Spring Statement 2025

Today on the 26th March 2025 we have reviewed and summarised the key points that Rachel Reeves set out in her Spring Statement. It’s important to note that from her speech today, there were a great deal of ‘reannouncements’, from policies brought out over the previous few months. Despite this from a general perspective it was an insightful overview of the general direction of travel of UK plc – a situation report – from a government perspective. There wasn’t anything new related to our core area of interest in the Pensions, retirement and wealth planning world. Even so we have included a recap of the related areas of the 2024 Budget in October last year, this is especially pertinent as most of these changes are just about to come into effect in the New Year Financial Year.

Relevant 2024 Autumn Budget Pension Announcements Restated

Pensions	• The Pension’s Triple Lock is maintained, so the state pension will increase by almost £470 in 2025/2026. • From April 2025, the State Pension will increase by around 4.1%. Those qualifying for a full new State Pension will receive an increase from £221.20 per week, or from £11,502.40 annually, to £230.25 per week or £11,973 annually, for single pensioners.
ISAs	• The ISA system will not be subject to any changes as a result of the Autumn Budget. The Treasury set out that annual subscription limits will remain at £20,000 for individual savings accounts, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and child trust funds until 5 April 2030 • In addition, the much hyped ‘British ISA’ has been scrapped.
Inheritance Tax Planning	• The current IHT threshold is maintained and extended by two years to 2030. So, the tax-free limit remains at £325,000, rising to £500,000 when passed to direct descendants and rising again to a £1m tax free allowance, when wealth is passed to a surviving partner. Anything above these limits could be subject to a tax rate of 40%. • Additionally, the treatment of IHT relief on agricultural property and business property will change with no IHT on first £1m, but for over £1m, a 50% relief will apply at an effective rate of 20%.

Lifetime Allowance	• The Lifetime Allowance abolition by the previous government remains. • However, the most significant change in this area will be how inherited pensions are treated. From 2027 they will qualify for IHT.
Personal Income Tax and National Insurance	• The threshold freeze on both will not extend beyond 2028. From 2028 this freeze will be removed. • National Insurance on employees and those that are self-employed has not increased. • Income tax has not increased
Value Added Tax (VAT)	• VAT remains unchanged at 20%
Capital Gains Tax (CGT)	• CGT for non-residential assets will rise as follows, the lower rate increases from 10% to 18% and the higher rate increases from 20 to 24%.
Investments	• From an investment perspective, tax relief on shares in Alternative Investment Markets (AIM) has increased, gone is 100% relief. Now only a 50% relief will apply, with the other 50% being taxed at an effective rate of 20%. • Enterprise Investment Schemes and (EIS) and Venture Capital Trusts (VCT) will be maintained.

2025 Spring Statement Key Points

The key areas of interest from a UK economic and government spending perspective:

- Growth forecast halved this year. OCD Growth forecast downgraded earlier this month. In Autumn 2024, the OBR forecast growth for 2025 to be 2%, but this has now halved to a forecast of 1% today.
- Defence, in-light of the latest developments in Ukraine, and Putin's continued and aggressive posture in Ukraine, Sir Keir Starmer announced an increased Defence spending £2.2 billion increase to the 2025-2026 defence budget earlier in the year. In addition to this Rachel Reeves announced a gradual increase in defence spending to 2.5% of GDP by 2027.
- Consumer Price Index (CPI) rose by 2.8% in the 12 months to February 2025, down from 3.0% in in the 12months to January 2025.
- Welfare spending will fall as a percentage of GDP from 2026 to the end of forecast period, representing a saving of £3.4Bn.
- Increase in Debt Interest Payments to £105.2Bn this year
- No changes in Pensions announced beyond those outlined in the original 2024 Autumn Budget.
- No additional Tax rises in this Spring Statement. Further rises haven't been ruled out later in the year.

Full Overview:
The Chancellors Spring Statement started with some politically charged commentary on the economic and global landscape before getting into the key announcements. She started by setting out her two fiscal rules.

Fiscal Rule One – The Stability Rule

- Balance current budget by 2029 – 2030
- Decrease UK government fiscal events to one fiscal event, the Budget, every year
- Focus on supporting productivity across the UK economy and UK public sectors, with an aim of delivering a forecast budget landscape that goes from a current deficit to a surplice by the end of this fiscal forecast.

The Chancellor outlined the forecast Budget Deficit to Surplice over this forecast.	• -36.1Bn – 2025-2026
	• -13.4Bn – 2026-2027
	• +6.0Bn – 2027-2028
	• +7.1Bn – 2028-2029
	• +9.9Bn – 2029-2030

Fiscal Rule Two – The second rule is on of Investment

The aim being to invest in key areas and bring down net national debt by end of budget period. The forecast set out by the Chancellor was as follows.	• 82.9% – 2025-2026
	• 83.5% – 2026-2027
	• 83.4% – 2027-2028
	• 83.2% – 2028-2029
	• 82.7% – 2029-2030

This will create Budget head room of £15.1Bn in the last year of this forecast.

However, at this time debt Interest has been forecast to increase to £105.2Bn in payments this year…
…this represents an increase over previous years.

Tax
To counter this, increase the Chancellor announced the aim of decreasing debt and borrowing levels in the years ahead. However, in this Spring Statement there were no further tax increases over the budget.
So, she announced increases in fiscal oversight and drives in efficiency. The 2024 Budget brought in measures to increase the ability to detect tax avoidance or evasion, therefore reducing the impact of tax fraudsters by increasing those that are charged by 20%. These measures are forecast to raise a further £1Bn. The total amount raised in relation to these measures by Labour, is forecast to be £7.5Bn (verified by OBR).

Welfare Adjustments
Rachel Reeves touted her party to be the 'party of work', mentioning that 'if you can work you should'
And 'if you can't work you should be supported'. This set the scene for what followed, a Welfare package previously announced by the Secretary of State for Work and Pensions, this aims at saving £4.8Bn… from the overall welfare budget.

This is consistent with the Governments Pathways to Work Green Paper which has already outlined plans to cut several billion from the welfare budget, with the aim of saving £5bn by 2029-30. With the support theme in mind Universal Credit Standard Allowance is set increase from £92 / week in 2025-2026, to £106 / week in 2029-2030.

Further to this the Chancelor announced that the Universal Credit Health element is to be cut by 50% for new claimants and then frozen. In addition to which there will be an investment of £1Bn of guaranteed personalised employment support to get people back into work. The Department for Work and Pensions will get an extra £400m – to support Job Centres in delivering all these changes fairly.

All of these announcements mean the total saving to the welfare package announced, amount to £3.4Bn. These plans mean that welfare spending as a percentage of GDP will fall from 2026 to the end of forecast period, even while increasing support for those in need, with spending on sickness and disability benefits continuing to rise.

Change Agenda
In apolitically charged atmosphere the Chancellor re-highlighted some change measures presented in the 2024 Budget Rachel Reeves reported:

1. NHS – An extra 2m appointments in NHS, decreases in waiting lists, and new breakfast clubs opening across England.
2. Devolution Settlements – The largest ever settlements for Wales, Scotland and Northern Ireland
3. Asylum Costs falling

Spending Review – Increase in Overall Funding
There is an increase in overall funding for this year 2025-2026, and next year 2026-2027.
However the Chancellor has set the envelope for a spending review in June, this will be led by the Chief Secretary to the Treasury, Darren Jones. It will set departmental budgets for day-to-day budgets to 2028-2029, and Capital spending until 2029-2030.

The Key Areas this Spring Statement Focuses on are

1. Increasing Defence Spending to 2.5% of GDP and reducing Overseas Aid spending from 0.5% to 0.3% of Gross National Income. This means a saving of £2.6Bn in days to day spending in 2029-2030 to fund more capital-intensive defence commitments.

2. Reforming the British State: Efficiency and Productivity to reduce overall spending were the focus, all of which are aimed at delivering tangible savings and improve services across the UK. These cost reductions were announced as follows;
    a. Earlier this month the Prime Minster set out plans to abolish NHS England, and ensuring all cash goes directly to improving the services for patients.
    b. The Health Secretary will aim to improve NHS productivity, baring down on agency spend… with the objective of improving patient care.
    c. The Chairman of the Duchy of Lancaster, Pat McFadden will take forward work to reduce the costs of running government by 15%, worth £2Bn by the end of the decade.

3. Building on points one and two the Chancellor brought forward £3.2Bn of investment. This means;
    a. New transformation fund to enable public services to be more efficient, more productive and more focused on delivering the end service to the user.
        i. Voluntary exit schemes to reduce size of civil service
        ii. AI tools to modernise the state
        iii. Investment in technology for the Ministry of Justice to deliver probation services more effectively
        iv. Investment in to support more children into foster care
    b. Work to bring about efficiencies are forecast to deliver a further £3.5Bn in day-to-day savings by 2029/2030
    c. Overall day to day spending will be reduced by £6.1Bn in 2029/2030
    d. Despite these savings the government has committed to day-to-day spending increasing in real terms by an average of 1.2% above inflation in every single year of the forecast.

4. Approach to Capital investments
    a. These are additional to the £100Bn announced in the Autumn Budget, they are aimed at fixing the national infrastructure, creating jobs and growing the private sector.
    b. Further to this, the Chancellor also announced increasing capital spending by a further £2Bn per year compared to the Autumn of 2024. These are aimed at driving growth in the UK economy, improving public services and importantly investment in defence spending.

Report on Inflation

The OBR recently forecast in February 2025, that CPI inflation will average 3.2% this year before falling to;

- 2.1% in 2026
- And reach 2% target in 2027.

OCD v OBR UK Growth Forecast

1. OCD Growth forecast downgraded earlier this month.
2. The OBR, who forecast growth of 2% for 2025 in Autumn last year, has now revised this forecast to 1% growth in 2025 today.

Rachel Reeves announced that she would respond to these forecasts by building an economy based on supporting ‘the builders’ and ‘minimising the blockers to growth’ therefore she announced.

a. Announced support the Heathrow third runway.
b. Increasing investment with reforms to our pension system… the only such reference in the whole Spring Statement and may be a suggestion to something more.
c. Establish a new national wealth fund.
d. Support the tearing down of regulatory barriers to growth.

Defence

The Chancellor was determined increase spending on defence and to support new jobs and contracts in our defence centres from Belfast to Deeside and from Plymouth to Rosyth. This means an increase in defence spending to 2.5% of GDP from April 2027, as previously set out in February 2025 by the Prime Minister, which is an extra £6.4Bn into defence by 2027. She also announced an ambition to increase Defence Spending to 3% in the next parliament.

Chancellor also re-announced the Prime Ministers support for the Defence with a further £2.2Bn in this coming financial year, 2025-2026, as she put it ‘a further down payment’ on plans to deliver increases of 2.5% of GDP by 2027.

Rachel Reeves took steps to increase defence productivity and, in her words, ‘make the UK a defence industrial superpower’. Therefore, she announced that 10% of defence budget would be focused on new technology, including Drones and AI. This was accompanied by a great deal of rhetoric about ‘driving forward advanced defence manufacturing in Glasgow, Derby, Newport’, furthermore increasing the creation of skilled engineers and scientists jobs to increase UK defence innovation. To this end a protected budget of £400m was announced aimed at tech firms and start-ups to help deliver the Chancellors approach to promoting innovation in defence.

She also stated that she aimed to reform defence procurement, making it quicker, more agile, and more streamlined, but most particularly increasing access to defence contracts to small businesses across the UK. She highlighted that she would;

- Take forward ‘plans for Barrow a town at heart of nuclear security’ with an allocation of £200m supporting the creation of thousands of jobs there.
- Regenerate Portsmouth Naval Base
- In addition, create better homes for military families in Plymouth Sutton and Devonport, Plymouth Moor View, York Outer, and Aldershot.

Finally, Rachel Reeves announced plans for an extra £2Bn of increased capacity for UK Export Finance, to provide UK defence goods and services. To assist in this pursuit the UK Defence Secretary and the Chancellor will establish a new UK Defence Growth Board to maximise the growth in defence spending.

Growth reforms to building – Housing and Planning Changes

The Chancelor then moved on to plans to support the growth and provision of housing in the UK. To this end, she and the Deputy Prime Minister asked the OBR to the score the central planning policy framework. They found that along with the housing targets set out below, and the provisioning of grey belt land, the OBR confirmed these changes will have a permanent increase the real level of GDP. The effects are forecast to be as follows.

- 2029-2030 – they will permanently increase UK GDP by +0.2%, which is an additional £6.8Bn for the UK economy.
- Within 10 years – this will equal 0.4% of UK GDP. This means an extra £15.1Bn addition to the UK economy, the largest zero cost increase in economic output in UK history.
- Taken together with the Capital Spending plans set out in the budget in 2024, this will increase levels of real GDP by 0.6% in the next 10 years.

The Planning System reforms are forecast by the OBR to lead to a high in-house building, reaching a 40 year high of 305,000 houses per year by end of forecast period. This means, according to the Chancellor that these changes to housing policy alone will help build over 1.3m homes over the next 5 years.

The Chancellor went on to announce, among other statements relating to jobs and training, that social and affordable homes will also benefit, with an already announced extra £2Bn to support the provision of these homes to the tune of 18,000 new homes next year.

All of this will be delivered by the Planning and Infrastructure Bill coming later this week.

Economic Growth Forecast

All of the above growth policies, including the planning reforms mean an additional £3.4Bn to support finances and public services by 2029/2030.

Following the budget last year the OBR has now reforecast UK growth over the next few years so the UK GDP will perform as follows over the course of the of the parliament.	• +1.9% –2026
	• +1.8% – 2027
	• +1.7% – 2028
	• +1.8% – 2029

Finally, the Chancellor highlighted that the OBR confirmed today, that real household disposable income is forecast to grow at almost twice the rate forecast in the Autumn.

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