



Bee Boileau

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@TheIFS

Four big decisions for the 2025 Spending Review



Economic
and Social
Research Council

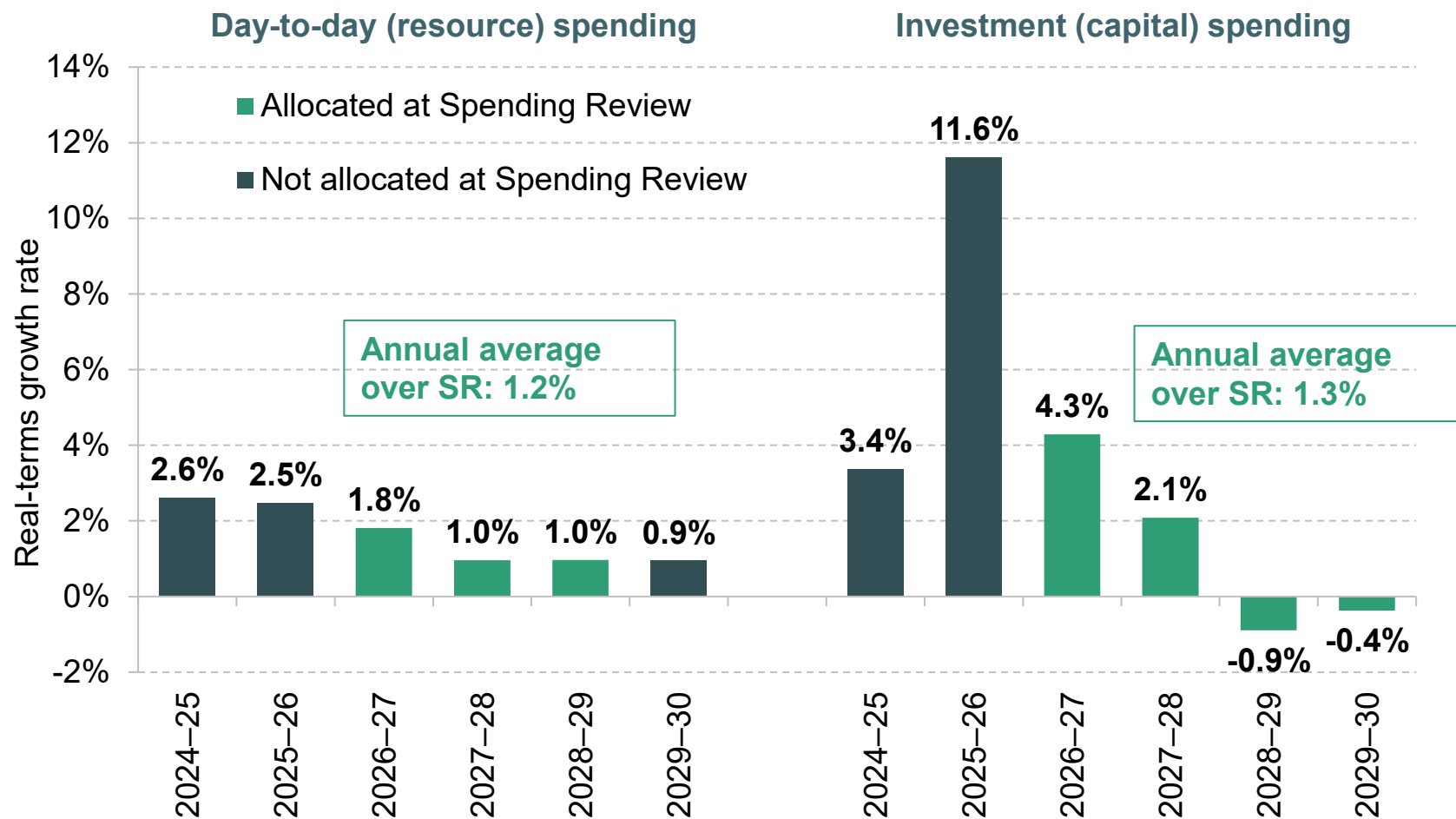
Spending Review context



- Spending Review will allocate more than £600bn each year – around a fifth of UK GDP
- Departments will be given spending plans over the next few years
- We already know total ‘spending envelopes’

Spending Review context

Actual and planned annual growth rates in day-to-day and investment spending



Spending Review context



- Spending Review will allocate more than £600bn each year – around a fifth of UK GDP
- Departments will be given spending plans over the next few years
- We already know total ‘spending envelopes’
- Assume these envelopes are not changed at the Spending Review

Four key decisions

1. How much to spend on health?
2. How fast, and how far, to increase defence spending?
3. What to squeeze – and how?
4. More public investment, but in what?



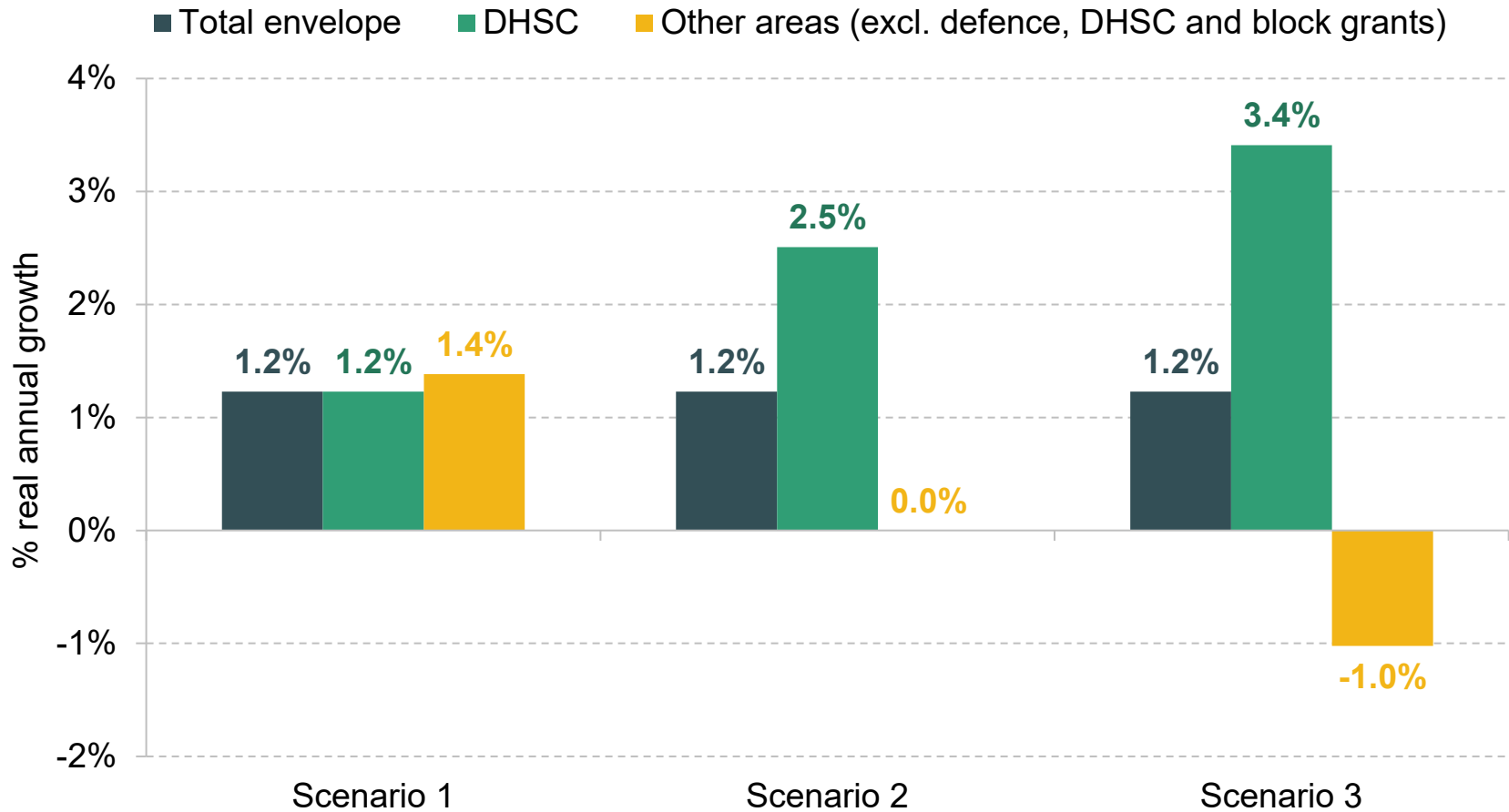
How much to spend on health?

Two historic patterns for health spending plans

- Traditionally health is the winner at Spending Reviews
 - Between 1998 and 2015, planned average annual growth 2ppts faster than total envelope
 - Big increases in the 2000s, spared the cuts of the 2010s
- But in recent years that gap has closed
 - Last SR, govt gave health just 0.1ppt more than the average
- Key question: which pattern will the govt follow this time?
 - Significant implications for all other areas

Settlement for health determines what happens elsewhere

Spending growth under alternative scenarios for health spending





How far and fast to increase defence spending?

Path for defence spending already set out



Defence expenditure as a proportion of national income



But pressures may force a reassessment...



NEWS > DEFENSE

Europe splits on Trump's call to dramatically boost defense spending

New U.S. president aims to more than double the alliance's spending target.

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UK announces further £450m military support to Ukraine

Defence

Trump asks Europe again for more defence cash, leaves NATO strategy elusive

Rutte visits White House while Trump piles Ukraine and European capitals with threats

Lib Dems push for 3% of national income on defence

News > UK > UK Politics

UK to send hundreds of thousands of military drones to bolster Ukraine war effort

NATO's Rutte embraces 5 percent defense spending goal

The new target is expected to be agreed at next month's NATO summit.

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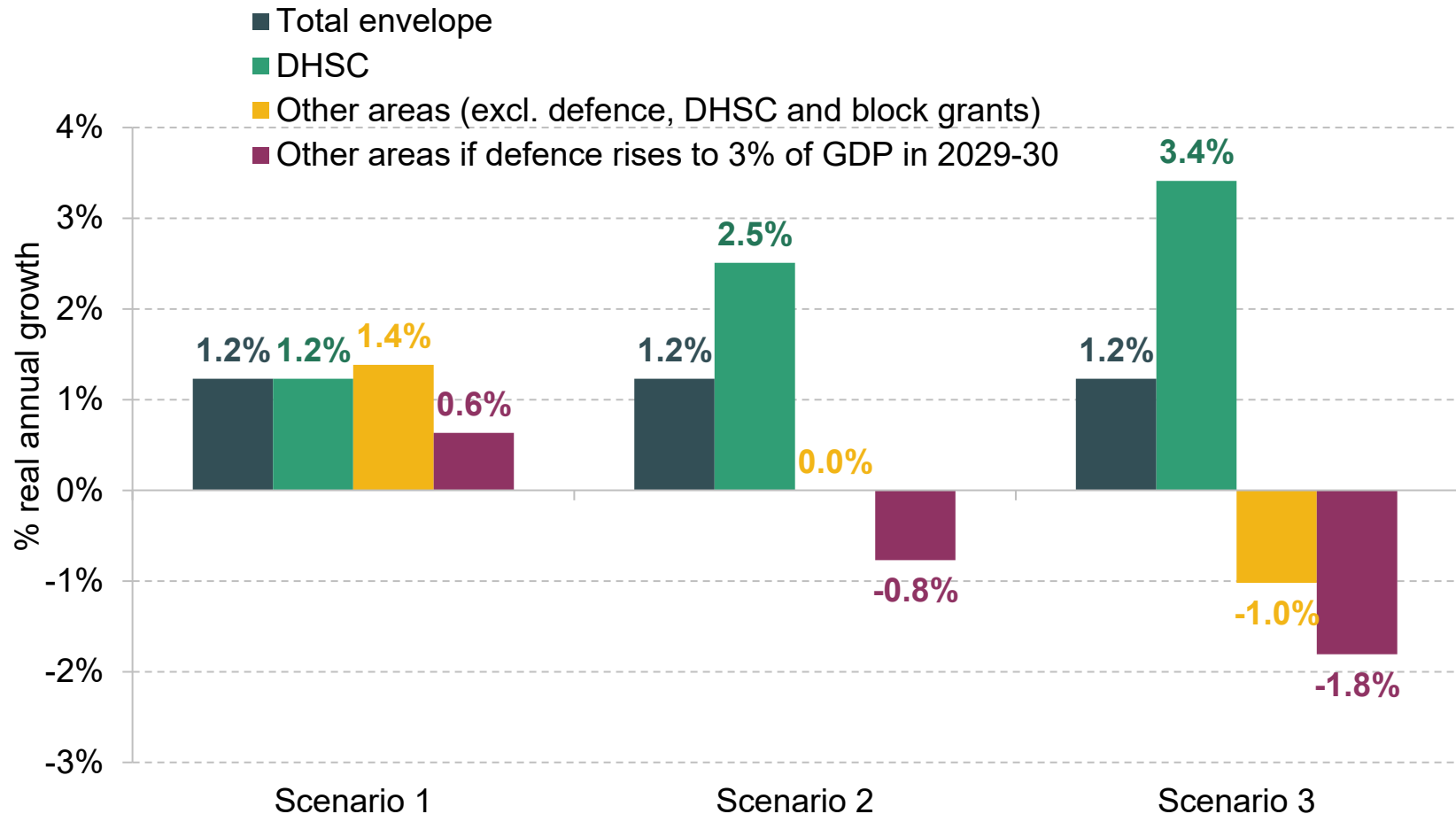
≡ Bloomberg UK

Politics

NATO Chief Rutte Says Members Moving Toward 5% Spending Target

If defence rises faster, the squeeze elsewhere is worse

Spending growth under alternative scenarios for health and defence spending





What to squeeze – and how?

Two ways to cut budgets...

- **Productivity improvements:** deliver the same services with lower budgets
 - Desirable but how far can you go?

- **‘Actual’ cuts:** reduce the level of services offered
 - Politically challenging but maybe necessary?

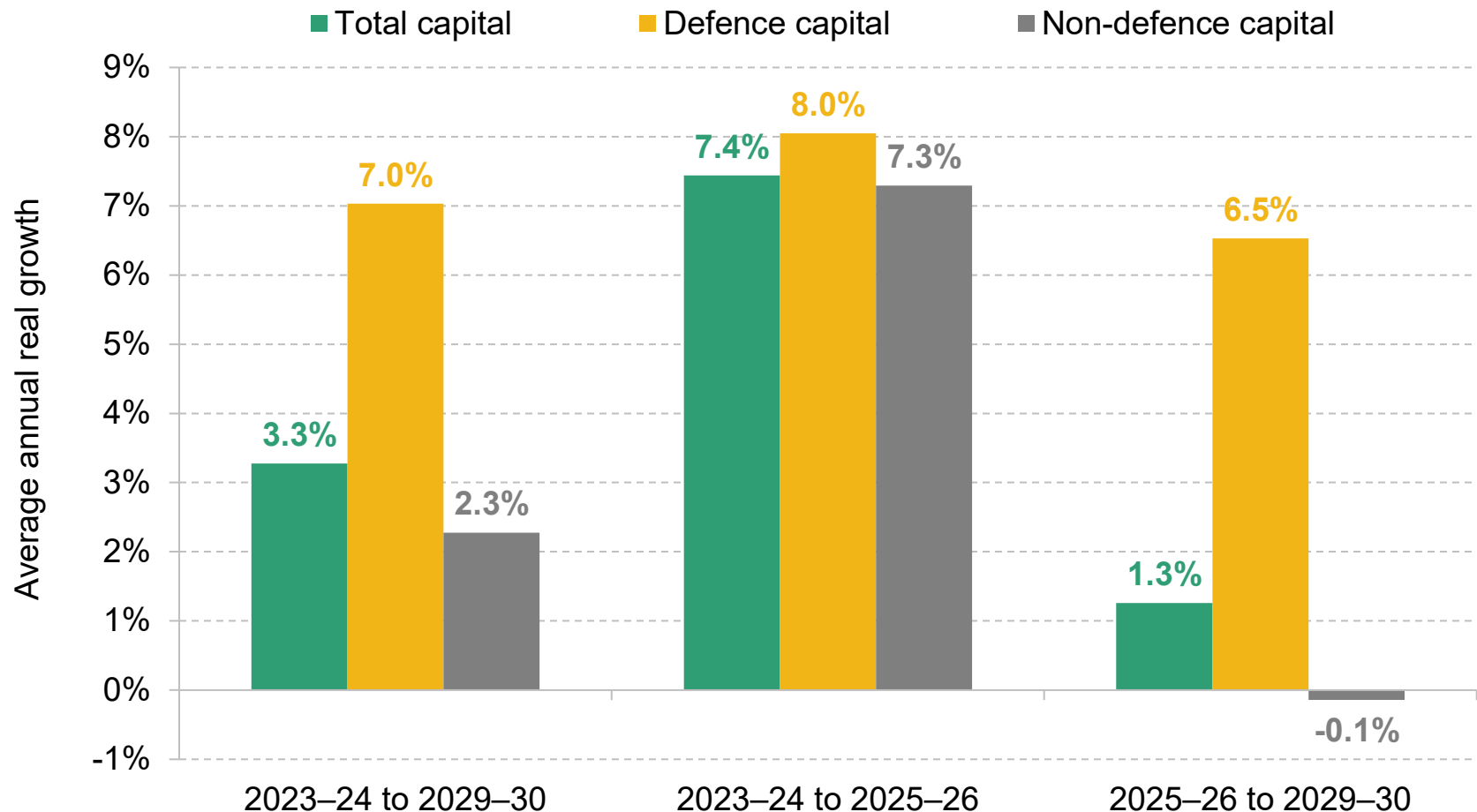
- **Public sector pay and workforce** bound up with these decisions
 - Pay restraint/slow employment growth/heroic cuts to non-staffing costs likely to be needed



More public investment, but in what?

Defence spending will likely take up room for increases elsewhere

Average annual real growth in capital budgets



Conclusions

- This is where ‘ruthless prioritisation’ becomes a reality
- Real-terms cuts to some areas almost inevitable
 - Huge amount depends on what happens to health and defence
 - Huge amount depends on scope for productivity improvements
- Capital spending will be sustained at high levels
 - But all the real-terms increase in capital spending over this period has been implicitly allocated to defence
 - Big choices: net zero vs transport vs science vs public services

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

