SECTOR**

The government's long-term plan for a leaner Civil Service forms another critical area of focus. Reeves confirmed £150 million for voluntary employee exit schemes, aiming to reduce administrative costs by 15% by the decade's end. These changes are expected to save £2.2 billion annually on government back-office functions by 2029/30, unlocking more resources for frontline services.

Central to this goal is workforce reform, with the Chancellor emphasising plans to ensure public sector pay increases are closely aligned with productivity gains. Particular emphasis will be placed on enhancing digital competencies, aiming for



Public sector pay, defence investment and financial transparency remain key areas for reform. The government has confirmed that public spending will increase, albeit at a slower annual rate of 1.2% between 2025/26 and 2029/30.

one in ten civil servants to become digital professionals by 2030. These improvements will increase efficiency and better equip the Civil Service to address modern challenges.

**REIMAGINING SPENDING REVIEWS FOR HOLISTIC REFORM**

Beyond operational advancements, the government has reimagined its Spending Review process to ensure it remains robust and forward-looking. Transitioning to a zero-based, data-driven approach ensures that new spending decisions are thoroughly scrutinised and aligned with overarching reforms. Reviews, now conducted every two years, will establish multi-year budgets to provide financial and operational stability.

Reeves said that this approach will assist in implementing the Plan for Change, which outlines the government’s vision for an agile, transparent and productive state. This transition involves reducing regulatory compliance costs for businesses by 25%, leveraging digital tools and eliminating inefficiencies from arms-length bodies like NHS England. Collectively, these reforms

strive to modernise the relationship between citizens and public services.

**STRENGTHENING ACCOUNTABILITY WITH FISCAL PRUDENCE**

Public sector pay, defence investment and financial transparency remain key areas for reform. The government has confirmed that public spending will increase, albeit at a slower annual rate of 1.2% between 2025/26 and 2029/30. This recalibration also reflects a shift in priorities, such as reducing Official Development Assistance spending in favour of raising defence spending to 2.5% of GDP by 2027.

By committing to a modern, accountable and sustainable public sector, the government is fulfilling its promise to prioritise the needs of working people. Integrating technology, innovative structural reforms and prudent fiscal management will ensure that the public sector is better equipped to meet future demands. According to the Chancellor, these ambitious reforms address today’s challenges and lay the groundwork for a more efficient, citizen-focused state. ◀

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# Is it time to talk about your future financial plans?

If you would like to explore the Spring Statement 2025 or your  
financial plans, please contact us.

**We look forward to hearing from you.**

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