

Spending Review

Wednesday 11 June 2025

The political reality of the spending review

By Senior Partner and Managing Director, Scott Dodsworth

The spending review has set the scene on UK government departmental spend for the next three years. Not a big budget day, we have that to look forward to later in the year, but a big set of choices and a massive moment for Chancellor Rachel Reeves and a government that has been on the back foot since taking power last July. It was a speech with many huge figures cited, masking what is a mixed picture across departments with many facing real terms cuts, risking the delivery of some key government priorities.

To the audible delight of Labour MPs, we see new investment in social housing, new tram routes and railways, and civil nuclear build. On day-to-day spending two pillars win out, security and health. Defence protected and increasing at further expense of domestic departments and for the NHS, the sacred angel of British politics, we see a record cash investment of an additional 3% each year for the rest of the parliament.

Ahead of the spending review, the government self-inflicted a damaging U-turn over winter fuel payments, a painful double hit from last year's mis-managed announcement ahead of Labour conference. Storytelling is critical in politics and these spending priorities set the agenda for the government's so-called second phase, or new chapter, but will taking the £1.25 billion hit on winter fuel payments be enough to ease the Labour benches? Pressure from the parliamentary party around the two-child benefit cap and further reversals on benefit cuts will continue to mount.

We are also likely to hear further questions about the damage the tight spending settlements will have on frontline, public-facing services. But with no or low growth, the Chancellor will have little room for manoeuvre and the prospect of further borrowing or tax rises loom. That would be a political disaster for Reeves and deeply damaging for the government; undermining the foundations of the spending review, or as the shadow chancellor put it, the 'spend now, tax later review'. The Chancellor will face much bigger tests in the autumn budget.

The big winners from the spending review

By Associate Director, Thea Southwell Reeves, and Senior Associate, Hugo Tuckett

The government's spending review announcement is significant. It sets departmental spending for the next three years (2026-27 to 2028-29) and provides a clear idea of where No.10 and the Treasury's priorities lie. Political reaction to the spending review has been mixed. While funding increases to public services have been welcomed by many on the Labour backbenches, commentators are concerned that the small fiscal headroom the Chancellor left herself in the spring statement (and the subsequent spending increases announced since then) mean that further tax rises are on the cards at the autumn budget.

It is no surprise that health is one of the big winners from the spending review given its importance to the government's political agenda, benefitting from 3% real terms growth in day-to-day spending. Similarly, the Ministry of Defence has secured a 3.6% average annual rise in funding over the spending review period owing to the ongoing security challenges in Europe and continued global instability. Improvements in the operation of the NHS and boosting health outcomes are becoming increasingly critical to Labour's political offer. The Prime Minister will also want to cover off any accusation that the party is soft on defence given the government's weak position in the opinion polls. Beyond health and defence, the Ministry of Justice and the Department for Energy Security and Net Zero can count themselves as big beneficiaries from the Chancellor's statement at a time when several departments have seen cuts to their day-to-day spending.

The government has announced that spending on the NHS will rise to £226 billion by the end of the parliament. This will support the government's ambition for 92% of patients to start consultant-led treatment for non-urgent conditions within 18 weeks of referral. The figure of £226 billion represents a considerable rise from the government's planned spend of £195.6 billion in 2025-26. Maintaining high levels of capital expenditure within the health service is another key part of the government's package of funding for the NHS. Capital expenditure will rise to £14.8 billion by 2028-29 and support the delivery of 25 new hospitals via the New Hospitals Programme and the day-to-day maintenance and repair of the NHS estate. In line with one of the three strategic shifts that health secretary Wes Streeting will shortly put forward in the 10-Year Health Plan, the settlement provides investment of up to £10 billion in NHS technology and transformation by 2028-29, an almost 50% increase from 2025-26. This includes the creation of a single patient record and improving the operation of the NHS App.

Against the backdrop of a changing geopolitical environment, with increased pressure from Nato and the US for European countries to increase military spending, it is no surprise to anyone that defence was a big winner in the spending review. The Chancellor announced that defence spending is set to increase to 2.6% of GDP by 2027 which will provide an extra £11 billion to the department, plus £600 million for security and intelligence agencies. The spending review confirms the government's plans for defence spending, consistent with what ministers announced in February 2025, and sets out further investment in the UK's intelligence agencies to enable them to keep pace with rising threats from hostile states. This will also support the government's ambitions

for defence which were outlined in its recently published Strategic Defence Review. However, this is unlikely to satisfy demands from Nato, which is pushing members to boost defence spending to 3.5% of GDP and commit a further 1.5% to broader security-related spending. Significant pressure is therefore expected to remain on the UK government to increase future defence spending.

Despite widespread reporting that the Department for Energy Security and Net Zero's settlement would be gutted as part of the spending review process, energy secretary Ed Miliband will be pleased see energy efficiency and home insulation benefit from a significant cash injection. The spending review settlement confirms that the government has committed £13.2 billion to the upcoming Warm Homes Plan. Ministers have said this funding will be allocated across schemes that support the rollout of heat pumps, energy efficiency measures and other low-carbon technologies (such as solar and batteries), with further details due to be confirmed by October. HM Treasury hopes the Warm Homes Plan will cut energy bills by up to £600 per year for households. This is significant as it demonstrates the continued importance No.10 and the Treasury attach to the net zero agenda, particularly as Labour looks to establish a political legacy and not simply respond burning platform issues.

The Chancellor has announced the biggest cash injection into social and affordable housing in 50 years, with £39 billion allocated to a new 10-year Affordable Homes Programme. This funding will support the government's housebuilding targets, especially for social rent. Reeves also said that the government would be catalysing additional private investment to boost housebuilding, so its envelope of financial transactions has been increased to £9.6 billion over the spending review period. Financial transactions allow the government to invest alongside the private sector through equity investments, loans and guarantees.

The government continues its commitment to boosting economic growth. The British Business Bank (BBB) is being deployed to give financial injections to start-ups and growing businesses, with its funding capacity set to rise from £1.5 billion to £2.5 billion per year as part of the spending review. To attract and retain UK investment, and boost economic growth, the BBB will ramp up its support for growing businesses. How the funding will be used remains unclear until the Department for Business and Trade publishes its industrial strategy at the end of this month. At that point, we expect further details to emerge about which sectors the bank will target and the stage at which businesses will need to be to qualify.

Rachel Reeves will be pleased with how her spending review has landed. Significant uplifts in funding for the NHS and social housing will play well with Labour's base, and a big expansion in military spending should see off accusations that the party is soft on defence. However, with Reform UK's lead in the polls proving to be particularly stubborn and the government trying to recover from some early missteps, on its own, the spending review is unlikely to be enough to move the dial on the government's political fortunes. Reeves and the rest of the cabinet will need growth in the economy to get going and the health secretary's NHS reforms to be a success if the party hopes to go into the next general election confident of securing another outright majority.

What it all means for the NHS

By GK's Strategic Adviser and former Chair of the Health Select Committee, Steve Brine

A subtle but important shift from the past as Rachel Reeves spoke of the need for a strong NHS to deliver a strong economy. Ministers used to put that one the other way around. The headline says the NHS will see a day-to-day real-terms increase of 3% (equivalent to £29 billion per year). Wes Streeting says the measures announced will help to get the NHS 'back on its feet', alongside the 10-Year Health Plan to follow. New NHS England chief Jim Mackey told the NHS Confederation Expo this morning that the latest draft of the plan is 'really impressive'. So much rests on that now and ministers will be hoping he's right.

The announcement of increased health spending by a Labour Chancellor was perhaps expected, but the 3% confirmed in the spending review is more (the classic under brief tactic) than the 2.8% 'leaked' to the Sunday Times last weekend. It is, however, lower than the 4% increase Wes Streeting reportedly sought during his battle with the Treasury and well below the 6.5% year on year rises we saw when Blair was pursuing investment, recovery and reform.

This has cast some doubt, including from Matthew Taylor, Chief Executive of the NHS Confederation, about whether the government can expect to achieve its main health pledge to treat 92% of patients within 18 weeks. That is going to remain a challenge - and that's before any return to industrial action which ministers will be desperate to avoid; not least given the BMA ballot ends at the exact moment many expect the 10-Year Plan to be published.

In his speech to the NHS Confederation Expo ahead of the Chancellor's statement, Sir Jim Mackay welcomed any additional funding but perhaps tempered expectations saying health has 'got what the country can afford.'

On life sciences, the Government's £86 billion package for the science and technology sectors, announced earlier this week, was expanded upon in the spending review. The government will prioritise investment in new drug treatments, defence equipment, and artificial intelligence. Whether it contains a chunky sum to end the impasse over the voluntary scheme for branded medicines pricing, access and growth (VPAG), and get the Life Sciences Sector Plan agreed with industry, remains to be seen.

So, overall, a good day for health and a good day for Labour who get to present their first proper cross-government spending review in more than 15 years. There are, however, many more questions than answers around the contents (and radicalism) of the 10-Year Health Plan, the impact of a 50% cut to ICB's, a reorganisation of the NHS via the abolition of NHS England, and the threat of renewed strike action from doctors and nurses in England.

One thing seems certain; health and politics will stay front of centre of our national life for some time yet.

Contact Information

If you have any questions about the spending review or would like to discuss its contents in more detail, please contact:

Louise Allen // Senior Partner & Chief Executive // louise@gkstrategy.com

Scott Dodsworth // Senior Partner & Managing Director // scott@gkstrategy.com

Lizzie Wills // Senior Partner & Head of Private Equity // lizzie.wills@gkstrategy.com

Emma Petela // Senior Partner & Head of Strategy and Growth // emma@gkstrategy.com

Thea Southwell Reeves // Associate Director // thea@gkstrategy.com

Hugo Tuckett // Senior Associate // hugo@gkstrategy.com