

# SPENDING REVIEW

JUNE 2025

## Key changes



**£113bn**

of new capital  
investment



**£39bn**

for new social and  
affordable homes



**£15bn**

investment in transport  
infrastructure across  
England



**£14.2bn**

investment into  
nuclear power



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# Reeves goes big on capital investment but devil is in the detail in Spending Review



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After much anticipation, Chancellor Rachel Reeves has set out the government's Spending Review, allocating departmental spending across government for the remainder of the Parliament. In the Chancellor's own words this was an opportunity to demonstrate how the government is committed to 'deliver on the priorities for the British people' and 'renewing Britain', with a particular focus on increasing investment in housing, healthcare, defence, and education in pursuit of this government's agenda for economic growth.

To this end, the Chancellor set out a number of headline-grabbing announcements for capital investment, none more so than the £39bn investment in the Affordable Homes Programme to deliver what Reeves described as the 'biggest boost to social and affordable housing in a generation'. Alongside this the Chancellor also committed an increase of 3% to the NHS budget totalling around £29bn, £14.2bn into nuclear power, and £15.6bn into transport projects across England.

Other departments were not so lucky with their budgets, with a number of departments seeing their day-to-day spending cut. Home Secretary Yvette Cooper will be left feeling shortchanged by the Spending Review, with reports that the Treasury ended up imposing its settlement on the Home Office after prolonged negotiations, resisting calls from both Cooper and several high-profile interventions from police chiefs across the country for additional funding.

Though the Chancellor confirmed an increase in spending for policing of 2.3%, this is likely to fall short of the figure that many in the department will have wanted. Indeed, once the dust had settled on Reeves' speech and the full set of Spending Review documents were published, Treasury forecasts revealed a 1.7% cut in day-to-day spending for the department.

Digging further down into the detail, the Treasury has also mapped out an estimated £14bn in efficiency savings across government by 2028-29 through a combination of AI adoption, productivity plans and IT modernisation. Delivering on this will be an obvious challenge for the government, and failing to deliver will undoubtedly have consequences for budgets across the board.

Yet for all the headline announcements for major capital spend, Reeves acknowledged that 'working people must feel the benefits' of a 'strong, secure and resilient economy'.

Faced with the increasing electoral threat of Reform UK, the government will be all too aware that these projects take time, with most of the material benefits to be felt in years, not weeks or months. The more immediate challenge for government is therefore to take Reeves' words head on and improve people's lives in a meaningful way ahead of the next election and ensure that the public is feeling the benefits of a Labour government.

The expansion of the free school meals programme, extension of the £3 bus fare cap, and extra funding into training and skills are all things the government will point to as ways in which it is delivering on this. Similarly, the decision taken this week to U-turn on the Winter Fuel Allowance may allay some critics from the backbenches, though the ordeal has ultimately come at the expense of council seats and goodwill from the public. Next up for the government is the crucial vote on welfare reform before the summer recess, with many backbenchers still uneasy about the proposed measures, party management will be crucial over the summer to keep the government on track.

With growth still precarious and the potential for tax rises at the Autumn Budget later in the year, the appetite from the public for delivering short term wins remains as strong as ever. Delivery is now everything for the government.

# Thumbs up from housing sector, but economists warn that tax rises now likely

With the Spending Review being a game of winners and losers, overall reaction to the Chancellor's announcements mirrors just that.

The £39bn investment into the Affordable Homes Programme was by some distance the announcement to receive the most support from its respective industry stakeholders, with the National Housing Federation describing it as a 'transformational package' for social housing, and major housing charities Shelter and Crisis both describing it as a potential game changer in tackling Britain's housing crisis.

Less happy with the Spending Review was the Police Federation which - faced with cuts to departmental spending for the Home Office and a modest increase to police spending - claimed that 'the Chancellor hasn't listened to police officers' and warning of the long-term consequences of the funding gaps for policing.

Similarly unhappy with the Spending Review was Mayor of London Sir Sadiq Khan for what he argued was a 'disappointing' lack of new investment for London and the Met Police in particular. Given Reeves' eagerness to deliver investment to the rest of the UK, and rewriting of the Treasury Green Book to do just that, this is unlikely to deter a government which is keen to show that it is investing in many of those left behind communities now being hotly targeted by Reform UK. Indeed, a very public argument with voices in London about the merits of investing everywhere else may well bolster the government's position with voters.

More concerning for the government however will be the increasing expectation from economists and the wider public about the inevitability of tax rises at the Autumn Budget. Growth figures out today showing a 0.3% retraction in the UK economy in April only highlights the precarious economic climate in which the government is operating and drives home the need to deliver more sustained growth in support of the government's wider ambitions for investment.

Paul Johnson of the Institute for Fiscal Studies (IFS) commented that 'the Chancellor's speech was full of numbers, few of them useful', while Oxford Economics' chief economist Andrew Goodwin said that 'it looks increasingly likely that substantial tax rises will be needed in the Autumn Budget'.

Selling tax rises to the public is a challenge at the best of times, let alone when the tax burden is already as high as many feel it is at present. Elected just under a year ago on a platform which promised no increase in taxes on working people, pulling the major tax levers such as income tax, national insurance and VAT will be a last resort for the Chancellor, but without the growth that this government is so determined to deliver, Reeves faces a challenging few months in the build up to the Autumn Budget to make the numbers add up.

