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Spring Statement 2025: Background briefing

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Summary

On 26 March 2025, the Office for Budget Responsibility (OBR) will publish revised forecasts for the economy and public finances. The OBR is the independent public finances watchdog, which produces the official forecasts for the economy and public finances used by the Chancellor. It must produce two forecasts each financial year. In each forecast the OBR judges whether the Chancellor is on course to meet their targets for the public finances (often referred to as the fiscal rules).

The Chancellor will respond to the forecast in her Spring Statement in the House of Commons. The Spring Statement was expected to largely be a response to the OBR's forecast but there is speculation that there will also be announcements on spending and, possibly, tax, to ensure the fiscal rules are met.

What is the international and economic backdrop?

A lot has changed since the Chancellor delivered the Budget in autumn 2024, particularly geopolitically.

The Trump administration's imposition of tariffs (and threat of tariffs) on trading partners has disrupted the global trading environment. The UK, and other European nations, are increasing defence spending following President Trump's softening towards Russia and criticism of NATO.

In the UK economy, growth has been modest since mid-2024. Business sentiment has weakened with business groups voicing concerns over upcoming tax increases and the above-inflation rise in the minimum wage, both taking effect in April. The OBR is likely to lower its gross domestic product (GDP) growth forecast for 2025.

The government has said that economic growth is its number one priority. The government has said it intends to speed up infrastructure approvals, build more homes, and reduce the administrative costs of regulation for businesses.

What are the UK's fiscal rules?

The UK's fiscal rules (also known as the fiscal targets) focus on the government's day-to-day budget (or current budget) and public sector net financial liabilities (PSNFL).

The current budget measures the difference between government current spending (day-to-day spending on running public services, grants and administration) and government revenues from taxes and other sources. The current budget excludes investment spending.

PSNFL is a measure of all the government financial assets and liabilities. It is a wider measure of the government's balance sheet than the traditional measure of public sector net debt. The government describes PSNFL as "net financial debt".

Currently, the targets are that in the OBR's forecast for 2029/30:

- The day-to-day budget (or current budget) should be in surplus. This means that government's day-to-day spending should be met by its revenues. The government would, therefore, be forecast to only be borrowing for investment (capital) spending.
- Public sector net financial liabilities should be falling, relative to the size of the economy, compared with the previous year (2028/29).

The Library briefing The UK's fiscal targets explains the targets and what they measure.

What is expected in the Spring Statement?

The Chancellor wants to only make major tax and spending announcements once a year, in the Budget. It was therefore expected that the Spring Statement would be limited, with the Chancellor largely responding to the OBR's second forecast of the financial year. However, there is now speculation that there might also be some policy announcements.

In its forecast, the OBR will judge whether the Chancellor's fiscal rules for the public finances are being met. The rules were being met by a relatively small margin in the autumn 2024 forecast. With some unfavourable economic data since, there is speculation that one or both rules might be breached if the Chancellor doesn't act. The government says it will "meet the fiscal rules at all times", which suggests the Chancellor will act if required.

Broadly speaking, acting to meet the current budget rule would mean decreasing government spending or increasing tax revenues, in the forecast for 2029/30. 2029/30 is the year in which the fiscal rules are judged. For instance, the Chancellor could reduce departments' planned day-to-day spending on running public services, grants and administration, in 2029/30.

Ahead of the Spring Statement, the government has set out proposals to reform disability-related benefits, potentially saving around £5 billion in 2029/30. The green paper announcing proposals to reform disability-related benefits was published on 18 March 2025. The proposals aim to prevent long-term economic inactivity, reform the disability benefits assessment process, deliver improved employment support, ensure the benefits system is "financially sustainable", and protect disabled people who can't and won't ever be able to work.

Further information

The Library will publish a summary of the Spring Statement on the evening of 26 March 2025.

The latest data for the UK economy are summarised in the Library's economic indicators collection. The Library's economy dashboard provides an overview of the latest economic data.

1 Background: What's happened since the 2024 Autumn Budget?

On 30 October 2024, the Chancellor delivered the new Labour government's first Budget. She increased government spending, taxes and borrowing (see section 1.3). The Chancellor also introduced new targets for the public finances (the fiscal rules; see section 2.2), which were being met by relatively small margins.

A lot has changed since autumn 2024, particularly geo-politically. The Trump administration has imposed tariffs on trading partners which is making the global trading environment uncertain.[1] The US temporarily paused military support and intelligence sharing for Ukraine's defence against Russia's full-scale invasion. European governments, including the UK's, are raising defence spending.

UK economic growth has been modest since mid-2024. In January 2025, the Chancellor set out the government's broad plans to boost growth, based on "stability, reform and investment".[2]

Against this backdrop, the Office for Budget Responsibility (OBR) will publish its spring 2025 forecast on 26 March. The Chancellor will respond to the forecast in her spring statement.

1.1 The Trump administration

President Trump won the US presidential election on 5 November 2024 and took office for a second term in January 2025.[3] Some of his administration's policies have led to uncertainty on the international stage.

A softening towards Russia

On 24 February 2022, Russia launched military action in Ukraine, with forces crossing into the country from Belarus in the north, Russia in the east and Crimea in the south. Over the last three years, Russian forces have been conducting a full-scale assault on the country.

1 OECD. OECD Economic Outlook, Interim Report March 2025, 17 March 2025
2 HM Treasury press release, Government backs Heathrow expansion to kickstart economic growth, 29 January 2025
3 BBC. US presidential election results 2024 (accessed on 11 March 2025);

NATO countries were providing bilateral military assistance to Ukraine prior to 2022, particularly since Russia annexed Crimea in 2014. Since Russia's 2022 invasion, bilateral military assistance to Ukraine has been significantly stepped up, with many allies – including the UK and the US – supplying lethal weapons to Ukraine for the first time.[4]

Since President Trump assumed office in January 2025, negotiating a peace agreement between Russia and Ukraine has been a priority. US rhetoric towards Russia has softened and talks on resetting the US–Russia relationship have begun.[5] Tensions between the US and Ukraine increased in the aftermath of those talks, to which Ukraine was not invited. The EU High Representative, Kaja Kallas, accused President Trump of appeasement.[6]

A visit to the White House by Ukraine's President, Volodymyr Zelenskyy, was cut short on 28 February 2025, following a disagreement between President Zelenskyy, President Trump and the US's Vice President, JD Vance.[7] Subsequently, the US paused military aid to, and intelligence sharing with, Ukraine, and suggested that President Zelenskyy was "not committed to any sort of peace process".[8] That pause proved shortlived, however, after Ukraine agreed to US proposals for an interim 30-day ceasefire.[9] At the time of writing, that ceasefire proposal has not been accepted by Russia. President Putin said that while Russia was in favour, there were conditions that needed to be addressed, including the status of foreign military aid to Ukraine. .[10]

European governments are beginning to raise defence spending to continue support for Ukraine and because of concerns about the US's commitment to supporting Europe's defence.

As we discuss in section 2.4, the UK Government is increasing defence spending from 2.3% to 2.5% of gross domestic product (GDP) from April 2027. The Prime Minister wants to increase defence spending to 3% of GDP in the next Parliament, so long as the economic conditions and public finances allow.[11]

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4 House of Commons Library. Military assistance to Ukraine (February 2022 to January 2025), 14 January 2025

5 "US objects to phrase 'Russian aggression' in G7 statement on Ukraine", FT, 20 February 2025 and US Department of State. Secretary Rubio's Meeting with Russian Foreign Minister Lavrov

6 EU High Representative Kaja Kallas, @kajakallas, X (formerly Twitter), 13 February 2025 (accessed 11 March 2025)

7 BBC. How the Trump-Zelensky talks collapsed in 10 fiery minutes, 28 February 2025

8 US Department of State, Remarks to the press, 10 March 2025. See also US Department of State, Press briefing, 6 March 2025

9 US Department of State, Joint Statement on the United States-Ukraine Meeting in Jeddah, 11 March 2025

10 President of Russia, Joint news conference, 13 March 2025 and President of Russia, Telephone conversation with President of the United States Donald Trump, 18 March 2025

11 Prime Minister's Office, 10 Downing Street "Prime Minister sets out biggest sustained increase in defence spending since the Cold War, protecting British people in new era for national security" 25 February 2025

The House of Commons Library collection The Conflict in Ukraine includes all the Library's research relating to the conflict in Ukraine, including military assistance, sanctions, international legal issues, NATO, and implications for the UK.

The effects of trade tariffs

The Trump administration has imposed trade tariffs on all steel and aluminium imports, and increased tariffs on China, Canada and Mexico. President Trump has threatened to impose more tariffs on other countries to achieve different geopolitical goals.

The Library's Insight The geopolitics of trade tariffs: The new Trump presidency explains the role of trade tariffs in the current geopolitical context and effects on the UK. It highlights the unpredictability of some of the Trump administration's policies and the speed of changes.

1.2 UK economic situation

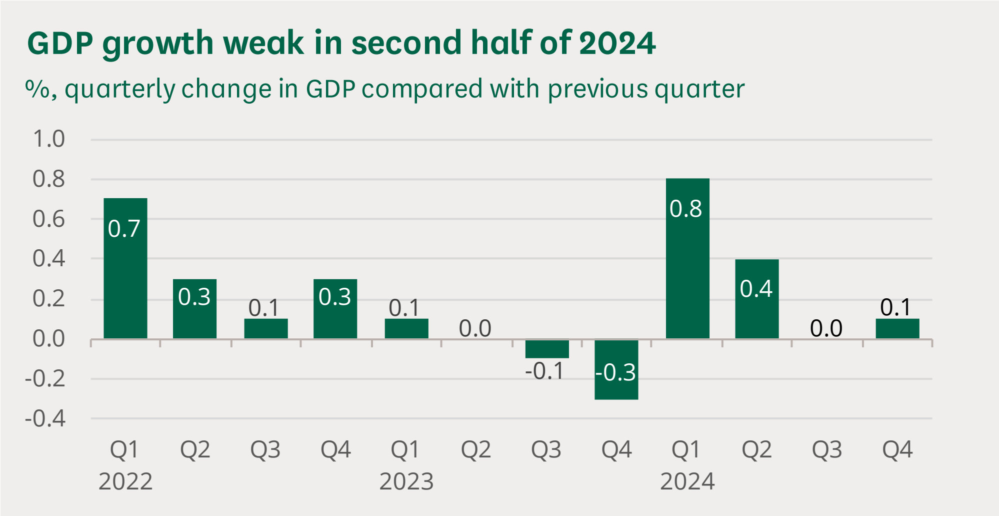
This section examines recent economic developments and expectations for the UK economy. It also outlines the government's economic policies designed to raise the growth rate.

GDP growth

The overall trend has been for only modest GDP growth since mid-2024.

Economic growth slowed sharply in the second half of 2024, as shown in the chart below. Quarterly GDP was unchanged in the third quarter (Q3) and up by 0.1% in Q4.[12] This followed relatively strong GDP growth in the first half of 2024.

[12] ONS, GDP first quarterly estimate, UK: October to December 2024, 13 February 2025

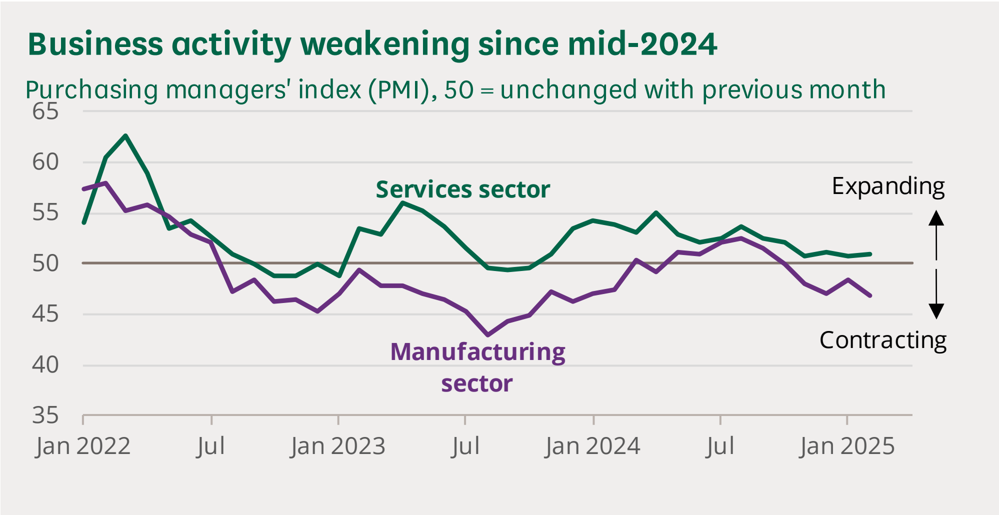


Source: ONS, quarter-on-quarter GDP growth, series IHYQ [13 Feb 2025 update]

Monthly GDP data, which is more up to date and volatile than the quarterly data used above, showed GDP falling by 0.1% in January 2025 compared with the previous month.[13] This followed a 0.4% rise in December 2024.

Outlook for 2025

Surveys of businesses toward the end of 2024 and early 2025 have generally showed worsening sentiment and weaker activity. For example, the S&P Global purchasing managers' index showed slowing growth in UK business activity in the second half of 2024 and early 2025, as shown in the chart below.[14]



Source: S&P Global UK PMI, services (PDF) and manufacturing (PDF) sectors and past surveys

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[13] ONS, GDP monthly estimate, UK: January 2025, 14 March 2025

[14] S&P Global, UK PMI, services (PDF) and manufacturing (PDF) sectors, 3 and 5 March 2025

Business groups have voiced concerns over an upcoming increase in the National Living Wage of 6.7% and a tax rise in the form of higher employers' National Insurance contributions (NICs) announced at the 2024 Autumn Budget.[15] These will take effect from April 2025 and many firms are worried about how this will affect their costs.

A Bank of England survey asked finance directors in January how they would react to higher NICs and found that 63% of businesses expect lower profit margins as a result, with 61% expecting to raise prices and 54% expecting to lower employment.[16] How businesses actually react remains to be seen.

International uncertainty

Higher international trade barriers and the uncertainty over global trade policy also pose risks to UK growth.[17] The Bank of England observed that global trade tariffs were likely to "have adverse effects on UK activity", with the specific effects complex in nature.[18]

The Chancellor has also said that even if the US does not directly apply tariffs to the UK, the UK economy would be affected by slower global GDP growth and international trade.[19]

OBR GDP growth forecasts

In October 2024, the OBR forecast GDP growth of 2.0% in 2025 and 1.8% in 2026. These are now higher than more recent forecasts from others.

For example, the average forecast among economists surveyed by the Treasury in March was for GDP growth of 1.0% in 2025 and 1.3% in 2026.[20] In February 2025, the Bank of England forecast UK GDP growth of 0.75% in 2025 and 1.5% in 2026.[21]

It therefore seems likely that the OBR will lower its GDP growth forecast for 2025.

15 For example see British Retail Consortium, One in ten part-time retail jobs at risk, 26 February 2025 and British Chambers of Commerce, National Insurance creating 'powder keg of costs', 25 February 2025

16 Bank of England, Monthly Decision Maker Panel data - February 2025, 6 March 2025, monthly data for January 2025

17 For analysis on the international economic outlook see OECD, OECD Economic Outlook, Interim Report, 17 March 2025

18 Bank of England, Monetary Policy Report, 6 February 2025, Table 1.D

19 "Rachel Reeves warns trade war will harm UK economy even if it avoids tariffs", Financial Times, 4 March 2025

20 Treasury, Forecasts for the UK economy: a comparison of independent forecasts, 19 March 2025

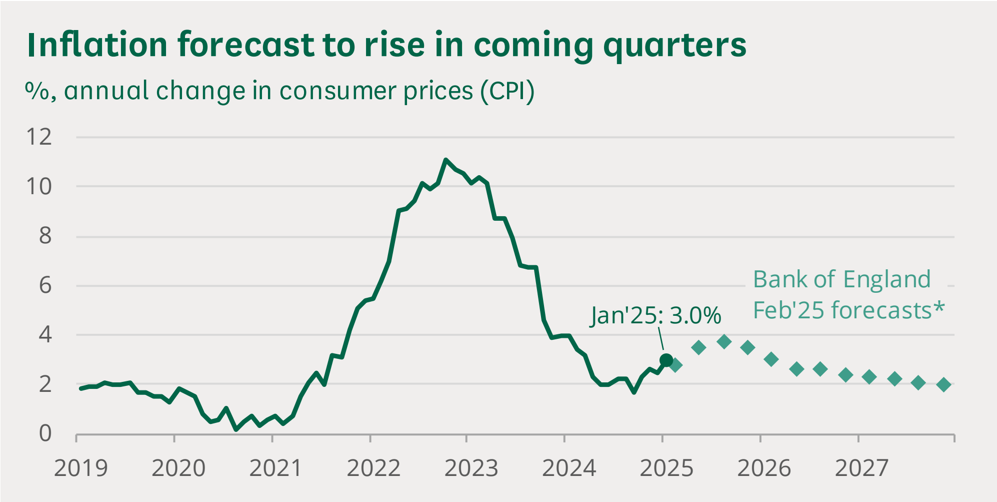
21 Bank of England, Monetary Policy Report, 6 February 2025, Box C

Inflation and interest rates

The annual rate at which prices of goods and services in the UK are rising – the consumer prices index (CPI) inflation rate – has risen from 1.7% in September to 3.0% in January, as the chart below shows.[22]

This rise UK inflation rose almost continuously from under 1% in early 2021 to a peak of 11.1% in October 2022, a 41-year high.[23] It then fell over the next two years.

For more on the period of high inflation see the Library research briefing Rising cost of living in the UK.



Source: ONS, CPI annual % change, series D7G7, monthly data and Bank of England, Monetary Policy Report, Feb 2025, table 1.C, quarterly forecasts

Most forecasters expect the CPI inflation rate to remain at over 2% - the Bank of England's target – during 2025.[24] Underlying measures of inflation remain relatively high (services inflation was 5.0% in January 2025), and energy prices will rise again in April, putting upward pressure on the overall inflation rate.[25]

In its February 2025 set of forecasts, the Bank of England expected inflation to rise to 3.7% by Q3 2025, before easing slowly back to 2.0% in Q4 2027.[26]

22 All inflation data in this section relates to the Consumer Prices Index (CPI); ONS, Consumer price inflation, UK: January 2025, 19 February 2025

23 ONS, Consumer price inflation, UK: January 2025, 19 February 2025; based on modelled data back to 1950 from the ONS as the CPI was introduced in 1997 (with consistent data back to 1989).

24 Huw Dixon, NIESR blog post, Inflation to Remain Above Target Throughout 2025, 19 February 2025 and Treasury, Forecasts for the UK economy: a comparison of independent forecasts, 19 March 2025

25 Library statistical briefing, Inflation in the UK: Economic indicators, 19 February 2025

26 Bank of England, Monetary Policy Report, 6 February 2025, table 1.C, quarterly forecasts

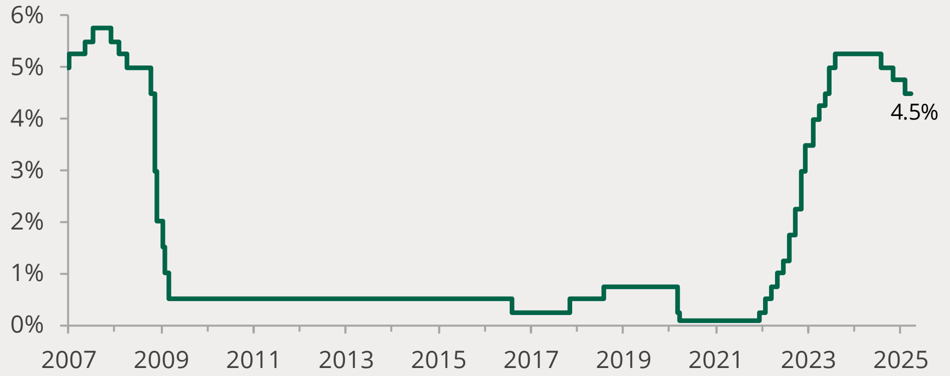
The next release of inflation data will be on the morning of the Spring Statement on 26 March 2025.[27]

With inflation above target and economic growth sluggish, there is some uncertainty over how quickly the Bank of England's Monetary Policy Committee (MPC) will cut interest rates.

At the time of writing, the benchmark UK interest rate is at 4.5%, still relatively high, or 'restrictive': this means it acts to reduce spending in the economy, and therefore inflation.[28] The MPC has cut rates on three occasions since August 2024, on each occasion lowering rates by 0.25 of a percentage point, as the chart below shows.

Interest rates are heading gradually lower

UK official interest rate, Bank of England



Source: Bank of England, Interest rates and Bank Rate [as of 19 March 2025]

The MPC's next rate decision will be announced on 20 March 2025, shortly after this briefing's publication, with economists and financial markets expecting the MPC to leave rates unchanged.[29]

The Library briefing Interest rates and monetary policy will be updated to reflect this decision.

Over the rest of the year, financial markets and economists expect that the MPC will cut rates two or three more times, taking interest rates down to 4.0% or 3.75%.[30]

27 This will be available at ONS, Consumer price inflation, UK Statistical bulletins

28 See Bank of England, Monetary Policy Report, 6 February 2025, Box B

29 "Bank of England set to keep rates on hold as global uncertainty mounts", Reuters, 17 March 2025

30 MacroMicro, World - Central Banks Year-End Interest Rate Expectations (2025) (accessed 18 March 2025) and "Bank of England set to keep rates on hold as global uncertainty mounts", Reuters, 17 March 2025

Productivity and longer-term growth

Productivity growth is a crucial driver of GDP growth, particularly over the longer term. Since the global financial crisis of 2007 to 2009, UK productivity growth has slowed sharply: annual productivity growth before the financial crisis of around 2% has fallen to around 0.5%.[31]

In recent years productivity growth seems to have slowed even further, averaging around 0.3% a year since the covid-19 pandemic.[32] Due to issues with some of the data used to calculate productivity statistics, such as hours worked, these more recent figures are less reliable.[33]

Nevertheless, they are a striking contrast with OBR forecasts, which show productivity growth recovering towards what the organisation thinks is its long-term rate of a little over 1% a year (roughly halfway between its pre-financial-crisis and post-financial-crisis averages).[34]

Together with projected population growth, this results in the OBR's estimate of the sustainable GDP growth rate of the economy being 1.7% in 2029 (the last year it provides forecasts for).[35]

Should the OBR decide to lower its assumptions around productivity growth, there would be knock-on effects for its forecasts of GDP growth and the public finances.[36] For example, in November 2023 the OBR estimated that a 0.5 percentage point decrease in annual productivity growth would result in the government borrowing around £40 billion more a year.[37]

Government's economic policy

The first of the Labour government's five national missions is "kickstarting economic growth".[38] The government's Plan for Change, launched in December 2024, also set out "milestones" for these missions.[39]

For the growth mission, the government has said that it wants to raise living standards in "every part of the United Kingdom" over this Parliament.[40] Progress will be measured by using GDP per person and real household disposable income per person (a rough indicator of living standards) at a

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31 Precise figures are sensitive to starting and end years chosen. Sources: ONS dataset, Output per hour worked, UK; ONS series LZVB; and ONS flash estimates for Q4 2024

32 Library calculations for 2019 to 2024 based on ONS series LZVB and ONS flash estimates for Q4 2024

33 Chris Giles, Financial Times, Britain's productivity puzzle is turning into a crisis, 19 February 2025

34 OBR, Economic and fiscal outlook – October 2024, para 2.12

35 OBR, Economic and fiscal outlook – October 2024, para 2.12 and chart 2.3; 'potential output growth'

36 "'Out on a limb': UK fiscal watchdog's productivity forecasts under fire", Financial Times, 17 February 2025

37 OBR, Economic and fiscal outlook - November 2023, para 1.25

38 Labour Party, 2024 General Election manifesto, Mission driven government, p13 of PDF of manifesto

39 HM Government press release, "PM sets out blueprint for decade of national renewal", 5 December 2024

40 HM Government, Plan for Change: Missions and Foundations, Kickstarting Economic Growth originally published 5 December 2024 [accessed 18 March 2025]

national and regional level.[41] The government also said it aims to deliver the highest sustained growth in the G7.[42]

The government's second milestone related to its growth mission is to "rebuild Britain". The government aims for 1.5 million new homes to be built in England over this Parliament and for 150 planning decisions on major infrastructure to be approved. The Planning and Infrastructure Bill, scheduled for second reading on Monday 24 March, contains many of the government's reforms intended to speed up infrastructure approvals.

The government has repeatedly said that growth is its number one priority.[43] In addition, the Prime Minister described growth as the "defining mission of this government".[44]

On 29 January 2025, the Chancellor, Rachel Reeves, gave a speech setting out the government's plans to increase the growth rate, based on "stability, reform and investment".[45] The Chancellor's speech included specific plans for:

- infrastructure, including support for expanding airport capacity such as at Heathrow, and plans to develop "the Oxford to Cambridge growth corridor"[46]
- deregulation, with the aim of removing barriers to growth. The Chancellor announced intentions to deregulate the planning system and simplify environmental protection rules
- business investment, with the aim of increasing investment from UK businesses and from abroad

These plans are likely to be longer term in nature, with the aim of increasing the low productivity growth rate that the UK has experienced since the financial crisis of 2007 to 2009.[47]

On 14 March 2025, the Prime Minister vowed to reduce bureaucracy and set a target to cut the administrative costs of regulation – compliance costs for

41 See OBR, Household disposable income, for more on this measure

42 HM Government, Plan for Change: Missions for Mission-Led Government, originally published 5 December 2024 [accessed 18 March 2025]

43 For example, Rachel Reeves, Written Ministerial Statement: 2025 UK-China economic and financial dialogue, 13 January 2025; "Starmer insists growth is government's 'number one priority'", ITN news via Yahoo! News, 28 January 2025; and UK Prime Minister (@10DowningStreet), X (Twitter), 28 January 2025 [accessed 18 March 2025]

44 Keir Starmer, The Times, Keir Starmer: We'll cut the weeds of regulation and let growth bloom, 28 January 2025

45 HM Treasury press release, Government backs Heathrow expansion to kickstart economic growth, 29 January 2025

46 HM Treasury press release, Reeves: I am going further and faster to kick start the economy, 29 January 2025

47 Library, Research in brief, Low growth: The economy's biggest challenge, 16 July 2024

businesses – by 25% over this Parliament.[48] On 17 March, the Chancellor launched an "action plan" to help meet this pledge, listing a range of measures to be introduced.[49]

Later in 2025, the government will publish its industrial strategy, having completed a consultation following the publication of its industrial strategy green paper in October 2024.

For more information, see the Library research briefing Industrial strategy in the UK.

1.3 Autumn Budget 2024: A recap

In the 2024 Autumn Budget, the Chancellor announced a large increase in government spending. Half of the increase is funded through increasing taxation. The remaining half is largely funded through additional borrowing. It was one of the biggest loosenings of the public finances in recent decades.[50]

The Chancellor's Budget policies increase spending by a little over 2% of GDP a year over the next five years. Government's day-to-day (current) spending receives two thirds of the increase, with one third for investment (capital) spending.

The Chancellor's tax policies increase revenues by just over 1% of GDP a year. As the chart below shows, over two thirds of the additional revenues come from increases to employers' National Insurance contributions (NICs). The Chancellor also increased taxes on assets, with increases to capital gains tax and inheritance tax, and announced steps to increase tax compliance.

48 HM Government press release, Prime Minister: I will reshape the state to deliver security for working people, 13 March 2025 and HM Government, PM remarks on the fundamental reform of the British state: 13 March 2025, 13 March 2025

49 HM Treasury, A new approach to ensure regulators and regulation support growth, 17 March 2025 and HM Treasury press release, Radical action plan to cut red tape and kickstart growth, 17 March 2025

50 OBR. Economic and fiscal outlook – October 2024, para 1.1

Forecast spending was increased by close to twice as much as taxation was raised by the Chancellor's policies

Direct effect of Autumn Budget 2024 policies on borrowing, £ billion

Source: OBR. Economic and fiscal outlook – October 2024, Chart 6.4

2 The Spring Statement

2.1 What is the Spring Statement?

The Office for Budget Responsibility (OBR, see box 1), the government's independent public finances watchdog, is publishing its latest forecast for the economy and public finances on 26 March 2025. It must produce two forecasts a year.[51] The Chancellor will respond to the forecast in the Spring Statement.[52]

The Chancellor wants to make major tax and spending announcements once a year, at the Budget.[53] Therefore, her Spring Statement was expected to largely be a response to the OBR's forecast. However, there is now speculation there will also be announcements on spending and, possibly, tax, largely so the Chancellor's fiscal rules are met in the forecast[54]

Box 1 What is the Office for Budget Responsibility?

The Office for Budget Responsibility (OBR) is the UK's official independent forecaster of the economy and public finances. It produces the forecasts used by the Chancellor in the Budget and other similar fiscal events.

The OBR was established within days of the coalition government coming to power in May 2010, with the aim of improving the credibility of forecasts and public finance (fiscal) policy.

Alongside its forecasts, the OBR assesses whether the government's policies have a better than 50:50 chance of meeting the Chancellor's targets for the public finances. The OBR also examines the long-term sustainability of the public finances, risks surrounding the public finances, spending on welfare and devolved taxes.

Richard Hughes, who held senior roles at the Treasury and International Monetary Fund, has been the chair of the OBR since October 2020.

Further information is available the Library briefing The Office for Budget Responsibility.

51 Budget Responsibility and National Audit Act 2011
52 Treasury. Chancellor commissions Spring Forecast on 26 March 2025, 16 December 2024
53 OBR. Charter for Budget Responsibility, 30 January 2025, para 3.13
54 BBC. What will be in the chancellor's Spring Statement?, 9 March 2025

How does the OBR produce its forecasts?

The Chancellor commissions the OBR to produce its forecasts, usually giving it at least 10 weeks' notice. The OBR was asked to start work on its March 2025 forecast on 16 December 2024.[55]

The OBR produces two forecasts each financial year, which usually accompany the Budget and another fiscal statement, such as the Spring Statement.

The forecast is produced using an iterative process over several rounds and the OBR presents several draft forecasts to the Chancellor in confidence. In the early rounds, the forecasts do not include the Chancellor's potential new policy measures. These 'pre-measures' forecasts draw on data released since the previous forecast and judgements on the outlook for the economy. The Chancellor's policy measures are added into the forecast in the latter rounds. The final forecast is presented to the Chancellor before the Budget or fiscal event.

Government departments produce estimated costs for the Chancellor's potential policy measures. As part of the forecast process, the OBR scrutinises these estimates until it is happy to endorse them as 'reasonable and central'.

The forecast process is set out on the OBR's website as is the timetable and details regarding the March 2025 forecast.

2.2 What are the fiscal rules?

Fiscal rules are targets which constrain the government's management of the public finances. They usually focus on one or more key public finance measures, such as government borrowing or government debt.

The government's self-imposed rules aim to ensure that difficult decisions about tax and spending are taken. Fiscal rules also provide a way for the government to share its intentions to voters and financial markets, showing that it is committed to managing the public finances well. They also help the Treasury to manage competing bids from government departments, and elsewhere, for increased spending or tax cuts.

The Library briefing The UK's fiscal targets explains what the rules are and how they are measured. The UK's rules have changed frequently over the past 15 years. The latest set of rules, proposed by the Chancellor in autumn 2024, focus on the government's day-to-day budget (or current budget) and public

55 HM Treasury. Chancellor commissions Spring Forecast on 26 March 2025, 16 December 2024

sector net financial liabilities (see box 2). Currently the targets are that in the forecast for 2029/30:

- the day-to-day budget (or current budget) should be in surplus. This means that government's day-to-day spending should be more than met by its revenues. The government would, therefore, only be borrowing for investment (capital) spending. The Treasury calls this the 'stability rule'.
- public sector net financial liabilities (PSNFL) should be falling, relative to the size of the economy, compared with the previous year (2028/29). The government describes public sector net financial liabilities as 'net financial debt'. The Treasury calls the rule the 'investment rule'.

As we discuss in box 2, this is the first set of UK fiscal rules to focus on PSNFL.

The OBR will judge whether the fiscal rules are being met in its spring 2025 forecast (see box 1).

2 What do the fiscal rules measure?

The day-to-day budget (current budget)

The current budget measures the difference between government current spending – day-to-day spending on running public services, grants and administration – and government revenues from taxes and other sources. The current budget excludes investment spending. If the current budget is in surplus the government is only borrowing for investment spending.

Broadly speaking, the current budget measures the extent to which government revenues cover the cost of public services today. It is sometimes referred to as the government's day-to-day budget.

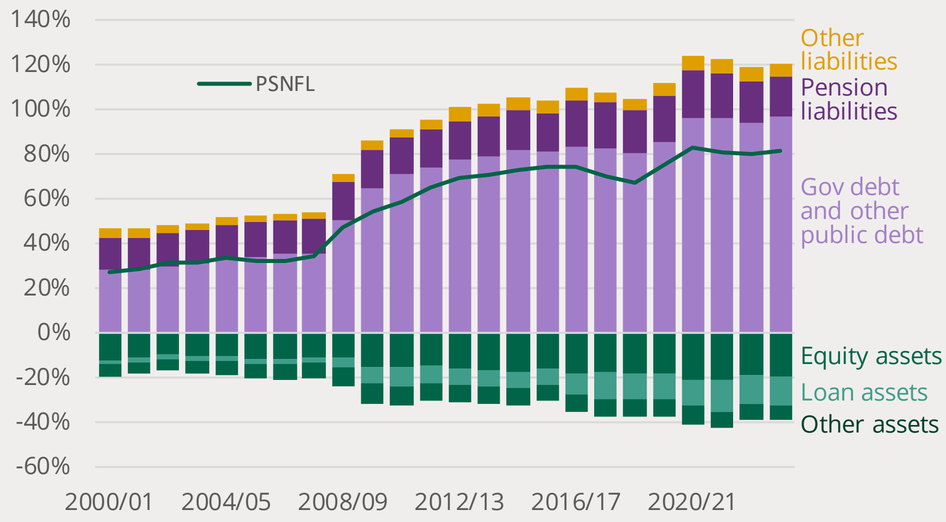
Public sector net financial liabilities

Since 1997, one of the UK's fiscal targets has focused on public sector net debt. This is a stock measure of the amount the government owes from all previous borrowing. Public sector net financial liabilities (PSNFL) are also a stock measure but include a wider range of the government's liabilities and assets than public sector net debt. PSNFL is a broader measure of the government's balance sheet.

In addition to the assets and liabilities included in public sector net debt, PSNFL includes the assets and liabilities of funded public sector pension schemes, illiquid assets such as loans (including student loans) and other financial liabilities.

PSNFL includes all government financial liabilities and assets

Financial assets (-) and liabilities (+) within PSNFL, % GDP



source: OBR. Economic and fiscal outlook, October 2024. Chart B.1

2.3 Why might policy be announced in the Spring Statement?

In the main, media reports suggest the Chancellor could take action to ensure she is meeting her targets for the public finances. The targets are widely known as the 'fiscal rules' (see section x).[56] In the autumn 2024 forecast, the main target (that the government's day-to-day spending budget be in surplus) was being met with around £9.9 billion to spare, which is a relatively small margin (see section x), considering government spends over £1 trillion a year. The margin between meeting and not meeting each rule is often described as the Chancellor's 'headroom'.

2.4 Why might the fiscal rules be missed?

The rules were being met by relatively small margins in the autumn 2024 Budget. It doesn't take much change in the economy for those small margins to decrease.

[56] Resolution Foundation. How should the Chancellor escape her headroom bind? 14 March 2025

In the case of the current budget rule, we are talking about the difference between two large numbers – government's day-to-day spending and its revenues – both of which exceed £1 trillion. A small change in the economy could mean that the small surplus forecast for 2029/30 could become a small deficit.

The rules were met by small margins in autumn 2024

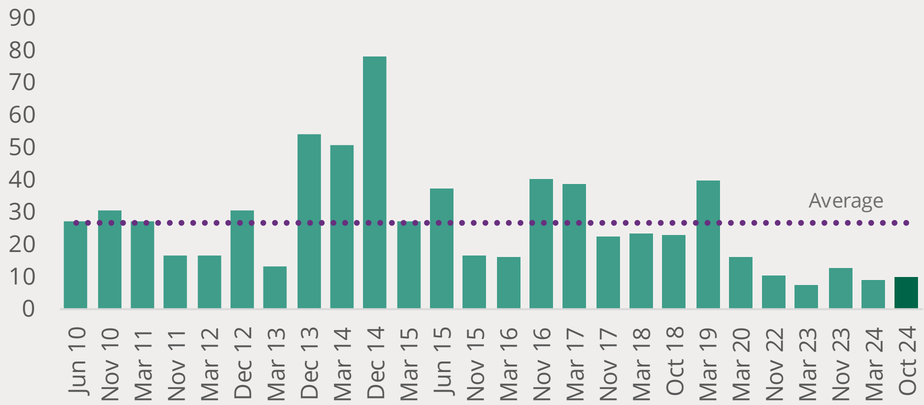
The Chancellor didn't leave much margin – or 'headroom' – against meeting the fiscal rules in the previous forecast.

The current budget rule – which is the government's 'fiscal mandate' – was being met with a £9.9 billion margin in the autumn 2024 forecast. This is the third lowest headroom of 28 forecasts since the OBR was established in 2010 (see the chart below).[57] It is also around one third of the average margin that Chancellors have had over the period since 2010. £9.9 billion is a small amount considering government's day-to-day spending is forecast to be around £1,430 billon (£1.4 trillion) in 2029/30.

The PSNFL rule was being met by a margin of 0.5% of GDP (£15.7 billion).

There is a small margin against the fiscal mandate

Successive forecasts for headrooms against fiscal targets, £ billion



Notes: For comparability with headroom against the current fiscal mandate, past headrooms have been calculated in percent of GDP as forecast at the time and multiplied by the OBR's latest forecast for nominal GDP in 2029/30. For November 2016 and March 2020, the OBR have used the Chancellor's headroom against his mandate at the time.

Source: OBR. Economic and fiscal outlook – October 2024, Chart 7.3

57 OBR. Economic and fiscal outlook – October 2024, 30 October 2024, para 7.8

Changes in the economy since autumn are expected to affect the OBR's pre-measures forecast

Speculation in the media and from commentators has largely focused on whether the fiscal rules' headroom has fallen, or entirely gone, in the OBR's 'pre-measures' forecast.[58]

Higher interest rates and lower economic growth are two of the factors potentially putting pressure on the Chancellor's headroom for the current budget rule. It should be said, however, that the OBR's forecast has many moving parts, which makes the outcome very difficult to predict.

The pre-measure forecasts

As we discuss in box 2, the OBR produces its forecast over several rounds. In the early rounds, the forecasts do not include the Chancellor's potential new policy measures. These 'pre-measures' forecasts draw on data released since the previous forecast and the OBR's updated judgements on the outlook for the economy.

Neither the economic data nor the OBR's judgements on the economy have to change much for the pre-measures forecast of headroom to change.

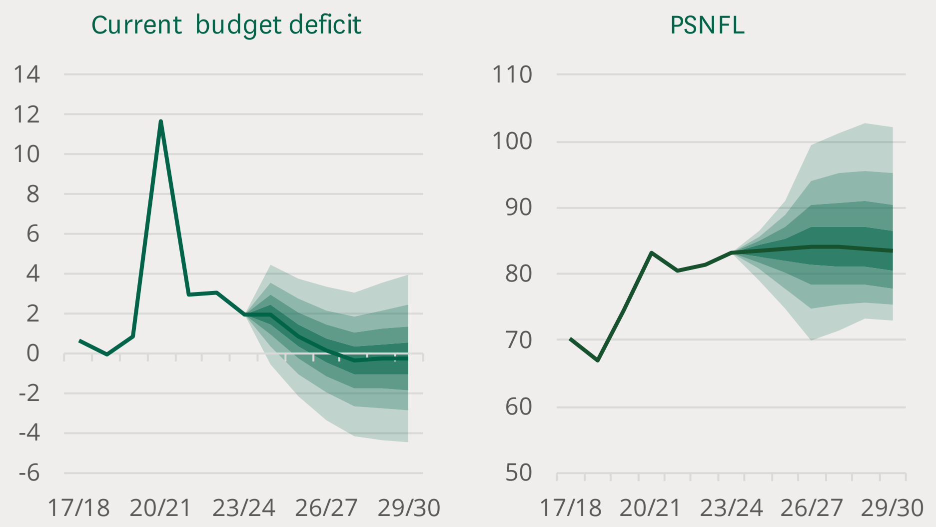
The fan charts below highlight the uncertainty in the autumn 2024 forecast for the current budget and PSNFL targets with successive pairs of lighter-shaded areas around the central forecast representing 20% probability bands.[59] The charts show there was a 54% probability that the current budget is in surplus in 2029/30. There was a 51% probability that PSNFL will be falling as a share of GDP in 2029/30.

58 Resolution Foundation. The headroom bind, 17 March 2025; The chancellor cannot hide for ever from her big political choice, The Times, 17 March 2025; BBC. What will be in the chancellor's Spring Statement?, 9 March 2025

59 The fan charts show the uncertainty around the forecast based on previous shocks and forecast errors respectively.

Fan charts show the large uncertainty surrounding the forecasts for the fiscal rules at the 2024 autumn budget

Fan charts for current budget deficit and PSNFL, % GDP



Source: OBR. Economic and fiscal outlook, October 2024, chart 7.4

What has changed since the autumn 2024 forecast?

Since autumn 2024, inflation and interest rates have been higher than the OBR forecast. Most commentators suggest changes in the economy, such as these, may mean that the OBR's pre-measures forecasts for the public finances, and therefore the fiscal rules' headroom, will be more pessimistic compared with autumn 2024.[60] However, there is a great deal of uncertainty.

To highlight a few factors that have changed, compared with the OBR's autumn 2024 forecast:

- Government borrowing in the first 10 months of 2024/25 has been around £13 billion higher.[61] Income tax self-assessment and corporation tax receipts have been lower than expected. Local authorities have borrowed more than expected. These provisional figures are uncertain. Whether they matter for the fiscal rules depends on the extent to which the OBR thinks they are issues that will last into the future.[62]

- Markets expect higher interest rates.[63] The OBR uses these expectations in its forecast and they are important for determining government's spending on debt interest. Markets expect the Bank of England's main

60 Resolution Foundation. The headroom bind: Spring Statement 2025 preview, 17 March 2025
61 Data for the first eleven months of 2024/25 will be published by the ONS on 21 March 2025
62 OBR. Commentary on the public sector finances – January 2025
63 Resolution Foundation. The headroom bind, 17 March 2025, page 12

interest rate to be around 0.15% higher than they did ahead of the 2024 Autumn Budget.[64]

- UK economic growth has been slower, as discussed in section 1.2. Whether this matters for the fiscal rules depends what effect the OBR thinks it will have on the size of the economy in 2029/30. The OBR might say that slower growth now is going to be made up by faster growth later, leaving the size of the economy little changed in 2029/30. However, if the OBR don't expect growth to catch up and forecasts a smaller economy in 2029/30, forecast tax receipts are likely to be lower.

- Inflation has been higher. This will matter more for the public finances if the OBR expects this to persist. Inflation can benefit the public finances, although the effect isn't always certain. While spending on benefits and debt interest grow with inflation, tax receipts are also likely to be higher as inflation pushes up the cash size of things that are taxed, such as earnings.[65] The government can limit the effect of inflation on its spending if it chooses not to increase departments' spending allocations, making them smaller in real (inflation-adjusted) terms.

- The Office for National Statistics projects that the UK population will grow more than previously thought, which could benefit the forecast for the public finances. [66]

It should be stressed that there are a huge number of moving parts in the OBR's forecast, so it is not a given that the pre-measures forecast for the public finances will have worsened since the autumn Budget. Other data or judgements not mentioned above could lower government spending or increase tax receipts.

What if the fiscal rules aren't met?

Nothing happens if the OBR says either of the current budget or PSNFL rules are being broken in its spring forecast. The Chancellor isn't obliged to do anything if they are breached.[67]

In theory, even if either rule was being missed in the pre-measures forecast, the Chancellor could decide not to take any action. She could accept the breach and say she will look again at the situation at the next Budget, presumably in autumn 2025.

Given the volatility and uncertainty about the forecasts, and the small margins in question, a breach could resolve itself when the OBR comes to do

64 This is based on an average of 10 days up to 12 February 2025 and is taken from the Bank of England's OIS daily data

65 OBR. Higher inflation: effects on our central forecast and alternative scenarios, October 2021

66 "UK population to rise by 5mn to 72.5mn by 2032, says ONS", FT, 28 January 2025. The Library's Spring Budget 2024: Background briefing explains how changes in population projections could affect the forecast.

67 There is a third rule for the UK's public finances – the welfare cap. The Secretary of State for Work and Pensions is required to

its pre-measures forecast for the next Budget. If it doesn't, the Chancellor could announce the required policy changes in the Budget: the event that she wants to be the home for fiscal policy announcements.

Waiting until autumn 2025 to fix any breach of the fiscal rules isn't without risk. The government needs to borrow from financial markets and if the markets looked unfavourably on an unresolved breach, borrowing costs could rise. If the government did not use the Spring Statement to fix any breach, this could also be interpreted as confirmation that there will be tax rises in the autumn Budget, without specifying what these would be. The Institute for Fiscal Studies (IFS) says that this "would lead to months and months of speculation, which would be damaging both economically and politically".[68]

Ultimately, it appears likely that the Chancellor will act if the fiscal rules are breached in the pre-measures forecast. The government says it will "meet the fiscal rules at all times".[69]

2.5 Increasing the headroom

While noting the uncertainty, here we look at the Chancellor's main options if she wanted to increase the pre-measures headroom for the current budget rule.

Ultimately, this would involve raising the current budget surplus in 2029/30, through a combination of decreasing government's day-to-day spending and/or increasing tax revenues.

Other options are available for increasing the PSNFL target's headroom, particularly around capital (investment) spending and financial transactions, but these will not be discussed here.

Day-to-day spending

Departments' day-to-day spending on public services, grants and administration is the biggest area of the government's forecast day-to-day spending, making up around 40% of forecast day-to-day spending, in 2029/30.

Welfare is the next largest spending area, contributing a little under 30% of day-to-day spending, in 2029/30.[70]

The government can influence how much is spent in each of these areas. It sets departments' spending limits and determines the eligibility for benefits and the amount paid to recipients.

68 IFS. A look ahead to the 2025 Spring Forecast, 6 March 2025
69 PQ 31995 [on Economic Situation: Government Securities], 3 March 2025
70 OBR. Economic and fiscal outlook – October 2024, Table A.7

The government has already announced an increase in defence spending paid for by a decrease in overseas aid spending. The switch in spending could lower government's day-to-day spending a little because defence generally requires more investment (capital) spending than overseas aid.

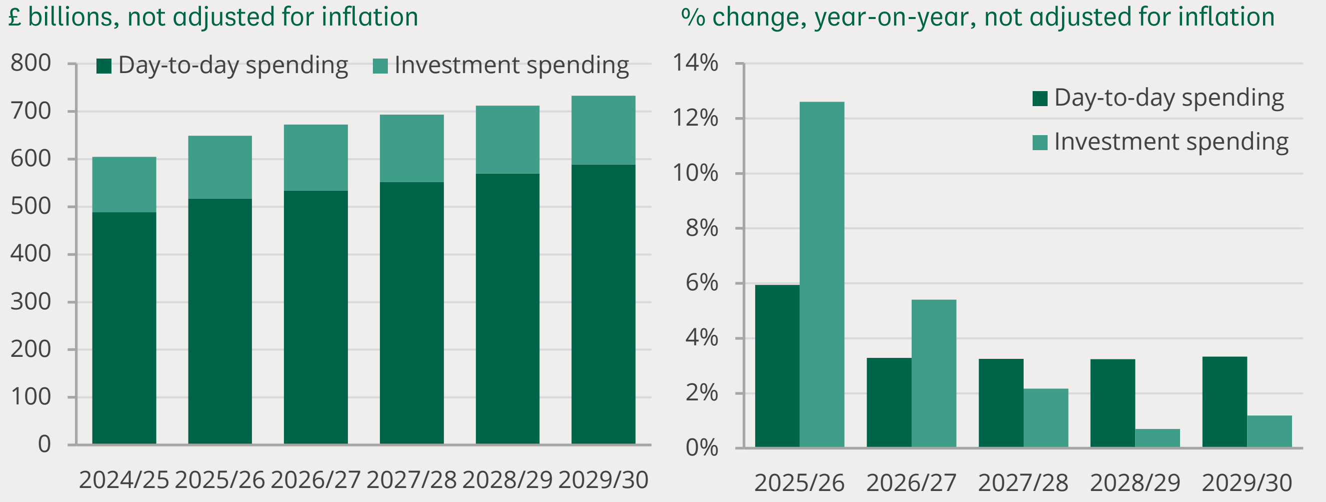
Departmental spending

The area where the Chancellor has the most direct control over her available headroom is departmental spending (the planned Departmental Expenditure Limits, or DEL, set at Spending Reviews). This is because the DEL totals are directly set by the Treasury, so the OBR largely takes them as correct in its forecasts.

DEL totals for each department in 2024/25 and 2025/26 were set at the 2024 Autumn Budget, in 'phase 1' of the current Spending Review (see section 3.1). Totals for each department are listed in section 2 of the Library's research briefing Autumn Budget 2024: A summary.

The overall spending 'envelope' (the total amount to be spent each year) for the years up to 2028/29 was also set at the 2024 Autumn Budget. As the chart below shows, planned spending within this envelope (Departmental Expenditure Limits, or DEL) was set to grow rapidly in 2025/26, but then grow much more slowly in the years after this.

Planned spending grows much faster in the short term than the medium term



Source: HM Treasury, Autumn Budget 2024, table 1.7, 30 October 2024

At the time of the 2024 Autumn Budget, the OBR said that this envelope implied cuts in "unprotected" spending (spending not covered by existing commitments, such as commitments for the NHS or defence spending) after 2025/26.[71]

If the Chancellor wants to increase headroom, she could reduce the amounts she plans to spend in the next few years. However, if she does not cut protected spending, this therefore implies that the cuts to unprotected areas would be larger than forecast in autumn 2024.

On 6 March 2025, the IFS said that cutting day-to-day spending by £10 billion in 2029/30 would effectively reduce the annual real-terms increase in spending to 0.9%, down from 1.3%.

The same report also said that because inflation is now expected to be higher than previously forecast at the 2024 Autumn Budget, the Chancellor could also increase headroom by simply leaving the existing plans unchanged in cash terms (because tax revenues also tend to rise with higher inflation).[72]

In previous years, governments have sought to increase day-to-day spending by cutting investment (capital) spending.[73] Making changes to investment spending would not help the Chancellor to meet the current budget rule, as only day-to-day spending is within the scope of the rule.

Further decisions on departmental spending will be made in phase 2 of the current Spending Review. See section 3.1 for more information on this.

Defence and overseas aid

On 25 February 2025, the Prime Minister announced that UK defence spending would be increased to 2.5% of gross domestic product (GDP) in 2027, earlier than previously planned. As discussed in section 3 of the Library's research briefing UK defence spending, UK defence spending fell fairly steadily as a proportion of GDP between the end of the Second World War and the late 2010s.

Definitions of defence spending vary, but the one normally used for comparisons to GDP and between countries is the NATO definition: "payments made by a national government … specifically to meet the needs of its armed forces, those of Allies or of the Alliance".[74] The definition is discussed in more detail in section 4.1 of the Library's UK defence spending briefing.

As the chart below shows, the UK's defence spending has been relatively close to 2.5% in recent years; NATO's latest figures suggest that it was around 2.33% in 2024. Based on the latest OBR forecasts, it would cost roughly £5.9 billion to raise defence spending from 2.33% of GDP to 2.5% in 2027.[75]

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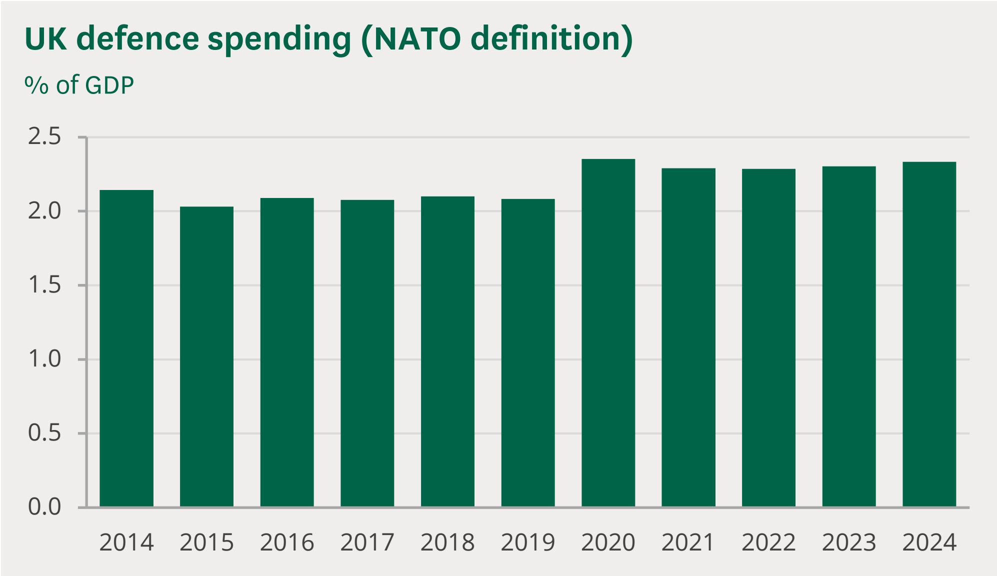
71 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, para 5.28

72 IFS, A look ahead to the 2025 Spring Forecast, 6 March 2025

73 See Library research briefing Autumn Budget 2024: Background briefing, pp 50-51.

74 NATO, NATO - Topic: Defence expenditures and NATO's 2% guideline, 18 June 2024

75 See Library Insight post, UK to reduce aid to 0.3% of gross national income from 2027, 28 February 2025



Source: NATO, Defence Expenditure of NATO Countries (2014-2024), 17 June 2024

The Prime Minister announced that this increase (of around 0.2% of GDP) would be funded by cutting the overseas aid budget by 0.2% of gross national income (GNI), from 0.5% of GNI to 0.3% of GNI. GDP and GNI are both measures of the size of the economy with somewhat different definitions, but in the UK they are usually very similar; based on current forecasts, the difference between 0.2% of UK GDP and 0.2% of UK GNI in 2027 will be about £0.1 billion.[76]

This means that the increase in defence spending will not affect the overall spending totals. However, as part of the same announcement, the Prime Minister also said that there would be extra spending on the intelligence and security services, taking total defence spending to 2.6% of GDP. This would not be covered by the cut to the aid budget, so it would have to be paid for either by cutting spending elsewhere or by increasing the overall envelope.

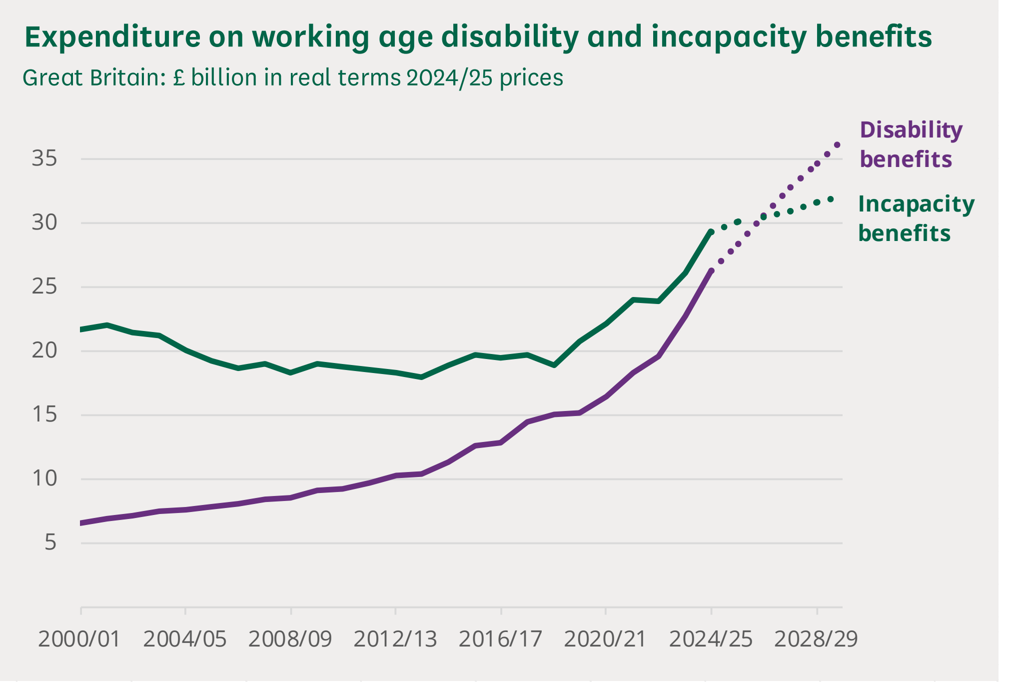
Switching overseas aid spending for defence spending will not affect overall spending but it could provide some help with meeting the current budget rule. This is because defence generally requires more investment (capital) spending than overseas aid, and capital spending isn't included in spending for the current budget rule.

The Prime Minister also proposed that defence spending should rise to 3% of GDP in the next Parliament. This, however, would be well past the OBR's forecast horizon, so it does not yet have any effect on the Chancellor's fiscal targets.

76 OBR, Economic and fiscal outlook – October 2024, 30 October 2024, detailed forecast tables: economy

Welfare spending

Spending on working age disability and incapacity benefits has increased in recent years, as illustrated in the chart below.



Notes: Dotted lines indicate forecasts. Disability benefits include Disability Living Allowance, Personal Independence Payments, Armed Forces Independence Payments, Scottish Adult Disability Payment and Scottish Adult Disability Living Allowance. Incapacity benefits include Employment and Support Allowance, Universal Credit Health, Incapacity Benefit and Severe Disablement Allowance.

Sources: DWP Benefit expenditure and caseload tables 2024 – disability and incapacity benefit tables; Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts -social security tables (various years) and HM Treasury GDP deflators at market prices, and money GDP, December 2024

The latest outturn figures for 2023/24 show that real terms spending on working age disability benefits more than tripled since 2000/01, rising from £6.5 billion in 2000/01 to £22.7 billion in 2023/24.

Over the same period, real terms spending on working age incapacity benefits increased by 20% (£21.7 billion in 2000/01 compared with £26.1 billion in 2023/24).

Expenditure is forecast to continue to rise, reaching around £36.5 billion for working age disability benefits by 2029/30 and £32.1 billion for working age incapacity benefits.

Current predictions indicate that the percentage of GDP spent on these benefits will almost double by 2029/30. Spending in 2029/30 is forecast to represent around 2.2% of GDP, compared with 1.4% in 2000/01.[77]

[77] Benefit expenditure and caseload tables 2024 – disability and incapacity benefit tables and HM Treasury GDP deflators at market prices, and money GDP, December 2024

The Labour government decided not to take forward plans set out by the previous Conservative government to make changes to the Work Capability Assessment (WCA).[78] The WCA determines eligibility for Employment and Support Allowance (ESA) and the health-related element of Universal Credit, and which, if any, work-related conditionality requirements claimants must satisfy.

The WCA changes proposed by the previous Conservative government would have provided estimated savings of around £4.4 billion over the five-year period up to 2029/30.[79] In her Budget statement on 30 October 2024, the Chancellor said the government would deliver equivalent savings as part of its own reforms to the health and disability benefits system.[80]

On 18 March 2025, the government published a green paper announcing proposals to reform disability-related benefits. The proposals aim to:

- prevent long-term economic inactivity (where people are out of work and not looking for work)
- reform the disability benefits assessment process
- deliver improved employment support
- ensure the benefits system is “financially sustainable”, and
- protect disabled people who can’t and won’t ever be able to work.[81]

Announcing these proposals in a statement to the House of Commons, the Secretary of State for Work and Pensions, Liz Kendall, said the green paper set out “decisive action to fix the broken benefits system, creating a more proactive, pro-work system for those who can work and so protecting those who cannot work, now and for the long term”. She announced that the reform package is expected to make savings of over £5 billion by 2029/30 and that the OBR will set out a final assessment of the costings at Spring Statement 2025.[82]

The green paper outlines several proposed changes to disability-related benefits, some of which (although not all) are being consulted on. Some of the headline changes include:

- Changing the assessment for the Personal Independence Payment (PIP) daily living component, so that from November 2026 claimants will be required to score four points on at least one of the 10 activities to qualify for support from this component. At the moment, it is the total score for

78 See DWP, Work Capability Assessment Reform: update to estimated number of claimants affected, 18 April 2024
79 OBR, Policy measures database – October 2024
80 HC Deb 30 October 2024 c815
81 DWP, Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper, 18 March 2025
82 HC Deb 18 March 2025 cc168-171

all of the 10 daily living activities which determines entitlement to this component. The entitlement threshold for this component is currently 8 points in total for the standard rate and 12 points for the enhanced rate.[83]

- Abolishing the Work Capability Assessment from 2028 and linking eligibility for the Universal Credit health element to eligibility for the PIP daily living component.
- Freezing the value of the Universal Credit health element (currently called the Limited Capability for Work and Work-Related Activity element) at £97 per week for existing claimants until 2029/2030 and reducing it for new claimants from £97 per week in 2024/2025 to £50 per week in 2026/2027.
- Increasing the Universal Credit standard allowance for new and existing claims from £91 per week in 2024/2025 to £98 per week in 2026/2027.
- Creating an additional premium for Universal Credit claimants with the "most severe, life-long health conditions, who have no prospect of improvement and will never be able to work" after April 2026.
- Delaying young people's access to the Universal Credit health element until they are 22 and using the savings to improve work and training opportunities for 18-to-21-year-olds.Introducing a new time-limited 'Unemployment Insurance' contributory benefit in 2028/2029. This will replace both contributory (New Style) Jobseeker's Allowance (JSA) and contributory (New Style) Employment and Support Allowance (ESA), ending indefinite entitlement currently available in contributory ESA.

The consultation is open until 30 June 2025. A white paper will then follow with final proposals ahead of legislation.[84]

For more information on the current system of benefits payments, see section 1.4 of the Library's introduction to social security in the UK.

For immediate stakeholder reaction to and analysis of these changes, see:

- Institute for Fiscal Studies, IFS response to announced reforms to disability and incapacity benefits, 18 March 2025
- Resolution Foundation, A dangerous road? Examining the 'Pathways to Work, 18 March 2025.

83 For more detail about the current PIP assessment, see the Commons Library casework page, Personal Independence Payment.

84 DWP, Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper, 18 March 2025

- Child Poverty Action Group (CPAG), CPAG's response to Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper, 19 March 2025

Taxes

As we discuss above, the Chancellor announced increases to taxes in the 2024 Autumn Budget, worth just over 1% of GDP a year. Over two thirds of the additional revenues come from increases to employers' National Insurance contributions (NICs). The Chancellor also increased taxes on assets, with increases to capital gains tax and inheritance tax, and announced steps to increase tax compliance. Some of these tax changes (such as the increase in employer NICs) are due to be implemented in April 2025. Others, such as changes to inheritance tax on agricultural and business property, are due to be introduced in a future fiscal year.

While the government has said there won't be further tax increases, raising tax revenues remains an option for increasing the fiscal rules' headroom.[85] Any policies would need to increase revenues in 2029/30, which is the year in which the fiscal rules apply.

There are many ways to increase tax revenues. HM Revenue and Customs' ready reckoner gives estimates for several potential changes to taxes.[86] The Institute for Fiscal Studies and the Resolution Foundation say the Chancellor might consider extending freezes to various tax thresholds which are due to end in April 2028.[87] As we discuss in section 3.2, various personal tax thresholds are currently frozen.

The freezes raise revenues by increasing 'fiscal drag', which occurs when tax thresholds and allowances do not keep up with inflation or wage growth, resulting in more of a taxpayers' income being taxable.[88] Extending the freezes to include 2028/29 and 2029/30 could raise around £5 billion in 2028/29 and £10 billion in 2029/30.[89]

Labour's manifesto potentially constrains the Chancellor's tax options. The manifesto commits to not increasing taxes on working people "which is why we [Labour] will not increase National Insurance, the basic, higher, or additional rates of Income Tax, or VAT". [90]

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85 Chartered Institute of Taxation. "No more tax increases in this Parliament", Chancellor tells MPs, 8 November 2024; PQ 62449 [on Inheritance Tax], 27 February 2025

86 HMRC. Direct effects of illustrative tax changes, January 2025

87 Resolution Foundation. The headroom bind, 17 March 2025; IFS. A look ahead to the 2025 Spring Forecast, 6 March 2025

88 The Library briefing Fiscal drag: An explainer looks at fiscal drag in the context of taxation in the UK, focusing on personal tax (income tax and National Insurance contributions (NICs)) thresholds being frozen.

89 IFS. A look ahead to the 2025 Spring Forecast, 6 March 2025

90 Labour Party. Labour's 2024 General Election manifesto (accessed on 19 September 2024); PQ 34322 [on National Insurance Contributions], 27 February 2025

During the general election campaign, Labour also ruled out increasing the main rate of corporation tax and imposing capital gains tax on the sale of people's primary residences.[91]

The Library briefing Tax statistics: an overview provides an overview of tax statistics, including recent trends, forecasts, and distribution of taxpayers.

91 Labour. Labour will not raise taxes on working people, 10 June 2024; "Keir Starmer promises no capital gains tax on sales of homes", The Guardian, 15 June 2024

3 What happens after the statement?

The Chancellor will give her statement to MPs in the House of Commons. When she steps away from the despatch box and sits down, the Office for Budget Responsibility (OBR) will publish its economic and fiscal outlook. The statement might also be accompanied by a written statement containing further information and the Treasury might publish some documents.

The Shadow Chancellor, Mel Stride, will reply for the Official Opposition. Other questions arising from the statement will then be taken. Unlike the Budget, there will be no further days of debate.

A new financial year begins in April 2025.

The next major event for the Treasury is phase 2 of the Spending Review, which is concluding on 11 June 2025.

3.1 Spending Review

The 2024 Autumn Budget was positioned as “phase 1” of a Spending Review. Spending Reviews set departmental spending limits across government, and usually cover several years so that departments can plan for the future. The totals in phase 1 covered the financial years 2024/25 and 2025/26 (and are summarised in section 2 of the Library’s research briefing Autumn Budget 2024: A summary), while phase 2 is expected to cover the financial years from 2026/27 to 2028/29. Although the ‘envelope’ for this period has already been set – and the Chancellor has said that it will not be increased further – negotiations are ongoing to divide up funding between government departments.[92]

Phase 2 of the Spending Review was officially launched in December 2024, and is expected to conclude on 11 June 2025.[93] Businesses and individuals were invited to submit ideas for the review online until 9 February 2025.

Writing in the Financial Times, the Chancellor said that it would be a “zero-based” review, meaning that all spending would be assessed for value for money rather than simply inheriting existing plans.[94] In a later response to a parliamentary question, the Treasury said that departments would be

92 See The Guardian, Rachel Reeves promises not to increase taxes again in spring budget, 6 November 2024

93 HM Treasury, Chancellor: Every pound spent will deliver Plan for Change, 12 December 2024; HC Deb 21 January 2025 c857

94 Financial Times, We need the best of business innovation in government, 6 December 2024

expected to identify "a minimum of 5% savings and efficiencies against their current budgets" in order to free up funding "to achieve the government's priorities".[95]

The Chief Secretary to the Treasury, Darren Jones, has said that this review will be carried out on a more collaborative basis than previous reviews, in which bilateral negotiations between each department and the Treasury tended to effectively make departments compete for funding. Instead, some cross-departmental multilateral negotiations will take place, and "shared digital dashboards of costs, outputs and impacts" will be used with the aim of giving all departments a clearer idea of spending plans.[96]

3.2 A new financial year: Tax, benefits and minimum wages in 2025/26

Here we set out some of the government's existing policies for taxes, benefits and minimum wages in 2025/26. These are based on government policy as it exists before the 2025 Spring Statement.

National Insurance contributions

At the 2024 Autumn Budget, the Chancellor, Rachel Reeves, announced several changes to employer National Insurance contributions (NICs), which will come into force from April 2025.

The changes to employer NICs from 6 April 2025 include:

- an increase in the rate of NICs paid by employers on their employees' earnings, from 13.8% to 15%
- a decrease in the secondary threshold (the threshold after which employers start paying NICs on their employees' earnings) from £175 a week to £96 a week. The threshold will then be frozen until April 2028, so it won't increase with inflation (which increases the government's tax receipts as a result of 'fiscal drag')
- an increase in the employment allowance from £5,000 to £10,500, and a removal of the £100,000 eligibility cap

It is estimated that the employer NICs changes will raise around £24 billion in 2025/26, rising to £26 billion in 2029/30. These are estimates of the tax raised before indirect behavioural changes from employers are considered. The Office for Budget Responsibility forecasts that, in 2029/30, once changes in behaviour from businesses and the indirect effect on wages and profits are

95 PQ 35245 [on Public Expenditure: Cost Effectiveness], 12 March 2025

96 Institute for Government, Darren Jones' reformed spending review process can help government to deliver, 23 January 2025

included, the actual revenue generated by the measures would be around £16 billion.[97]

Tax threshold freezes

Income tax

The point at which people start paying income tax (the personal allowance, £12,570) and the higher rate of income tax (the higher rate threshold, £50,270) are due to remain frozen in April 2025; they have been frozen since April 2021 and will remain frozen until April 2028.[98] The default policy is that these thresholds should rise with inflation each year, which would have meant a 1.7% increase in April 2025 if the freezes weren't in place.

Freezing the thresholds raises government receipts by making more incomes taxable or bringing more income into higher tax bands. Freezing thresholds creates more 'fiscal drag', which occurs when tax thresholds and allowances do not keep up with inflation or wage growth, resulting in more of a taxpayer's income being taxable. The Library briefing Fiscal drag: An explainer looks at fiscal drag in the context of taxation in the UK, focusing on income tax and NICs rates being frozen.

The OBR expects the freezes to raise £28 billion more in 2025/26 than if the thresholds had increased with inflation since April 2021. By 2027/28, the freezes are expected to raise £36 billion a year.[99]

The Library briefing Spring Budget 2021: personal allowance and higher rate threshold discusses the policy of freezing income tax thresholds further.

National Insurance contributions

In July 2022, the level at which employees start to pay NICs on their earnings (the primary threshold) was increased from £9,880 to £12,570 to align it with the income tax personal allowance. The two thresholds are due to remain aligned, which means the NICs primary threshold will be frozen until April 2028. The threshold for self-employed NICs (the lower profits limits) is similarly aligned with the income tax personal allowance and will be frozen.

The July 2022 raising and freezing of the primary threshold is forecast to cost around £1.4 billion in 2025/26.[100] The annual cost will fall over time because the freeze in the threshold will erode some of the increase in the primary threshold, in real terms. It's likely that once the freeze has ended, the NICs primary threshold will still be higher than if it hadn't aligned with the income

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97 OBR. Economic and fiscal outlook – October 2024, Table 3.2

98 The freeze to the higher rate threshold will apply to non-savings and non-dividend income in England, Wales and Northern Ireland and to savings and dividend income in the UK. Since April 2017, the Scottish Parliament sets higher rate threshold for non-savings, non-dividend income for Scotland.

99 OBR, Economic and fiscal outlook – October 2024, Table 3.9

100 OBR, Economic and fiscal outlook – November 2023, Box 3.1

tax personal allowance and was left to increase with inflation, which was the policy before the alignment. [101]

The NICs upper earnings limit is aligned to the income tax higher rate threshold (£50,270), so it will also be frozen until April 2028. The upper earnings limit is the point at which earners begin to pay the lower NICs rate of 2% on the earnings exceeding that threshold. Similarly, for self-employed NICs, the upper profits limit is aligned to the income tax higher rate threshold.

The Library briefing Direct taxes: rates and allowances 2024/25 has more background on the various rates and thresholds.

Inheritance tax

The amounts at which no inheritance tax is paid (the nil-rate band) was frozen at a value of £325,000 in 2009. It is due to stay at that level until April 2030. The nil-rate band will continue at £325,000; the residence nil-rate band will continue at £175,000.[102] The residence nil-rate band is an allowance that increases an estate's nil-rate band if the deceased's main home is passed on to a direct descendant.

The Library briefing Inheritance tax: Current policy and debates discusses how the tax works.

Business rates

Eligible retail, hospitality and leisure properties in England will receive 40% business rates relief during 2025/26, up to a cash cap of £110,000 per business. This is a temporary extension of a relief that has run, in different forms, since March 2020. The 2025/26 version of the relief will provide a lower level of relief than the 75% available in 2024/25.

Section 2.1 of the Library briefing Business rates: Reliefs and grants discusses the history of the relief.

The small business rates multiplier is also being frozen in 2025/26, which will be the fifth year it has been frozen. As the Library briefing Business rates explains, the small business rates multiplier is applicable to business premises with a rateable value below £51,000. Without the freeze, the multiplier would have increased by the Consumer Prices Index (CPI) measure of inflation.

101 OBR, Economic and fiscal outlook – November 2023, Supplementary forecast information release, 7 December 2024

102 HMRC. Inheritance Tax nil-rate band, residence nil-rate band from 6 April 2028, 30 October 2024; HM Treasury, Budget 2021, 3 March 2021; HM Treasury, Autumn Statement 2022, 17 November 2022

Benefits and pensions

Inflation-linked benefits and tax credits will rise by 1.7% from April 2025, in line with the CPI rate of inflation in September 2024.

For example, in 2025/26, the Universal Credit standard allowance for a single person aged 25 and over will increase from £393.54 to £400.14 per month. For joint claimants both aged 25 and over, the standard allowance will increase from £617.60 to £628.10 per month.

The basic and new State Pension will increase by 4.1% from April 2024, in line with the earnings growth measure used in the State Pension triple lock.

The full rates for 2025/26 will be:

- £230.25 a week for the new State Pension (for people reaching State Pension age on or after 6 April 2016), up from £221.20 in 2024/25
- £176.45 a week for the basic State Pension (the core amount in the old State Pension system), up from £169.50 in 2024/25

The Library briefing Benefits uprating 2025/26 discusses uprating policy and given rates for the year.

Minimum wages

The National Minimum Wage applies to most workers and sets minimum hourly rates of pay. The rates are provided in regulations made by the Secretary for State with parliamentary approval, based on the recommendations of the Low Pay Commission.

Minimum wage rates vary by age group. As confirmed in October 2024, from April 2025 the minimum wage will be:[103]

- £12.21 an hour for adults aged 21 and over (up from £11.44 an hour)
- £10.00 an hour for 18-to-20-year-olds (up from £8.60)
- £7.55 an hour for under 18s (up from £6.40)
- £7.55 an hour for apprentices aged under 19 or in their first year of an apprenticeship (up from £6.40)

The Library briefing National Minimum Wage statistics looks at trends in the UK National Minimum Wage, minimum wage jobs and how the UK compares internationally.

[103] Low Pay Commission Press Release, Minimum wage rates for 2025, 30 October 2024

Appendix: Parliament's fiscal year

Parliament has a role in both raising tax and approving government spending. Parliament's fiscal calendar can vary. The below gives a broad outline:

- May: Government departments' spending plans (known as the Main Estimates) are published.
- July: Government departments' spending plans are debated in the House of Commons – using procedures introduced in 2018.[104]
- July: A Supply and Appropriation (Main Estimates) Bill is introduced and, if agreed, receives Royal Assent. This formalises the Main Estimates as the departments' initial budgets for the year.
- July: Government departments lay their annual reports and accounts (for the financial year ending the previous March) before Parliament.
- October/November: The Chancellor publishes the Budget. The Office for Budget Responsibility (OBR) also publishes its economic and fiscal forecast. Following this, a Finance Bill is introduced. Royal Assent of the Bill should be reached before the start of the following financial year.
- February: Government departments publish revised spending plans (Supplementary Estimates). These are debated in the House of Commons – using procedures introduced in 2018.[105]
- February: The Government requests advance funding for the first four months of the next financial year (known as the Vote on Account) for each department.
- March: A Supply and Appropriation (Anticipations and Adjustments) Bill is introduced and, if agreed, receives Royal Assent. This is a formal agreement to revise in-year budgets which are set out in Supplementary Estimates and to advance money for the new year in the Vote on Account.
- March: The OBR publishes another economic and fiscal forecast from the OBR. The Chancellor gives a statement, largely responding to the forecast.

104 Public spending: New debates in the House, House of Commons Library, 24 January 2018
105 Public spending: New debates in the House, House of Commons Library, 24 January 2018

The process can vary from year to year. The Labour Government is "committed to the principle of holding one major fiscal event a year, unless in the case of an economic shock, giving families and business more certainty of tax and spending changes."[106] This would mean that major tax and spending changes would be reserved for the Budget.

Having a single fiscal event has been Treasury policy previously, but events meant it was rarely achieved.[107] Since 2017, that there should be one 'fiscal event' – a Budget in the autumn – in which new tax and spending policies are announced.[108] This should then be followed by a spring statement, in which the Chancellor responds to the OBR's newly published forecasts. However, this timetable has rarely been followed since it was introduced in 2017.

Further information is available in the following Library briefings:

- The Budget and the annual Finance Bill, December 2024
- Revised Government spending plans for 2024/25, February 2025
- Main Estimates: Government spending plans for 2024/25, July 2024
- Autumn Budget 2024: A summary, October 2024
- Autumn Budget 2024: Background briefing, October 2024

Parliament's Scrutiny Unit also publishes useful information on the estimates process and scrutiny of public spending.

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106 HM Treasury. Charter for Budget Responsibility: Autumn 2024, para 3.13

107 In 2017, the Treasury introduced the policy of having one 'fiscal event' – a Budget in the autumn. This would then be followed by a spring statement, in which the Chancellor responds to the OBR's newly published forecasts. However, the timetable weas rarely been followed.

108 HM Treasury, The new Budget timetable and the tax policy making process, 6 December 2017

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