The 2025 UK Spending Review

Economic insights

June 2025

Teneo

Contents and authors

Gee Lefevre
Senior Managing Director
Consumer and Economics Lead
Gee.Lefevre@teneo.com
+44 20 3206 8860

Jessica Egan
Director
Consumer and Economics Specialist
Jessica.Egan@teneo.com
+44 (0) 77830 52552

Professor Jonathan Portes
Senior Advisor & Former Chief Economist to the Cabinet Office

Sir Oliver Letwin
Senior Advisor & Former Minister of State for Government Policy and Chancellor of the Duchy of Lancaster

Sir Ben Bradshaw
Senior Advisor & Former MP for Exeter and the former Secretary of State for Culture, Media and Sport

Section 01

Executive summary

Executive summary

On 11th June, the Government released its Spending Review. Against a backdrop of uncertain economic growth and fragile fiscal position, this review targets growth by front-loading spend and relies on efficiency in day-to-day spending in the long-term

Gee Lefevre
Senior Managing Director
Consumer and Economics Lead

The Spending Review has come at a critical juncture for the UK Government. Growth is stagnating, the UK economy shrunk by 0.3% in April, and there's a tight fiscal position and stretched public services. Alongside these internal pressures, the UK is increasingly navigating uncertain global trends, including trade disruption and spikes in global conflict, which have implications for interest rates and defence spending. These factors will test the Chancellor's ability to deliver prosperity against a tough economic backdrop.

The tight fiscal position left the Chancellor with little room to increase current spending (an average real increase of 1.5% annually across the forecast period), with the focus of this review being the difficult departmental trade-offs. While Health, Housing, Defence and Education are beneficiaries of this review, other departments will be expected to drive significant cost savings over the period.

The Home & Foreign Offices, as well as Transport (excl. major capital projects) will see real terms funding fall over the period, requiring close scrutiny over the next five years to ensure that the quality of public services is not impinged.

Predictably, the Spending Review focussed on significant capital investments, where the Chancellor has greater fiscal flexibility. More broadly, the changes announced demonstrated the Government's intention to leverage the capital budget and prioritise "good-debt" as a means of bolstering growth in the medium to long-term. Of the programmes announced, Defence, Transport and Energy / Net Zero all offer strong potential to drive further economic growth through attracting significant private sector investment.

Geographically, the intention to distribute investment increasingly outside of London was clear, with the announcements of Transport links in the North East (to the tune of £15.6b) as well as investment in Nuclear Energy and Schools.

Though the announcements do not change the outlook for the UK's debt position, the Government will be monitoring fiscal headroom closely as we move into Autumn. The probability that the fiscal mandate is met is likely too low for the Chancellor not to take action and increase tax receipts, especially given rising borrowing costs. That being said, the route to raising funds is less clear. Increased taxation of higher income households would be politically easier, but less direct methods (including reductions in Tax Reliefs across ISAs and Pensions) are the more likely tools for the Chancellor.

For consumers, the short-term impact is likely to be small, but in the longer term, the changes announced will bolster disposable incomes via lower energy bills and improved transport links across regions outside of London. Similarly, we expect that consumer confidence will be boosted by recent rebounds in real wages and optimism following the Spending Review.

Section 02

Public Spending Review Economic Backdrop

The Spending Review looks to address a complex set of challenges facing the UK

The Government faced a complex set of challenges in the Spending Review, including weak GDP growth, a tight fiscal position and stretched public sector services with widening deficits

UK GDP growth stagnating

- **UK growth is expected to slow for the remainder of the year,** despite outperforming in Q1 2025, we saw a decline in GDP in April, suggesting the trend of weak growth observed through 2023 and 2024 will continue
- **Inflation and tariff uncertainty** have weakened spending, delaying expected interest rate cuts
- Rising real wages are not translating to higher spending due to **low consumer confidence**

Tight fiscal position

- Forecast changes to growth **cut £14.1b from budget headroom in March**, breaching fiscal stability rules
- The budget gap was closed using **welfare cuts and foreign aid reallocation**
- **Risk of outlook for Autumn 2025 worsening** due to slow growth, weak tax receipts, higher long-term interest rates and lower immigration

Balancing act for prioritising investment

- **Key areas of public spending saw declines** last year in real terms
- **Health and Defence** remain **priorities** for the Government
- **Housing, Criminal Justice, Transport** and **Education** face long-term **underinvestment**

Source(s): UK Gov; ONS; OBR; Teneo research and analysis

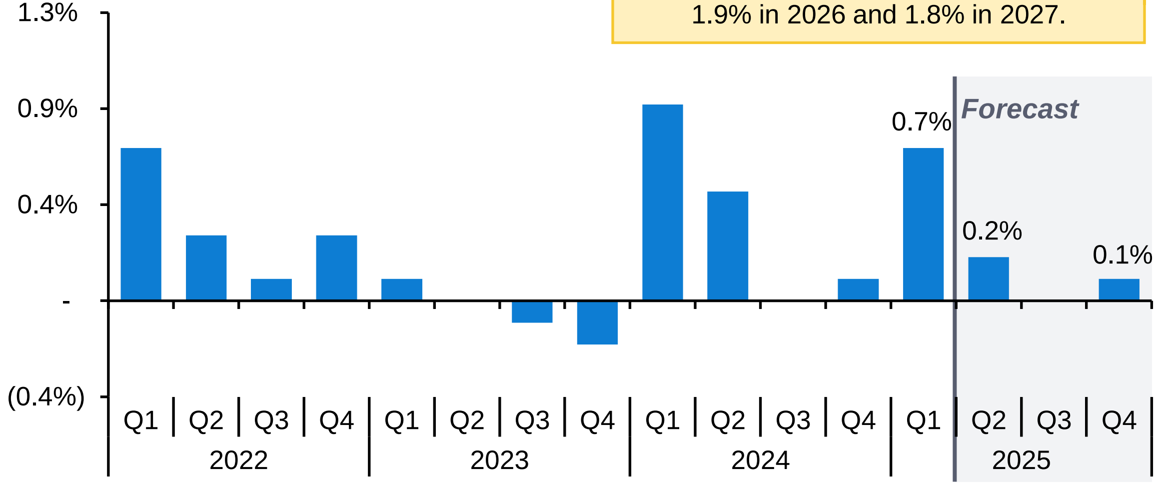
The Spending Review has arrived against a backdrop of stagnating growth

Growth in the UK has been slow in recent years and, despite stronger-than-expected results in Q1 2025, growth is expected to decelerate for the remainder of the year as delayed investment following the Autumn Budget and front-loaded activity on the back of tariff uncertainty drop off

Looking ahead to Q2 and beyond, UK GDP remains fragile given ongoing trade frictions, rising inflation, and low business and consumer confidence

Real GDP growth, quarterly, 2022-2025F

The OBR forecasts annual GDP growth of 1.9% in 2026 and 1.8% in 2027.



UK GDP grew 0.7% in Q1 2025, exceeding the 0.6% forecast, marking **the fastest growth in a year,** and leading the G7 in this period.

Q1's strong growth is not expected to be repeated, as it was **inflated by front-loaded activity ahead of U.S. tariffs** and delayed investment following the 2024 Autumn Budget. This is further ratified by the -0.3% contraction of GDP in April.

Surging inflation in April has **weakened purchasing power**, delayed expected rate cuts and heightened economic uncertainty, dampening prospects for spending, investment and GDP growth.

Continued growth in real wages has improved the household financial position in recent years. However, **low consumer confidence** means this **increased wealth is not translating to an uptick in consumer spending.**

Given the growth outlook, the investments made in the Spending Review need to drive economic growth. The Government's phasing of investment is critical in managing the UK's growth profile going forward

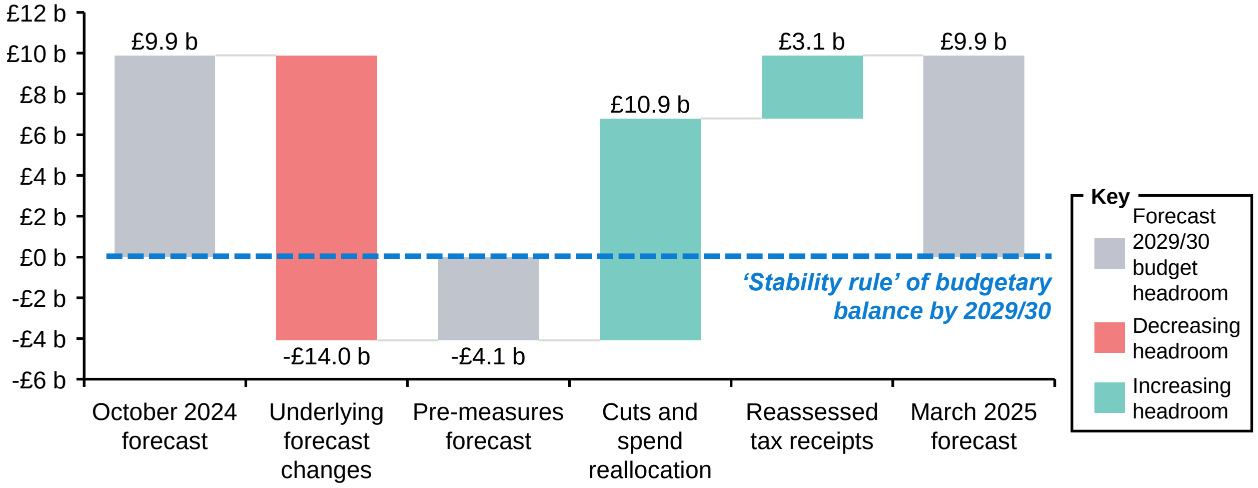
Source(s): ONS; OBR; BBC; Lloyds Bank Business Barometer; Teneo research and analysis

The fiscal position has left the chancellor with little room to increase current spending

Small forecast revisions to the Government's thin fiscal headroom, amounting to only 0.3% of GDP, have already necessitated tough spending cuts – with further downward revisions likely, the Chancellor has little margin for adjustment

The Chancellor has already promised that we "won't see tax rises of the same scale as 2024," though increases appears inevitable

UK Government forecast headroom for balancing the 2029/30 budget



Revisions to key econometrics and rising costs of borrowing had meant that the Government faced a £4.1b 'hole' in the 2029/30 budget, **breaching the Chancellor's 'stability rule.'**

This gap had to be offset by cuts to welfare spending and the reallocation of spend from foreign aid to defence, with current forecasts now pointing again to budgetary balance.

As a result, **the chancellor has been constrained in increasing current spending**, focusing on capital programmes to boost growth.

The Government has limited headroom for increases to current spending; leveraging capital investment needs to forms a core strategy in the Spending Review

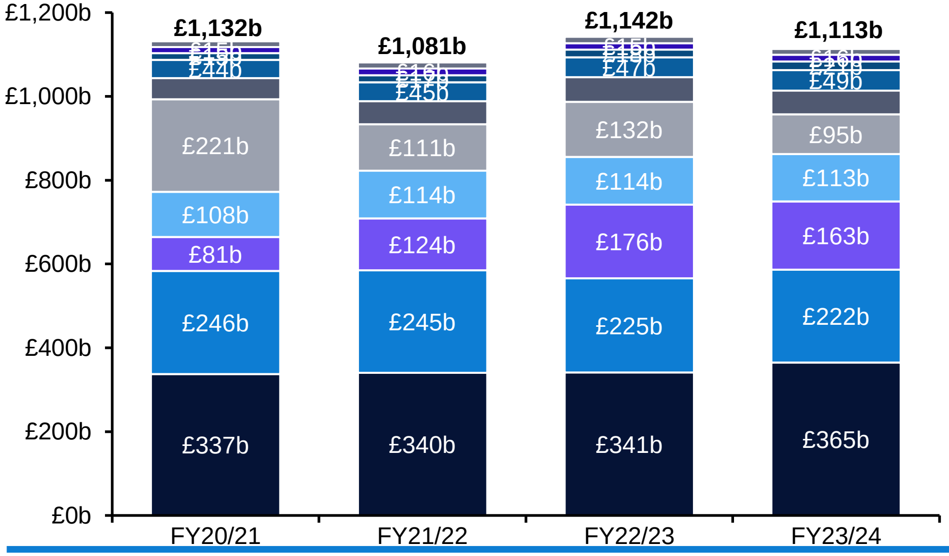
Source(s): OBR; Teneo research and analysis

Public services are stretched, and difficult trade-offs were inevitable

In real terms, expenditure on 6 out of 10 areas of public spending fell last financial year. Looking longer term, areas that have been most squeezed are Health and Economic affairs - more specifically Transport, Enterprise and Economic Development

Over the past four years, UK public spending has experienced significant shifts across various sectors, influenced by the COVID-19 pandemic, inflationary pressures and evolving Government priorities

Public Sector Expenditure in real terms (adjusted to 2023-24 price levels)



Key (growth rate)
Strongly negative — *Strongly positive*

Function	2023/24 % change	CAGR 2021-24	CAGR 2014-24
Recreation, culture and religion	(13.0%)	(1.9%)	(1.3%)
Environment protection	4.6%	2.9%	0.8%
Housing and community amenities	13.6%	10.7%	4.9%
Public order and safety	4.1%	3.6%	2.3%
Defence	(3.4%)	4.2%	1.7%
Economic affairs	(28.4%)	(24.7%)	5.8%
Education	(0.4%)	1.7%	0.2%
General public services	(7.3%)	26.2%	4.9%
Health	(1.4%)	(3.4%)	2.7%
Social protection	7.0%	2.6%	0.9%

Healthcare has endured a decline in funding in real-terms and is facing ongoing challenges from long waiting times in hospitals, as well as clinical staffing shortages.

Though spending on housing has increased, the **Government is behind its 1.5 million new homes commitment**, citing challenges from planning delays and rising construction costs.

Education spending has stagnated since 2013. Challenges such as staff shortages and growing concerns over deteriorating school estates persist.

The Government is relying on efficiency gains on an unprecedented scale over the next five years to curb current spending which, if successful, will lead to longer-term sustainability

Source(s): HMT; OBR; Teneo research and analysis

Section 03

Headlines from the Public Spending Review

The Spending Review managed to avoid some painful trade-offs

The Government's Spending Review attempts to pair fiscal discipline with bold investment in national renewal, with a focus on strengthening defence and rebuilding the NHS, aiming to lay the foundations for sustained economic growth

Defence

The Government has pledged to spend **2.6% of GDP on defence starting in 2027.**

This will include £6b to upgrade nuclear-powered submarines, building six munitions factories, **£15b allocated to nuclear warhead upgrades** and enhancements in cyber defences.

Healthcare

The Government has announced **a £29b real terms NHS funding increase**, averaging **3% annual real growth** over the Spending period. C.30% of which will be funding digitalisation programmes.

The **Department of Health and Social Care's annual capital budget** will also **increase by £2.3b** in real-terms from 2023-24 to 2029-30.

Transport

The Government has announced **£15.6b for UK city transport by 2031-32** to boost regional connectivity and productivity.

Additional funding will also be used to connect cities and towns, including **£3.5b for the TransPennine Route Upgrade** and £2.5b to unlock the Oxford-Cambridge growth corridor.

Housing

The Government confirmed **£39b for a new 10-year Affordable Homes Programme** as part of commitments to build 1.5m new homes, and **£13.2b under the Warm Homes Plan** to improve household energy and drive down energy bills.

Education

The Government will **increase the core schools' budget by £2b** in real terms, ensuring a real terms growth of 1.1% a year per pupil.

Capital funding for schools includes **£2.4b annually over the next four years** for the Schools Rebuilding Programme and **£2.6b to support the creation of new mainstream school places.**

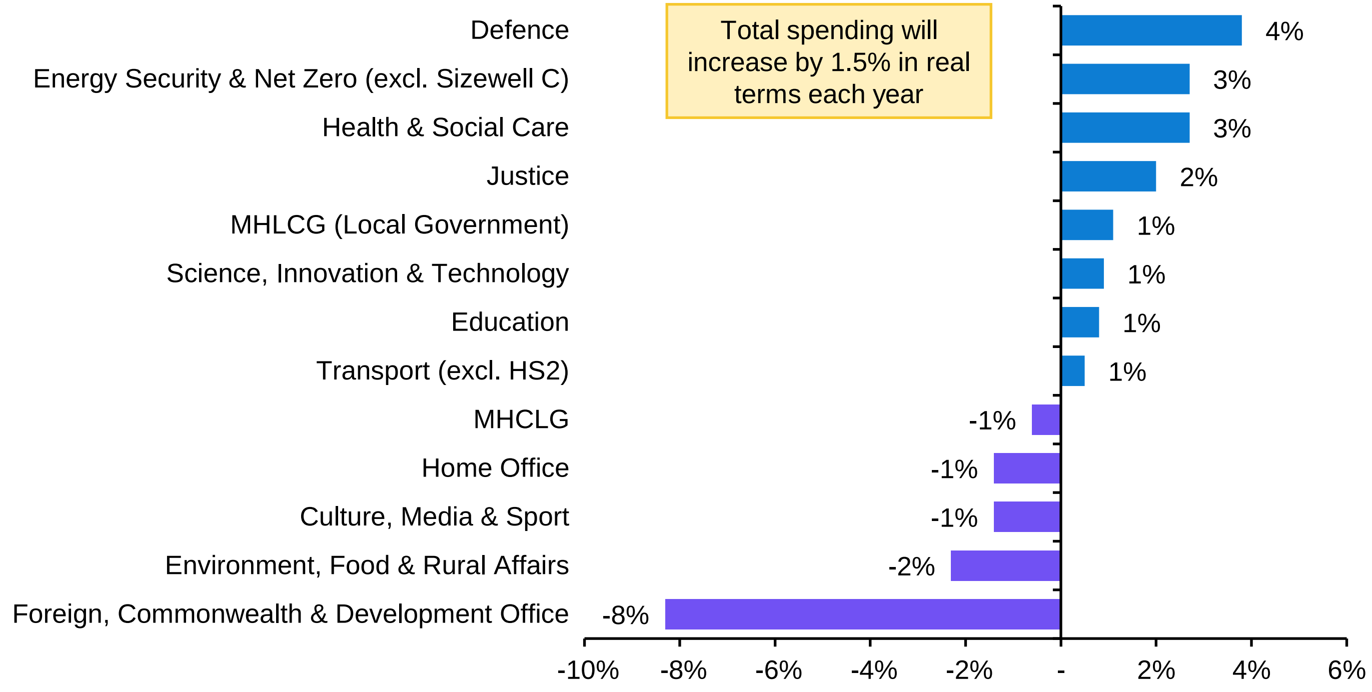
Source(s): HMT; OBR; Teneo research and analysis

The most controversial trade-offs were avoided; spending will be tighter in later years

The Chancellor announced significant funding commitments across Government departments, with a specific focus on defence, health and energy in line with Labour Party pledges, whilst some departments will see real terms cuts

Over the next three years, real-terms spending will increase by 1.5% in real terms each year, with the greatest increases in Defence, Energy Security & Net Zero and Health & Social Care

Average annual real terms change, %, selected departments, Total Departmental Expenditure Limits, 2025/26 to 2028/29



As the conflict in Ukraine continues, with risk of further escalation, the Government has committed to **increase Defence expenditure to £73.5b by 2028/29**, an **£11b uplift** from 2025/26.

The Government is **prioritising investments in nuclear power**, with **£2.5b for a Small Modular Reactor Programme** and **£2.5b for nuclear fusion**, on top of **£14.2b for Sizewell C.**

To keep pace with global advances, the Government has **committed to increase UK R&D spending to £22.6b** by 2029/30, with **£2b for artificial intelligence** from 2026/27 to 2029/30.

Source(s): HMT; Teneo research and analysis

The Chancellor confirmed investments across the four nations of the United Kingdom

In the announcement, the Chancellor reaffirmed the Government's commitment to levelling up the UK by ensuring more investment is focused outside of London

Scotland

£52.1b DEL[1] by 2028/29

- Investment of £8.3b by Great British Energy (based in Aberdeen) and Great British Energy – Nuclear in clean power
- Significant investment in defence, including a multi-billion-pound redevelopment of Clyde Naval Base
- Up to £750m for a new supercomputer at Edinburgh University

Northern Ireland

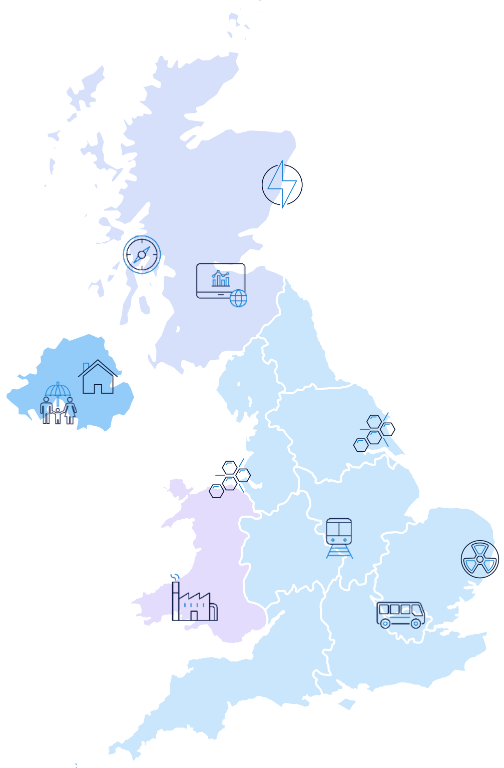
£19.8b DEL[1] in 2028/29

- Confirms £185m in funding for public services transformation, over three years
- Confirms £310m in City and Growth Deals over four years to support regional development

Wales

£22.9b DEL[1] in 2028/29

- Includes £9.4b investment in CCUS[2] clusters, from which North Wales will benefit in part
- £500m grant for Tata Steel Port Talbot to support the shift to an Electric Arc Furnace



Rest of England

- £15.6b for Transport for City Regions (TCR) settlements (by 2031/32), supporting nine mayoral authorities across England and a further £2.3b for local transport updates outside of these nine regions
- £9.4b for CCUS[2] clusters, with the aim of maximising deployment to fill existing storage

East of England & South East of England

- £14.2b for Sizewell C nuclear power station in Suffolk to power UK homes
- £2.5b for East West Rail, linking Oxford and Cambridge, and supporting Milton Keynes' leading tech sector

London

- £2.2b for Transport for London's capital renewals programme (2026-30)

The Mayor of London has voiced concerns over lack of investment in the Spending Review for London

Source(s): HMT; Teneo research and analysis
Note(s): 1. Departmental Expenditure Limit; 2. Carbon Capture, Usage and Storage

Key initiatives were positioned as driving Health, Security and/or Economic Growth

In the announcement, the Chancellor exercised greater flexibility with the Capital Budget given constraints over increasing current spending; these were targeted at Defence, Clean Energy, Transport and Science and Technology

Function	Initiative	Short-term growth driver	Long-term growth driver	Commentary
Defence	2.6% of GDP on defence by April 2027	↗	↗	Above 2.5% quoted previously, in part funded by cuts to the overseas aid budget
Science and Technology	£22b annual R&D investment by end of forecast period	↗	↗	Represents a 7.4% annual increase, largely reflecting increased investment in AI
Transport	£15b on Transport outside of London	↗	↗↗	Creates immediate employment opportunities, whilst also fostering long-term economic multipliers, connecting and building communities, as well as driving development around travel hubs
	Settlement for TFL	→	→	Provides stability for London transport services rather than driving growth
	£2.5b East/West Rail investment, Midlands Rail Hub	→	↗	Improves regional connectivity, which will act as a catalyst for productivity in key economic corridors
Energy Security and Net Zero	£30b investment in nuclear	↗↗	↗	Includes £14.2b for Sizewell C nuclear plant, supporting 10,000 jobs; £2.5b for Rolls-Royce SMR; and £2.5b for Nuclear Fusion
	£9.4b to Carbon Capture and Storage	→	→	Attracts private investment and support thousands of jobs across the supply chain
Housing and community amenities	£39b for affordable and social housing (over next 10 years)	↗	↗	Annual £3.9b investment uplift, with fast-tracked bids from urban centres such as Blackpool, Sheffield and Swindon
	£10b of funding for Homes England	↗	↗	Encourages private sector co-investment, and under revised fiscal rules, will fall outside public debt
	£13.2b under the Warm Homes Plan maintained	↗	↗	Quoted savings of up to £600 annually for households upgraded under the Plan
Health	3% annual increase in NHS funding over the forecast period	↗	↗	Represents a £29b real increase in annual resource budgets for the NHS between 2025/6 – 2028/9
	Focus on digital and transformation with spending on this area growing to £10b by 2028/9	→	↗↗	Embodies a longer-term vision of driving NHS efficiency; reforms of this scale will take time. £6.5b of this was already allocated for 2025/26
	Additional £4bn allocated to Adult Social Care in 2028/29	→	↗	Represents a significant increase in funding for this area, deployment of this will depend on the Casey Review
Home Office	2.3% annual increase in funding for policing real-terms	→	→	Investment will support reform of the probation process and reduce pressure on the prison estate
Education	£2.4b annually for School Rebuilding Programme	→↗	→	Consists of a moderate increase in construction activity with minimal long-term impact
Manufacturing	£500m grant to Tata Steel	→↗	→↗	Supports over 50,000 jobs during forecast period; however, it is small-scale versus other SR investments

Section 04

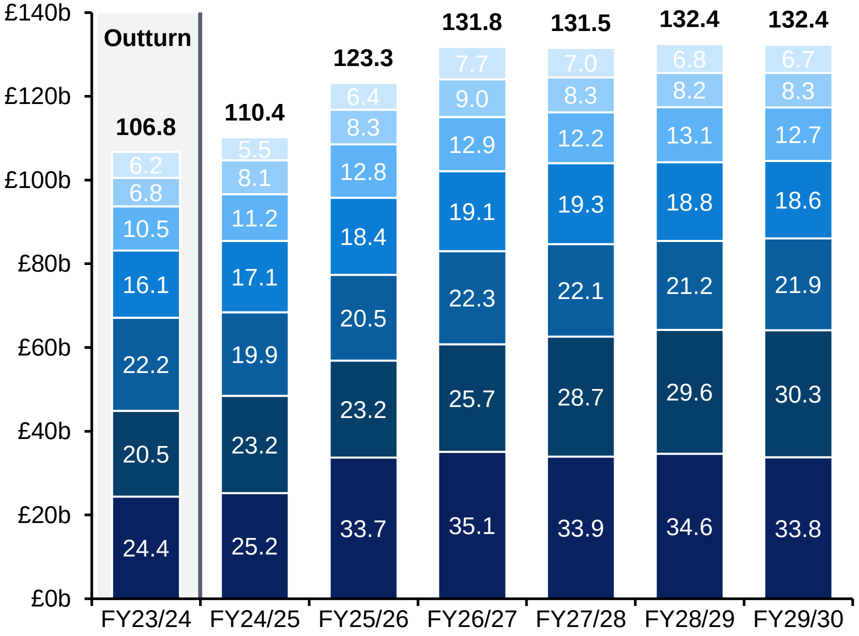
Implications and Capital Spending Deep-dive

The Capital Budget is set to grow by 1.8% annually in real-terms

By focusing on funding for Capital Programmes and delivering key infrastructural investment across Transport, Defence, Housing and Education, the Chancellor aims to bolster GDP growth over the next 5 years, the expected impact of which will be shared during the Autumn Budget

The investments announced should, in some instances, trigger a multiplier effect, though the Government will be closely monitoring the budget

Capital department expenditure limits, £ billion, constant prices (FY23/24=100)



Growth comparison of Government capital expenditure Constant prices (FY23/24 = 100)

Function	Growth FY22/23 -23/24	CAGR *FY20/21 -23/24*	CAGR *FY23/24 -29/30*
Total	0.1%	-3.6%	**1.8%**
Education	13.8%	2.7%	**1.3%**
Housing and community amenities	10.3%	9.4%	**0.1%**
Health	1.3%	-9.6%	**-0.1%**
Other economic affairs	-40.3%	-47.0%	**0.2%**
Transport	-2.4%	1.4%	**1.7%**
Defence	-15.2%	9.8%	**6.9%**
Other	*Data unavailable*		**0.1%**

The announced changes **represent an acceleration in capital spending** vs. historical growth rates which is largely front-loaded in the plan.

2.7%

5.8%

Avg. Annual growth rate (current prices)

Average annual growth rates are forecast to increase to 5.8% in nominal spend out to FY2029/30, over double the rate from the period covered in the previous Spending Review (FY20/21 – FY23/24)

Though this is positive for stimulating growth, **increases in the latter years of the plan are more muted** and, in some cases, mean a decline in real-terms.

Source(s): HMT; Teneo research and analysis

Private Sector Investment typically follows increases in Public Capital Spend

The announcements by the Chancellor are likely to draw in additional investment from the private sector and foreign investment, driving further growth; Defence is likely to be a key driver of private sector investment going forward

Historic growth in Government capital spending is associated with increases in business investment

Annual growth during Government investment peaks, CAGRs, Government capital investment and correlation with business investment

Function	Selected time period			*Budgeted real annual increase (2023/24-2028/29)*
	Government capital investment, CAGR	Correlation with business investment	Time period[1]	
Total	12%	●	*FY12/13-17/18*	1.8%
Defence[2]	27%	●	*FY13/14-18/19*	7.1%
Education	13%	●	*FY04/05-09/10*	1.4%
Health and social care	6%	◕	*FY11/12-16/17*	3.2%
Science, innovation and technology	51%	◕	*FY12/13-17/18*	2.2%
Transport (excl. HS2)	13%	◕	*FY12/13-17/18*	1.9%
Housing	10%	◔	*FY16/17-21/22*	3.2%

The Chancellor committed to £22.6b in annual expenditure on R&D by 2029/30, a real terms increase, with the spend distributed across several Government functions

Key
◔ Low (0-0.3) ◑ Medium (0.3-0.49)
◕ High (0.5-0.84) ● Very high (0.85+)

Defence

Since 2018, the MoD has invested over **£1.1b in R&D**, which was matched by a **£600m investment by industry partners** including BAE Systems and Rolls-Royce.

Transport

Since 2012, there has been **c.£5.5b private investment in rolling stock** linked to the public capital spending and **strategic goals set out in SR2015 and SR2020.**

Healthcare

MSD's **£1b investment in its R&D hub in London** aligned with SR2020's health innovation agenda and the Sector Deal.

Science and technology

Since 2020/21, there has been **c.£110b private investment in science** and technology, linked to **Government subsidies** and **support for science clusters.**

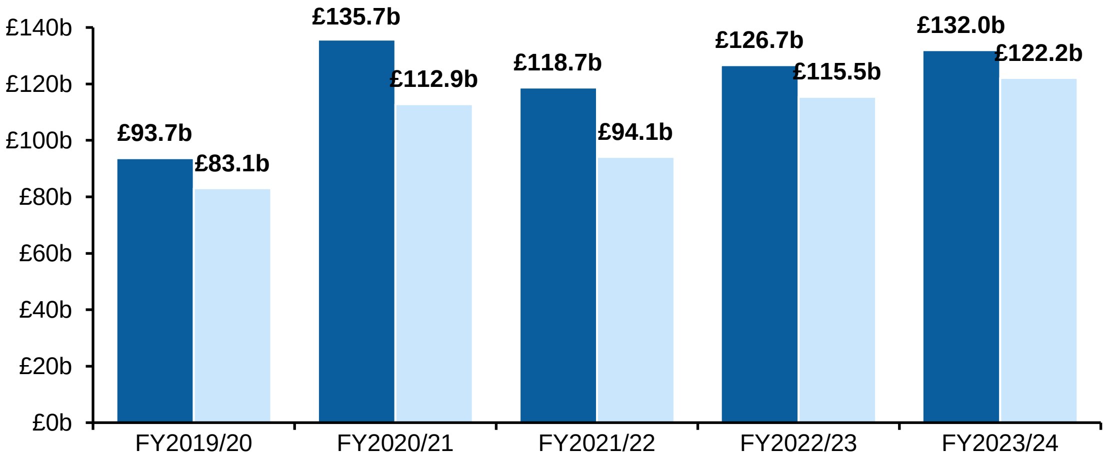
Source(s): HMT; ONS; Teneo research and analysis
Note(s): 1. Time periods compared selected as periods with significant growth in Government capital investment; 2. Business investment for defence-related manufacturing; 3. Excludes High-Speed 2

Capital Spend has historically undershot projections

Frictions in releasing capital have led to a perpetual underspend against forecasts as well as sub-optimal investment. IfG[1] recommendations and the upcoming Planning and Infrastructure Bill aim to improve this, however, the ability to spend allocated capital remains a key delivery risk

Changes to how capital spend is planned for should see a more material impact on overall growth

Public sector capital expenditure[2] (forecast[3] vs. actual), £ billion



Cumulative funding shortfall in the last 5 years prior to 2025 Spending Review				
£10.6b	£33.5b	£58.0b	£69.3b	£79.1b

Key
Forecast capital expenditure
Realised capital expenditure

Realised Capital Spend lagged behind projections in every year of the previous Spending Review's forecast period, resulting in a cumulative shortfall of c.£79.1b against allocated spend.

The recent review commissioned by the IfG proposed five key recommendations for ministers, the Treasury and Government. These aim to shift towards strategic structural investment, improved allocation and delegation of decision making, as well as enhanced tracking and planning.

The UK Planning and Infrastructure Bill (in the process of passage)[3] also aims to reduce red tape involved with the delivery of new homes and critical infrastructure. It intends to reduce cost, delays, and uncertainty by capping legal challenges, whilst also accelerating delivery timelines, and empowering regional and local authorities to make faster planning decisions.

These developments will improve the ability to release Capital effectively, but problems are likely to persist in the medium-term

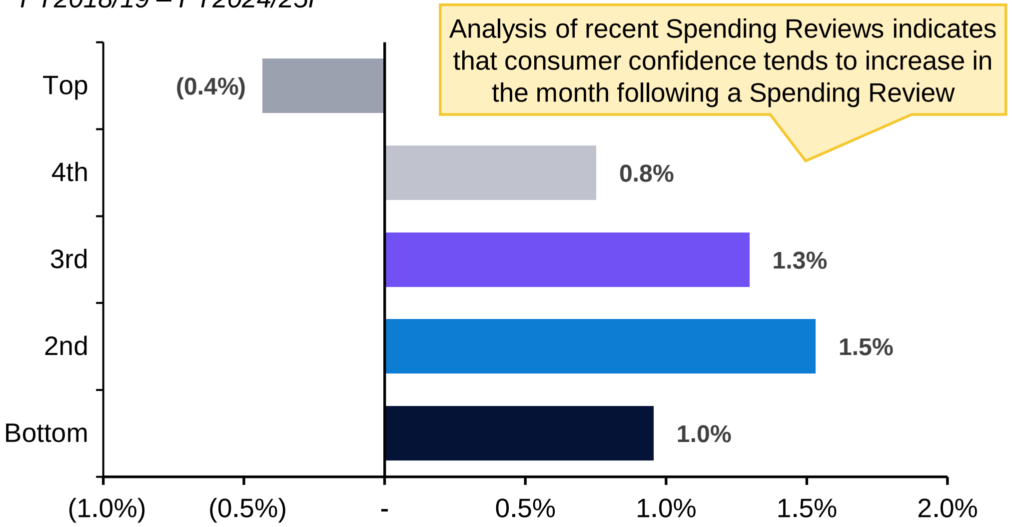
Source(s): IfG; Teneo research and analysis
Note(s): 1. Institute for Government; 2. Forecasts are sourced from the 2020 Spending Review; 3. Figures in nominal terms; 4. The bill was presented to Parliament 9/10th June and is yet to be presented to the House of Lords

Short-term boost in confidence expected, impact on incomes / growth will be longer-term

The short-term impact to consumers is likely small, but in the long-term the changes announced will bolster disposable incomes via lower energy bills and improved transport links

Subsequent tax rises in the Autumn budget are likely to have the most direct short-term impact to disposable income

Household disposable income by income quintile, average annual growth rate (%) FY2018/19 – FY2024/25F



Household Income (Quintile)	Disposable income (FY24/25F)	Growth (FY23/24-FY24/25F)
Top 20%	£72,296	1.7%
60-80%	£49,859	3.1%
40-60%	£38,253	4.3%
20-40%	£28,322	3.5%
Bottom 20%	£17,201	2.2%
All Individuals	£37,593	2.5%

Investment in defence and transport will **generate more skilled jobs** across manufacturing, construction and engineering sectors.

The **Warm Homes Plan,** which focuses on improving energy efficiency, will **significantly reduce energy bills** for families by lowering consumption.

The **£3.6b funding boost to healthcare** will likely enhance service capacity, leading to **faster patient processing and reduced waiting times.**

Small improvements in consumer confidence may boost household spending in the short-term following the Spending Review, followed by a more sustained increase as the longer-term effects feed through into disposable incomes

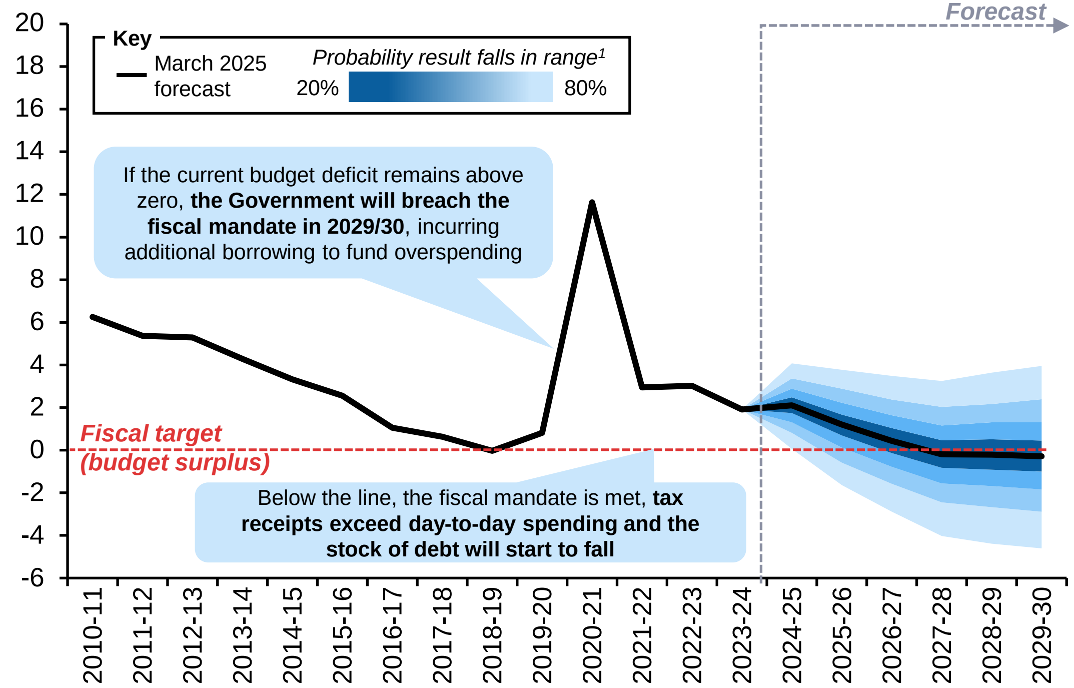
Source(s): ONS; Gov UK; Nielsen IQ; Teneo research and analysis

The changes announced point to tax rises in Autumn to meet fiscal constraints

OBR forecasts will remain unchanged on the back of the announcements; however, increases in tax receipts must outpace planned increases in spending over the next 5 years to bring the current deficit in line with the Fiscal Target

Latest forecasts suggest a 54 per cent chance of the current budget reaching surplus by the target year 2029-30

Current budget deficit (% GDP), March 2025 forecast



The Government's first challenge is to **eliminate the £131b (4.8% of GDP) deficit**, as debt will only fall in absolute terms once the budget returns to surplus. Key risks to this include the outlook for productivity growth, volatility in the bond markets and the global economic outlook.

The OBR currently predict **a 54% chance of reaching current budget surplus by 2029-30**. To increase the probability of hitting the fiscal mandate, the Government ultimately needs to demonstrate the ability for tax receipts to outpace spending plans laid out in this Spending Review.

Spending plans need to stimulate growth to ensure that the stock of debt relative to GDP remains sustainable. A key test is **whether public spending unlocks private sector investment.**

Source(s): OBR March 2025 forecast

Note(s): 1. The shaded areas of the fan chart represent the likelihood of the result falling within the range based on historical errors, with successive pairs of light areas representing 20% lighter probability bands

Tax rises in Autumn appear likely, the route to raise funds is less clear

Given the current and capital spending requirements outlined in the Public Spending Review, it will be difficult for the Government to maintain the required fiscal balance over the forecast period without further tax rises, with the market expecting £10-20b of increases in the Autumn Budget

Further welfare cuts and income tax hikes aren't out of the question but would be difficult politically

Category	Measure	Possible change in Autumn Budget 2025	
Income & Earnings	Council Tax	✔	Most Local Authorities will increase council taxes by at least 5% to address local funding needs, including policing
	Income Tax	✗	Manifesto pledge to 'not increase taxes on working people'; thresholds likely to remain frozen
	National Insurance Contributions (NICs)	✗	Increasing Employee NICs would break a manifesto pledge to 'not increase taxes on working people' but thresholds will likely remain frozen
Consumption	Value Added Tax (VAT)	✗	Manifesto pledge to 'not increase taxes on working people'; thresholds likely to remain frozen
	Excise Duties	✔	Tobacco duty likely to increase by RPI+2%
	Gaming Duty	✔	Very likely to raise revenue to enable the Government to meet the Chancellor's spending rules
	Insurance Premium Tax	✗	Manifesto pledge to reduce the cost of car insurance
Wealth & Property	Capital Gains Tax	✓	Pledged to tax 'carried interest' as income tax; increased from 28% to 32% (rather than 45% higher income tax rate) in Autumn Budget 2024
	Inheritance Tax (IHT)	✓	Wider reliefs or targeted rollback of Autumn Budget 2024 changes could be announced to soften political resistance to reduction of IHT relief for farmers
	Stamp Duty Land Tax (SDLT)	✓	Manifesto commitment to increase 2% surcharge to 1% for non-UK residents
Business & Corporate	Corporation Tax	✗	Rate capped at 25% for the duration of the Parliament; manifesto commitment of maintenance of R&D reliefs and capital allowances
	Business Rates	✔	Manifesto pledge to 'replace the business rates system' in England
Environmental	Climate Change Levy	✔	Likely to increase with RPI
	Fuel Duty	✓	Likely a continuation of longstanding freeze, though size of budget hole may prompt the Government to increase tax to raise revenue
Transport	Vehicle Excise Duty (VED)	✗	First year CO_2 bands, expensive-car supplement and EV taxation regime not automatically uprated or likely to change; annual RPI-linked uplift to standard bands likely
	Air Passenger Duty	✔	Headline rate likely to increase by RPI
Other tax reliefs and allowances	ISA limits	✓	Chancellor's comments indicate a possibility of adjusting cash allowance for ISAs, whilst maintaining overall £20k ISA limit; potential for Lifetime ISA allowances to be scrapped or withdrawal penalty changed
	Pension tax relief	✓	Cutting marginal tax relief for high earners risks political backlash but Labour Government has shown willingness to tackle politically challenging topics

Key – likelihood of change
✗ Unlikely ✓ Possible ✔ Likely

Source(s): HMT; ONS; Gov UK; Teneo research and analysis

The impact of the Spending Review on UK businesses varies significantly by industry

While prospects for UK industries vary, strong growth is expected in Defence, Construction, Manufacturing and Construction off the back of Government investment that targets improvements in security and economic growth

Industry	% of GDP[1]	Spending Review impact	Commentary
Utilities	12.5%	→↗	Substantial investments in nuclear power and carbon capture & storage will lead to significant growth for the sector
Agriculture & mining	11.4%	→→	The Spending Review does not include specific commitments on agriculture & mining
Professional services	6.6%	→→	Professional services firms benefit indirectly from long-term growth but are not targeted in specific measures
Health & social care	6.5%	→↗	With 2.7% annual growth in health & social care, there will likely be significant growth in the health & social care sector
Education	6.5%	↗↗	Significant investments in education have previously been associated with large increases in business investment
Public sector & defence	6.5%	↗↗	The private sector is likely to benefit in the short- and long-term from significant increases in defence spending
Construction	6.4%	↗↗	On top of boosts to housebuilding, major infrastructure projects should boost the construction sector
Manufacturing	6.3%	↗↗	On top of investments in infrastructure and defence, the Government committed to supporting steel production in Wales
Transport & storage	6.3%[3]	→↗	Private sector support will be needed to deliver the £15.6b in investments for transport projects outside London
IT & communication		↗	The Spending Review commits to £2b for Artificial Intelligence from 2026/27 to 2029/30
Real estate	6.3%	→↗	Planning liberalisation and the £39b Affordable Homes Programme will drive growth in the long-run
Other service industries	6.3%	→→	The Spending Review does not include specific commitments on services
Retail & wholesale	6.2%	→→	Whilst the Review does not address retail & wholesale, changes to workers' rights, such as ending zero-hours contracts, could lead to headwinds
Finance & insurance	6.2%	→→	The Spending Review does not include specific commitments on finance & insurance
Accommodation & food	5.9%	→→	Whilst the Review does not address accommodation & food, changes to workers' rights could lead to headwinds

Source(s): ONS; HMT; Teneo research and analysis

Note(s): 1. Based on 2024 Gross Value Added (chained volume), by category of output; 2. See Teneo report 'H2 2025 UK Economic, Consumer and Business Outlook' for further information on consumer spending; 3. 'Transport, storage & communications' grouped.

Key

↘ Negative growth → No impact ↗ Growth - Not applicable

About Teneo

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