

Autumn Budget 2025

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Political reaction to the Chancellor's make-or-break budget

By GK Senior Associate Sam Tankard

The Chancellor's 2025 Autumn Budget had long been billed as make-or-break for her political future. Rachel Reeves faced a formidable challenge today: restoring the public finances and unlocking growth, while keeping both the markets and, critically, her own backbenchers onside. Thematically, her second budget focused on three core objectives: reducing NHS waiting lists, curbing government debt, and tackling the rising cost of living.

Politically, the latter was paramount, with ministers and backbenchers all desperate to show they understand the pressures facing working people. In practice, this was pitched as a budget for the 'bottom two-thirds' of earners. Treasury distributional analysis finds that the government's 'smorgasbord' approach to tax rises – worth around £26 billion – will predominantly fall on higher-income households.

Yet, the overall narrative felt muddled. The Chancellor's primary revenue raiser – the continued freeze in income tax thresholds – remains the quintessential stealth tax. When combined with a suite of smaller measures like caps on salary sacrifice and an increase in the sugar tax, it is difficult to reconcile with Labour's manifesto commitment not to raise taxes on working people. This leaves the Chancellor exposed, and creates further space for the Conservatives, Reform and the Liberal Democrats to attack the government's economic record, as well as its future plans. The fact that the tax burden will reach a record high by the end of the parliament did not go unnoticed by the opposition benches.

On the other hand, Reeves confirmed the well trailed removal of the two-child benefit cap – which cost £3 billion to lift. Though notably absent from the manifesto, the policy carries significant moral weight for Labour backbenchers eager to demonstrate progress on child poverty. With tensions between the Parliamentary Labour Party and No.10 still fresh, this move was designed to rebuild trust within the party, and the House of Commons' reaction suggested it landed well in the moment and may have bought the Prime Minister some breathing space from emerging leadership challengers within his Cabinet.

Whether this Budget will be enough to stabilise the government for the long term is less certain. As the dust settles over the next couple of days, and as we head towards crucial elections in May, the risk remains that the government fails to shift the wider frustration about delivery, ambition and long-term vision. Whilst the markets have reacted surprisingly positively, politically the budget felt like a set of tactical solutions to deal with immediate problems of the day, rather than a long term strategic plan to drive growth. This means that neither the Prime Minister nor the Chancellor are out of the woods just yet.

Impact of the budget on businesses and investors

By GK's Head of Policy, Hugo Tuckett

Businesses and investors will be breathing a sigh of relief after Chancellor of the Exchequer Rachel Reeves' second budget statement. Last year's announcement of the increase to employer NICs dealt a hammer blow to the government's pro-growth credentials. This time, the tax raising measures aimed at businesses were far more limited, with the Chancellor instead opting for a series of smaller tax-rises. The government hopes this strategy will successfully nullify opposition to any individual measure contained in the budget as it attempts to raise the revenue it needs to meet its fiscal rules, and avoid breaking its manifesto commitment not to raise income tax, national insurance or VAT.

One of the most significant measures for employers is the increase in National Living Wage and National Minimum Wage rates. The Chancellor has confirmed that the National Living Wage will rise by 4.1% to £12.71 per hour from April 2026. The National Minimum Wage, which applies to 18-20-year-olds, will also rise by 8.5% to £10.85 per hour. The inflation-busting increase forms part of the government's efforts to narrow the gap between the National Living Wage and National Minimum Wage to achieve a single adult rate by the end of the parliament. This measure will have a particularly pronounced impact on those businesses that pay a large proportion of their workforce the minimum wage (or slightly above).

Reforms to the tax treatment of salary-sacrificed pensions will also have an impact on business' financial operations. The government has stated that salary-sacrificed pension contributions above an annual £2,000 threshold will no longer be exempt from NICs from April 2029. This means that they will be treated as ordinary employee pension contributions in the tax system and therefore be subject to both employer and employee NICs. Ordinary employer pension contributions will remain exempt from NICs. Businesses could therefore choose to pass on future wage increases to their employees in the form of higher employer pension contributions.

The OBR's accompanying analysis of the measures contained in the budget makes for disheartening reading for UK-focused investors (and caused consternation on the government front benches after it was accidentally released before the Chancellor had delivered her Budget statement). The OBR has predicted that annual GDP growth will be 0.5 percentage points higher than it had previously predicted for 2025, before falling behind previous estimates for every

remaining year of its forecast period. The body estimates that annual GDP growth will be 1.4% in 2026 (previously 1.9%), 1.5% in 2027 (previously 1.7%), 1.5% in 2028 (previously 1.8%) and 1.5% in 2029 (previously 1.8%). Furthermore, it has downgraded its central forecast for the underlying rate of productivity growth. This follows a series of substantial downgrades since 2010.

Ultimately, this package of measures is not one that the Chancellor would have wanted to present to Parliament. She had attempted to use her first budget in October 2024 as a reset moment to get the UK's public finances back on track before progressing with the government's policy agenda. However, with weaker than anticipated growth and higher than projected borrowing costs, Reeves had no choice but to come back for more from an increasingly disgruntled electorate. By building in almost £22 billion of headroom against her fiscal rules compared to the less than £10 billion she had previously, the Chancellor will hope that she can now draw a line under her tax-raising start to life in HM Treasury.

Sector analysis

Health & Social Care

With the NHS being one of the main beneficiaries of the Chancellor's first budget in October last year, it was always unlikely there would be a further significant injection of cash for the health service. Crucially, Rachel Reeves reiterated that cutting NHS waiting lists remains one of her three key priorities, alongside reducing the cost of living and curbing government debt, and we have seen that play out in announcements in advance of her budget statement. The Treasury announced that it would use the private sector to establish 250 new Neighbourhood Health Centres across England. These will convene GPs, nurses, dentists and pharmacists in one location to better meet the needs of their community. The government aims for 120 of these to be operational by 2030. The Chancellor also committed £300 million in additional capital funding for NHS technology to enhance productivity, support staff, and drive patient outcomes as part of the government's shift from analogue to digital within the health service. This investment builds on the £10 billion already committed to NHS technology and digital transformation by 2028-29 in June's spending review.

Education

The budget confirmed the government will make more than £1.5 billion available over the spending period (2026-29) for investment in employment and skills. Almost half will be for the new Growth and Skills Levy, including to fully fund SME apprenticeships for eligible individuals under the age of 25. The funding will be accompanied by a further package of reforms that are due for publication shortly. On the politically sensitive topic of SEND, HM Treasury confirmed that the Department for Education will fully fund the cost of SEND provision from 2028-29 at an estimated cost of £6.3 billion per year. For accrued debts at the local authority level, currently kept 'off book' as a result of the statutory override mechanism, the government has said it will work with councils and set out more detail at the provisional Local Government Finance Settlement in December. Higher education providers will be disappointed by the government's decision to proceed with the introduction of a

levy on income from international students of £925 per student per year of study, starting in August 2028. However, given it represents a flat charge, it makes it an easier proposition to pass directly on to learners, minimising the impact on providers.

Energy & Net Zero

One of the government's core retail promises at the 2024 general election was to reduce energy bills by £300 by the end of the parliament. As part of a budget which, at its core was focused on tackling the cost of living, the Chancellor implemented measures to reduce annual energy bills by £150. The majority of this will come from the ending of the Energy Company Obligation (ECO4) from March 2026. The government will also extend the £150 Warm Home Discounts to a further 3 million households. Further details will be set out in the Warm Homes Plan which we can expect later this year. Elsewhere, the Chancellor championed the government's commitment to investment in infrastructure, new nuclear at Sizewell C and clean power, and reforms to the planning system aimed at attracting inward private investment to help decarbonise the UK's energy system.

Food, Farming & Agriculture

The budget headline for the food and drink sector is the government's plan for a tougher sugar tax, which had been pre-announced by the health secretary the previous day. The measures will expand the scope of the soft drinks industry levy to milk-based and milk-alternative products and lower the threshold from 5g per 100ml to 4.5g, effective from 1 January 2028. The Chancellor also announced plans to tackle food inflation and reduce the regulatory burden on the largest food retailers through the new Food Inflation Gateway and its agri-food negotiations with the EU. The Food Standards Agency will work to introduce a national level regulation to streamline food standards and hygiene regulation to reduce the administrative burden on supermarkets. The agricultural community will be disappointed that, despite months of speculation and Westminster protests, the Chancellor did not reverse her reforms to agricultural property relief. Reeves did though confirm that the £1 million allowance for the 100% rate of agricultural property relief will be transferable between spouses and civil partners.

Housing & the built environment

The government's decision to introduce a new council tax surcharge on properties valued at over £2 million represented the most significant measure in the budget for the housing sector. It also reveals the Chancellor has acquiesced to long-standing calls from some in the Labour Party for the introduction of a 'mansion tax'. The surcharge will apply across four valuation bands and will be introduced from April 2028, starting at £2,500 for properties valued at £2 million, rising to £7,500 for a property valued at over £5 million. The Chancellor has said that fewer than 1% of properties will be affected, with homeowners in London and the South East expected to be hit hardest by the new tax. The Chancellor also announced that the rates of income tax on property income will increase by two percentage points, continuing a longstanding trend of both Conservative and Labour governments tightening the regulation and tax treatment applying to private landlords. Industry leaders say the move will lead to higher rents and fewer properties available to rent. However, with

these changes not taking effect until April 2027, the true impact of this change will take some time to play out in full.

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