Resolution Foundation
BRIEFING

Unsung Britain bears the brunt

Putting the 2025 Spring Statement in context

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Summary

After the Spring Statement, the grim big-picture outlook for living standards remains, and is particularly dismal for the poorer half of Britain. The Chancellor had difficult work to do in bringing the books in line with her fiscal rules, against the backdrop of deteriorating public finances. She was right to take action, but wrong to concentrate the pain so heavily on a relatively small number of disability benefit claimants.

A judgement by the Office for Budget Responsibility (OBR) that planning reform will have material growth benefits also helped the Chancellor get through this fiscal event. But many of the effects of a changing world, including changes to global trade, are yet to be fully felt or reflected in these forecasts. The decision to duck fresh tax rises this spring will only make them harder to avoid in the autumn.

Squeaking through a predictable bind

The immediate backdrop to the Spring Statement was less global tumult than mundane domestic arithmetic. On the back of anaemic growth in 2023 and 2024, the OBR's halving of its growth forecast for 2025 leaves Britain on track for its third consecutive year with less than a 1 per cent growth in per capita GDP – something that hasn't happened in over 30 years.

Most of the deterioration in the books, however, is instead down to rises in debt interest costs which were already starting to press at the time of Reeves' Autumn Budget. Other pressures – including rising outlays on sickness and disability benefits – have been making themselves felt for years. If the OBR was to downgrade its expectations for the rate of productivity growth, or factor in the prospect of rising global tariffs, more dramatic adjustments would be required. But that didn't happen – this time.

All in all, that meant – before the decisions set out in her statement – the Chancellor was left £4.1 billion short of her promise to balance current expenditure with revenues in five years' time. The Chancellor has staked her credibility – which, amid jittery financial markets, is important for UK borrowing costs as well as political pride – on meeting her rules. That would have been jeopardised if she had failed to act. Acting decisively to recognise the deterioration in the public finances and balance the books is something that the Chancellor will receive little praise for, but is an important step for a Government looking to establish its economic credibility.

She has balanced the books through a mix of £8.3 billion in social security cuts, partially offset by a £3.5 billion increase in spending through other welfare decisions (including the cancellation of far smaller inherited cuts), plus £3.6 billion in new squeezes on day-to-day departmental spending and some smaller tax avoidance measures. In combination,

this has allowed Reeves to do something that few recent Chancellors have managed: delivering a fiscal event in which the policies raise money, on average.

No return to austerity?

The Chancellor's relatively modest £3.6 billion trim to current departmental expenditure (Resource Departmental Expenditure Limits, or RDEL) is actually not as bad news as it may seem for UK public services. The bulk of the saving is coming from the cut in overseas aid, which the Prime Minister linked to rearmament in February. Because the extra defence spending is mostly investment, only a fifth of the cut in day-to-day aid spending at the end of forecast has been consumed by the day-to-day defence budget.

More fundamentally, the reduced totals follow a nearly £50 billion rise at the Autumn Budget and leave real RDEL growing at a faster rate than the previous Government's plans. It is a far cry from 'austerity' in the sense of the absolute average real cuts witnessed in the 2010s. Indeed, between some near-term increases and medium-term cuts, the cumulative change in departmental spending over the forecast is actually a modest decrease of £1.3 billion (in 2024-25 prices).

But if the expected protections for health, schools and defence are maintained, the outlook elsewhere is certainly challenging. Unprotected departments such as Justice and the Home Office will be in line for cuts of 4.5 per cent on average in real spend per head over the last four years of the Parliament. If the pain is evenly shared across unprotected services, resources per head allocated from the centre to Local Government at the dawn of the 2030s will be around half what they were back in 2010.

Unsung Britain bears the brunt

Prospects for living standards are darker than the public service outlook. While terrible forecasts for real disposable incomes edged up this week, they are still forecast to rise by just 0.6 per cent over this Parliament, which would make still make this one of the very worst Parliaments in records that stretch back 70 years. And because it comes straight after the worst Parliament (for living standards) of them all – the 0.3 per cent annual disposable income growth notched up over the 2019-2024 term – a big squeeze drags on which will make the 2020s the worst decade on record.

This backdrop may be what deterred the Chancellor from following up on her revenue-raising Autumn Budget with fresh tax rises: a historically high tax burden is sapping whatever household income gains are available from modest growth. But by ducking available tax moves – such as extending the freeze on allowances and thresholds – she has closed off an approach that could have spread fiscal adjustment much more widely, and ensured that the better off paid more. Instead, she has reached for deep cuts to

disability benefits. On the Government's own figures, 3.2 million families will lose an average of £1,720, and 250,000 extra people will fall into poverty as a direct result.

Within the broadly stable overall weight of working-age benefits in the economy, the cost of health-related benefits has been rising. There are distortions within the existing system that should be amenable to careful, employment-supporting reform: removing incentives for workers to rule themselves out of the labour market is a change that makes sense. This is one reason why the Government's decision to give a permanent above-inflation boost for the first time to the basic rate of Universal Credit received by everyone, including the healthy jobseekers, is welcome.

But savings are to be generated predominantly from health-related benefits paid regardless of whether someone is in work. And while these cuts come with welcome new employment support, that will be phased in only gradually, with the majority of support not coming until the final year of the forecast. For many, benefit cuts will bite before it arrives. The OBR did not have sufficient evidence to assess any positive employment effect at all. And even if the Government eventually got an impressive 10 per cent of Universal Credit Health claimants into work, that would still leave at least 2.7 million families losing out from changes to that payment alone.

This is still early days for this Government, but it could fairly be judged not just by this Spring Statement alone, but in the round – considering all the choices it has taken so far affecting family finances, including at the 2024 Autumn Budget. Taking everything together, the burden of adjustment looks less slanted – but poorer, disabled households are still set to take the biggest hit. More generally, a combined squeeze that reduces incomes by around 1.5 per cent in the lower-middle reaches of the spectrum declines to only 0.5 per cent at the very top.

Factoring those distributional decisions into the general outlook for growth and income makes for particularly grim reading. Across the poorer half of the country, the five years up to 2029 will see after-housing-costs incomes drop by around £500. In data going back to the early 1960s, larger drops for low-to-middle income families have only been seen twice before – in the sharp recession of the early 1990s, and then again in the immediate wake of the credit crunch. Disproportionate income reductions for sick and disabled people in poorer households are not going to help with any of these trends.

An unwanted fiscal event and an unhappy bottom line for living standards

If the 2024 Autumn Budget told us much about the Government's agenda, the Spring Statement tells us more about the pressures it is under. The Chancellor had hoped that this March would be nothing more than a routine forecast update – but this plan was dashed by bad news on the public finances, leaving Rachel Reeves delivering a second major fiscal event within nine months of the election. She had staked her credibility – which, amid jittery financial markets, is important for UK borrowing costs as well as political pride – on meeting her borrowing rules. That would have been jeopardised if she had failed to act. She deserves credit for broadly restoring the fiscal position – albeit only by the end of the forecast – where predecessors have tended not to fully correct for bad news.

But for all the Chancellor's pleas that the "world has changed," this Spring Statement response is more a sticking plaster than a strategic reset. Much of the consolidation is being achieved through rushed cuts to disability benefits, with the pain concentrated on a relatively small number of claimants. Beyond that, some of the sums rely on aspirations to curb spending through efficiency improvements. There was, though, better news for the Government on the most solid single plank of its growth strategy: the Office for Budget Responsibility (OBR) has concluded that planning reform will effect a meaningful boost to the economy, with knock-on benefits for the Exchequer.

In this briefing note, we evaluate the policy choices the Government has made in the context of the awkward backdrop to the Spring Statement. We start by discussing how the economic and fiscal outlook has evolved since the Autumn Budget before analysing the spending cuts announced in response. We conclude that these policy choices conspire with a sluggish (if improving) economy to make this one of the worst modern parliaments for living standards, and leave the 2020s as a whole as the most stagnant decade for incomes on record. For low-to-middle income families, the outlook is still worse, reflecting the choice to deliver consolidation through benefit cuts which concentrate the pain on a relatively small number of mostly poorer families, rather than sharing sacrifices more widely, or with more adjustment directed towards the better off.

Incomplete recovery from growth disappointment leaves the level of real GDP lower throughout the forecast, but higher inflation offsets the fiscal impact

Disappointing data on activity means a worse starting point for the OBR's economic projections than expected in October

Since the OBR's last forecast, Britain's economy has been stuck in the mud. Over the second half of 2024, GDP grew by just 0.1 per cent in real terms – well below the OBR's October forecast of 0.7 per cent. Outside of the pandemic, this is the biggest negative in-year growth surprise between OBR forecasts since December 2012.[1] The OBR expects this loss of momentum to continue into 2025, where its forecast for annual GDP growth has been halved (to 1 per cent, down from 2 per cent in October). GDP per capita, a better measure of living standards and one of the Government's key targets for growth, is forecast to rise by just 0.3 per cent this year. On the back of anaemic growth in 2023 and 2024, the OBR's forecast has Britain on track for its third consecutive year with less than 1 per cent of per capita GDP growth – something that hasn't happened in more than three decades (since 1990-1992).

The labour market has also softened. According to our estimates (based on counts of workers in the tax data and the ONS' population forecasts), this Spring Statement takes place against the biggest fall in the 16-64 employment rate outside the pandemic since 2008, from 76.3 per cent in May 2023 to 75.4 per cent today.[2] In April, a hefty 6.7 per cent rise in the minimum wage will come in alongside the rise in employer National Insurance contributions announced at the Autumn Budget, which could further weigh on employment.

A stronger inflation outlook, combined with the OBR's striking optimism on medium-term growth, provides better news for the Chancellor

Further ahead, the OBR's growth outlook from 2026 onwards is a little stronger than in October (see Figure 1). In part, this reflects newly-scored planning reforms, as discussed in Box 1. But overall, the level of real GDP is 0.5 per cent lower at the end of the OBR's forecast (2029-30) than previously expected.[3] This is because faster growth from 2026 onwards does not fully compensate for the near-term slowdown, as the OBR assumes that a third of recent growth weakness reflects a persistent hit to potential output.

1 For OBR forecasts published in October-December, growth surprises are based on actual and previously forecasted growth in Q1 and Q2 of the same year; for forecasts published in March, growth surprises are based on Q3 and Q4 of the preceding year. Actual growth is based on data at the time and does not reflect subsequent revisions. Excludes the OBR's March 2020 forecast, as there was no forecast published in the preceding autumn/winter period, and forecasts from November 2020 to March 2022, where surprises refer to lockdown-affected data in 2020 and 2021.

2 For more information on our employment rate estimates, see: A Corlett, Get Britain's Stats Working: Exploring alternatives to Labour Force Survey estimates, Resolution Foundation, November 2024.

3 Comparing overall changes in level of GDP between the OBR's October and March forecasts is complicated by historic GDP revisions. To address this, we rebase the OBR's October GDP forecast to match the latest outturn for Q2 2024.

BOX 1: The growth impact of the Government's planning reforms

The OBR has judged that the Government's new National Planning Policy Framework will provide a substantial boost to the economy. The main effect of these reforms is to make it easier and cheaper to build houses and infrastructure, with the extra construction providing a boost to the demand side of the economy as more builders are hired and materials purchased.

But the OBR assumes that the Bank of England will over time bring demand back in line with supply in order to keep inflation at target. So what matters in the long run is how the reforms boost the capacity of the economy to supply goods and services.

The planning reforms can do this through two broad channels.[4] First, the extra houses provide services in the form of shelter to their occupiers, and these services form part of GDP (so-called paid and imputed rents). The increase will be greater if the houses are built near the best jobs, and if adding workers to a labour market makes the existing workers more productive (so-called agglomeration effects). The OBR judges that these extra housing services could boost the level of GDP by 0.07 per cent by 2029-30.

Secondly, planning reforms can reduce the costs of building houses and infrastructure if they speed up the process and reduce requirements for paperwork and consultation, showing up as an increase in the productivity of the construction sector. The resulting 0.14 per cent increase in the supply capacity of the economy is equivalent to a productivity boost of about 2 per cent in the construction sector, a conservative estimate.

The OBR has made a reasonable and conservative approximation of the reforms' impact. However, the OBR's (very strong) baseline forecast is produced, among other things, with reference to historical average growth rates over periods that include various structural reforms. So planning changes need to be additional to these typical reforms to avoid double-counting. The OBR has been persuaded this is indeed the case – but in the real world, only time will tell.

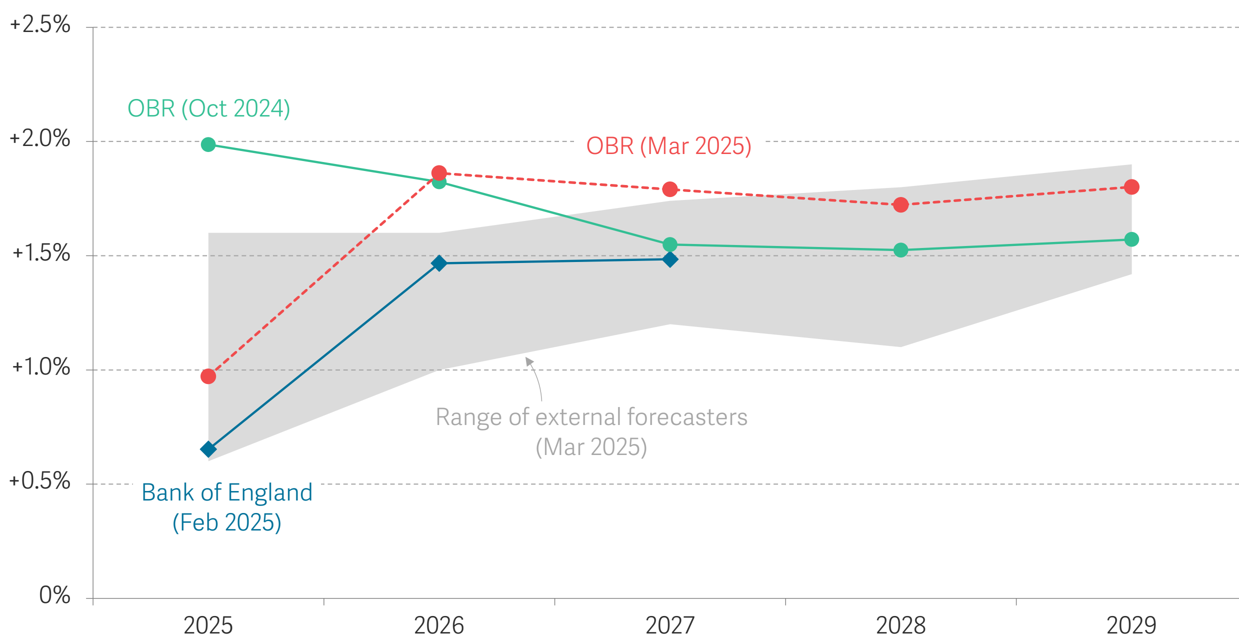
But the OBR's growth forecast is still very optimistic, and in making only a small downward revision to future output, it has not kept up with other forecasters. Its cumulative growth forecast between 2024 and 2029 now lies above the range of long-term external forecasts compiled by the Treasury, with forecasts for growth between 2026

4 E Fry and G Thwaites, The growth mindset: sizing up the Government's growth agenda, Resolution Foundation, September 2024.

and 2029 revised up to an average of 1.8 per cent a year. If the economy were to follow the average external forecast over this period instead, output in 2029 would be £24 billion lower than the OBR expects (in 2024-25 prices), reducing revenues by around £10bn and wiping out the Chancellor's headroom.

FIGURE 1: **From next year onwards, the OBR is much more optimistic about Britain's growth prospects than most other forecasters**

Forecasts for annual real GDP growth: UK



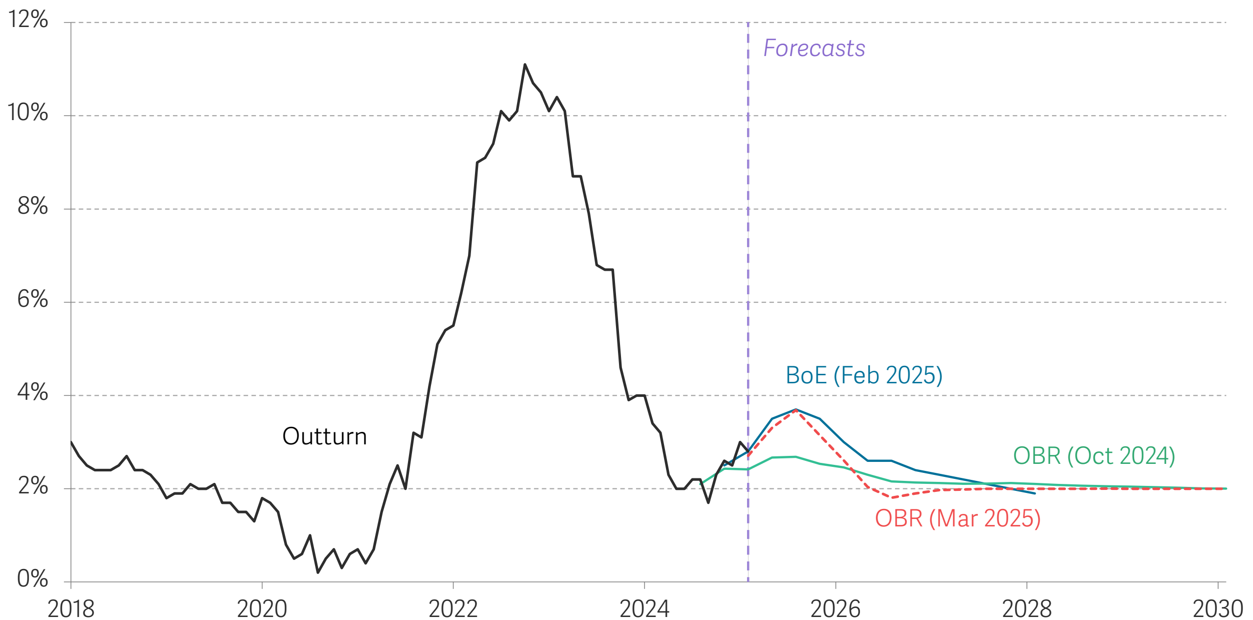
NOTES: External forecasters are those collated by HM Treasury, with the IMF's medium-term forecast added manually from the October 2024 WEO database. The swathe shown only includes forecasts made since January 2025. The number of external forecasts in each year are: 22 in 2025, 17 in 2026, 10 in 2027, 7 in 2028, and 6 in 2029.

SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025 and October 2024; HM Treasury, Forecasts for the UK Economy, March 2025 and February 2025; Bank of England, Monetary Policy Report, February 2025; and IMF, October 2024 WEO database.

The Chancellor will also be relieved by stronger profiles for future inflation and wage growth. Following a surge in wholesale gas prices at the start of the year, the OBR now expects CPI inflation to peak at 3.7 per cent in Q3 2025, up from a peak of 2.7 per cent in October (see Figure 2). This is partially offset by lower inflation further out, but, by 2029-30, the price level is 0.2 per cent higher than in October's forecast. More inflation is set to be accompanied by faster nominal wage growth, now 0.4 per cent higher in 2029-30 than previously forecast. Combined, these higher prices and wages will provide a boost to future tax revenues.

FIGURE 2: **The OBR has uprated its inflation forecast, boosting the size of the economy in cash terms**

Outturn and forecasts for CPI inflation from the OBR and Bank of England: UK



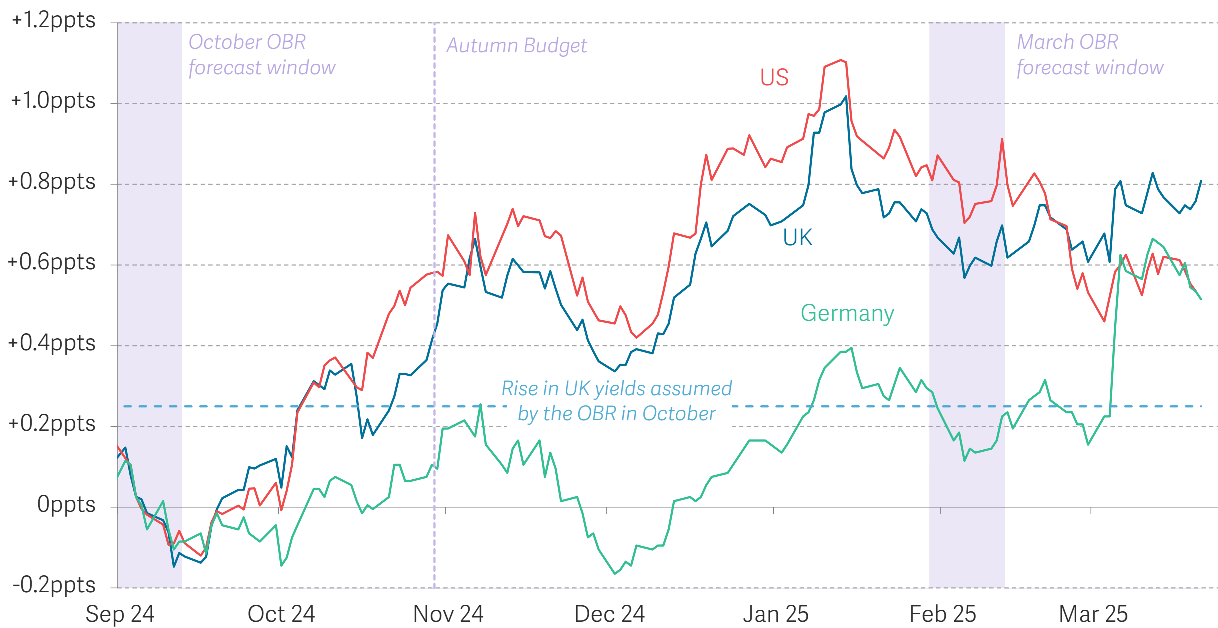
NOTES: Quarterly forecasts have been plotted for the middle month of each quarter.
SOURCE: OBR, Economic and Fiscal Outlook, March 2025 and October 2024; Bank of England, Monetary Policy Report, February 2025; ONS, Consumer Price Inflation.

The biggest impact on the fiscal outlook has come from rising interest rates since the autumn

Recent moves in interest rates have been the largest negative surprise for the fiscal outlook. Bank Rate is now projected to be 0.26 percentage points higher in 2029-30 than the OBR expected in October. Government borrowing costs are up as well, with 10-year gilt rates forecast to be 0.45 percentage points higher in 2029-30 than the OBR previously thought. As shown in Figure 3, around half of this increase in borrowing costs (over and above that assumed by the OBR in its October forecast) had already materialised by the time of the Autumn Budget.

FIGURE 3: **Gilt yields have risen relative to the level assumed by the OBR in October, with around half of the rise coming since the Autumn Budget**

Change in 10-year government bond yields relative to the average level in the October OBR forecast window: selected countries



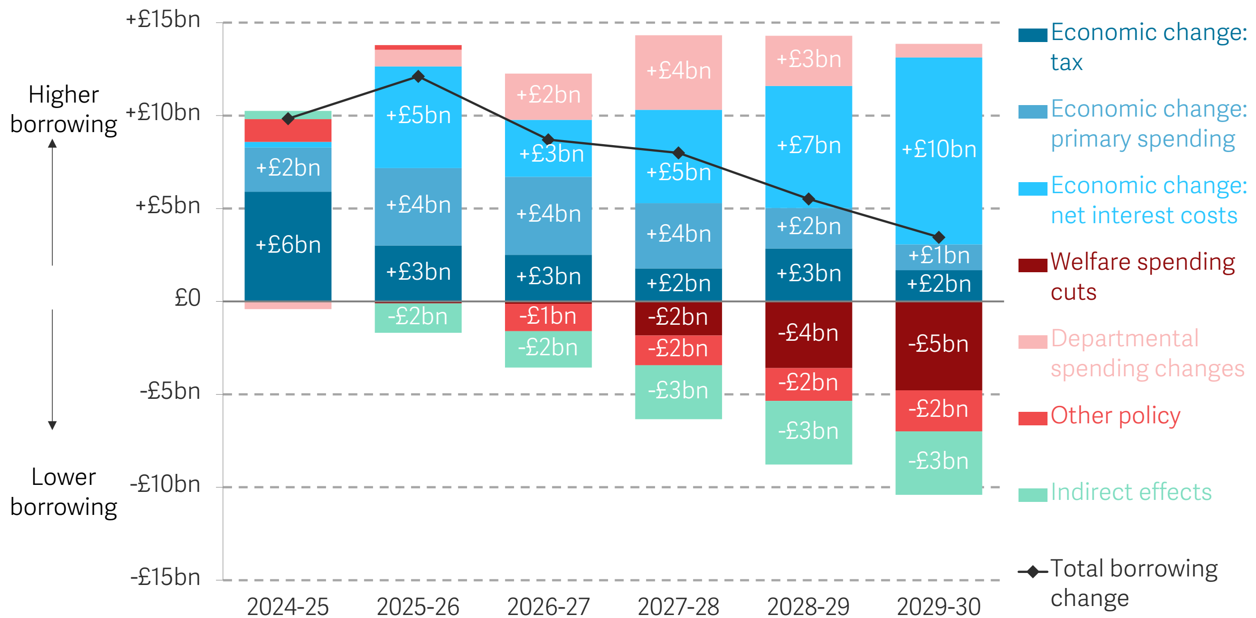
NOTES: The October OBR forecast window was the 10 working days to 12th September 2024. The March OBR forecast window was the 10 working days to 12th February 2025.
SOURCE: RF analysis of Bank of England, Yield curves and exchange rate data; Federal Reserve Bank of New York, zero-coupon Treasury yields; Deutsche Bundesbank, Term structure of interest rates on listed Federal securities.

This has left UK debt interest much higher than forecast back in October, reaching £132 billion by 2029-30, £10.1 billion higher than previously expected (shown in the bright blue bars in Figure 4). In addition to interest rate news, tax receipts are also £3 billion per year lower on average than in October (dark blue bars), primarily reflecting the disappointing tax take across this year.[5] Overall, the new economic forecast (before policy decisions) is adding nearly £11 billion per year to public sector borrowing on average, and £66 billion cumulatively across the forecast.

5 By February 2025, receipts were over £11 billion lower than the OBR's October forecast for 2024-25. Based on this shortfall, the OBR has revised down their forecast for Capital Gains tax receipts in the short-term (although this tapers off across the forecast), and Corporation Tax from small companies.

FIGURE 4: **Higher debt interest adds over £10 billion to borrowing by 2029-30**

Changes in public sector borrowing since October 2024



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025.

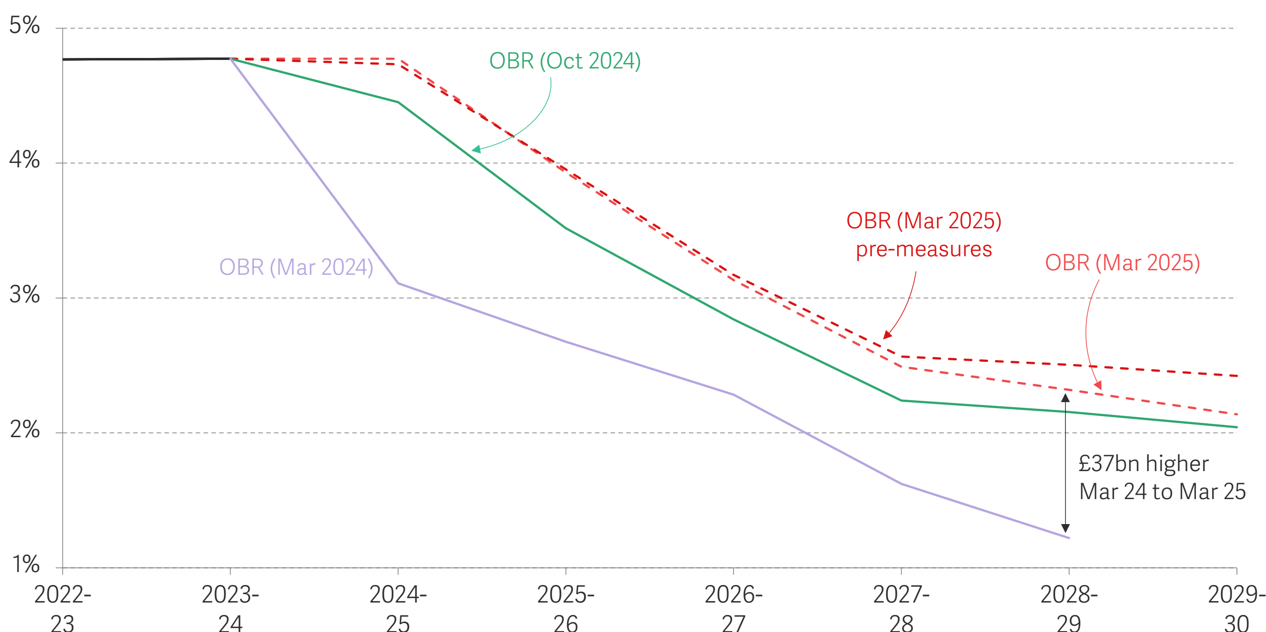
In response to this weaker outlook for the public finances, the Government has chosen to make cuts to welfare spending and announce a further £1 billion clampdown on tax avoidance.[6] It has also outlined small cuts to day-to-day departmental spending, but these are more than offset by increases in capital spending. The combined effect of these policy changes is forecast to reduce borrowing by £6 billion in 2029-30. However, a lot of these policy decisions are 'backloaded' and assumed to result in savings in the final years of the forecast, bringing risks that they are not ultimately delivered and meaning that the average effects on borrowing are only a £1 billion per year reduction over the five year period. There is also a significant improvement in public finances from the OBR's assessment of the 'indirect' impact of the Government's planning policies announced last year, amounting to £3 billion (as explained in Box 1).

Taking changes to the economy, policy and the economic effect of Government policies together leaves borrowing £3.5 billion higher by 2029-30 than forecast in October 2024, and nearly £50 billion higher cumulatively across the forecast. So, while the rhetoric around this forecast has been one of fiscal prudence, borrowing is now running £37 billion higher than it was forecast to at the March 2024 Budget, with implications for future debt interest costs and leaving public sector net debt broadly flat as a share of GDP over the forecast, as Figure 5 shows.

6 There are also other smaller policy measures that boost receipts, relating to the Building Safety Levy and UK Export Finance.

FIGURE 5: **Public sector net borrowing is now forecast to be £37 billion higher in 2028-29 than it was forecast to be a year ago**

Public sector net borrowing as a share of GDP



NOTES: The October 2024 forecast as share of GDP is rebased to account for revisions in nominal GDP data. The March 2024 forecast has been rebased using March 2025 NGDP outturn data.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025.

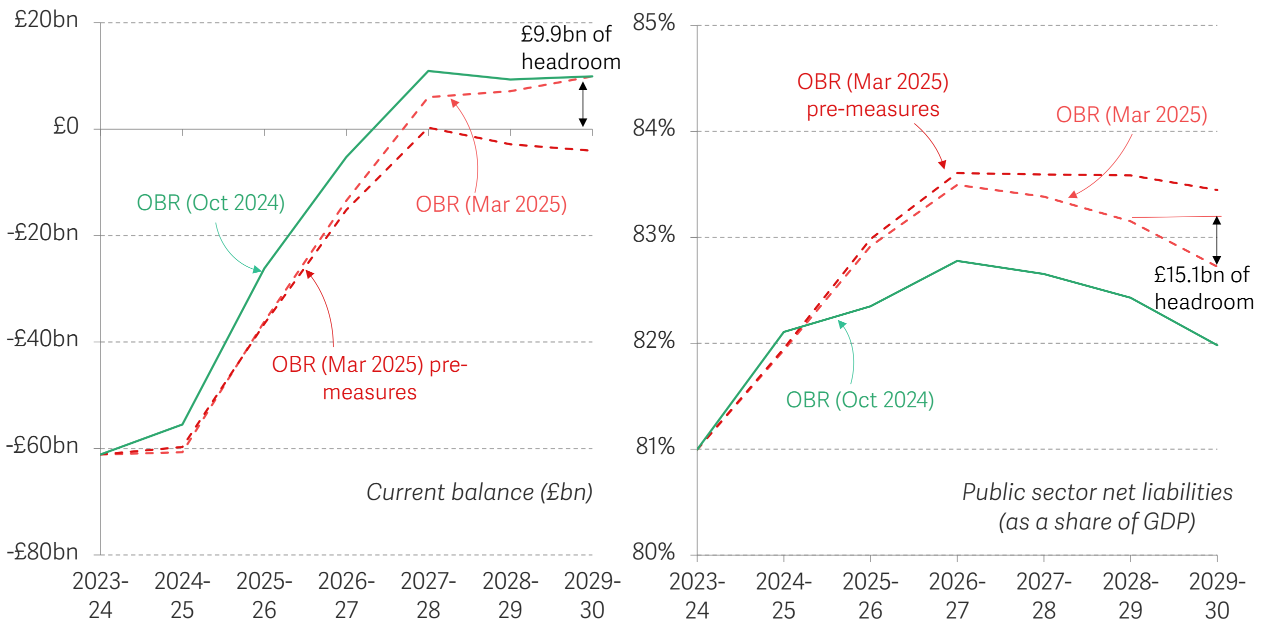
However, this deterioration in borrowing is much less apparent in measures used in the Government's newly-minted fiscal rules. The binding fiscal rule is a commitment to fund all day-to-day spending through tax receipts by 2029-30 – the 'current balance' rule. This excludes additional capital spending that the Government has announced, and so looks much healthier than the borrowing forecast. Before policy changes, this rule was being broken by £4.1 billion;[7] and the Government was only meeting its commitment to reduce public sector net financial liabilities (PSNFL) – a broader measure of the government balance sheet than public sector net debt – by a narrow £4.9 billion (dark red dotted lines in Figure 6 below).[8] But, the Government's policy change has restored £9.9 billion of headroom against its current balance rule (matching headroom in the October 2024 forecast), and £15.1 billion against the PSNFL rule (£0.6 billion lower headroom than in October).

7 This rule is set to remain binding in 2029-30 until that becomes the third year of the fiscal forecast, at which point the rule will consistently apply to the third year rolling forwards. At this point a 1 percentage point range will apply around the rule, allowing the Chancellor more leeway in whether it is achieved at every fiscal event.

8 Public sector net financial liabilities includes both the liquid financial assets and liabilities that are included in public sector net debt, as well as some other illiquid financial assets and liabilities primarily relating to lending activities (including the assets created via the issuing of student loans).

FIGURE 6: **Before policy changes, the Government was missing its fiscal rules by £4.1 billion**

Current balance, £ billion (left panel) and public sector net financial liabilities as a share of GDP (right panel)



NOTES: The October 2024 forecast as share of GDP is the rebased figure accounting for revised nominal GDP data.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025.

BOX 2: **Why can't we just change our fiscal rules, as Germany has?**

As set out above, some of the economic changes the Government is dealing with since the last forecast are global, and faced by other major advanced economies. This is particularly true of the pressure to spend more on defence, given growing geopolitical tensions. The German Government has reacted to this pressure by loosening their famously iron-clad fiscal rules and exempting any defence spending above 1 per cent of GDP from its 'debt brake' that limits borrowing to 0.35 per cent of GDP.[9]

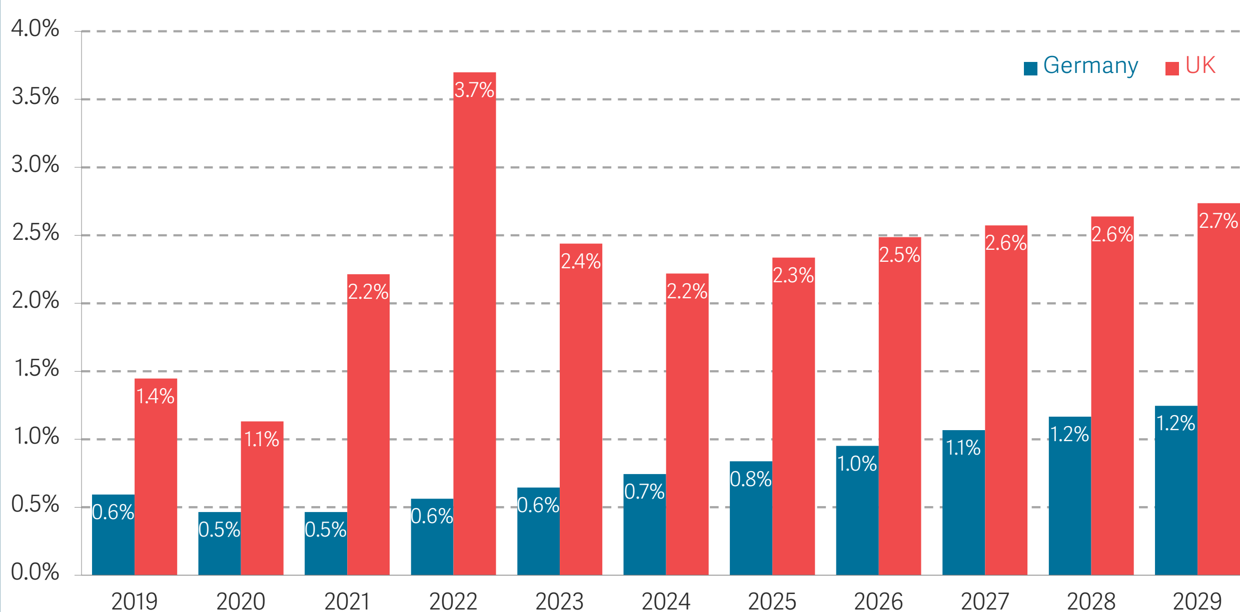
This has led some to suggest that the UK should have followed suit and similarly loosened its fiscal rules to reflect the new pressures that seismic change to global security have placed on public finances.[10] But this misses the fact that the UK's and Germany's fiscal positions are different: the latest International Monetary Fund (IMF) forecasts put Germany's net national debt at around 45 per cent of GDP in

9 Reuters, Key details of Germany's proposed fiscal rule changes and infrastructure splurge, March 2025.
10 H Stewart, Economists urge Rachel Reeves to bend fiscal rules instead of cutting welfare, The Guardian, March 2025.

2023, less than half of the UK's 91 per cent.[11] This has important implications for the spending pressures we face relative to Germany: according to the IMF the ongoing costs of servicing our debts will be more than double those of Germany by 2029, at 2.7 per cent of GDP versus 1.2 per cent of GDP (Figure 7). Given the materially different fiscal outlook for the UK compared to Germany, the Chancellor does not have the same space to loosen UK fiscal rules without risking an unsustainable debt burden.

FIGURE 7: **Germany faces much lower debt servicing costs than the UK**

General government net interest costs, as a share of GDP: UK and Germany



SOURCE: RF analysis of IMF, World Economic Outlook, October 2024.

There is a big risk that more tightening will be needed in the autumn

A margin of £9.9 billion against her fiscal rules leaves the Chancellor in the unenviable position of having just a third of the average headroom held by previous Chancellors since June 2010 (Figure 8). She is also dealing with much higher debt interest costs, the very real threat of a trade war, and a simmering security crisis in Europe.[12] And even this relatively modest level of headroom relies on the Chancellor delivering tight departmental budgets for 'unprotected' departments at the upcoming Spending Review (see below), achieving historically low levels of tax avoidance, planning reforms having truly additional impacts on economic growth, and welfare reforms reducing caseload. None of these are guaranteed policy outcomes. More concretely, there are also several

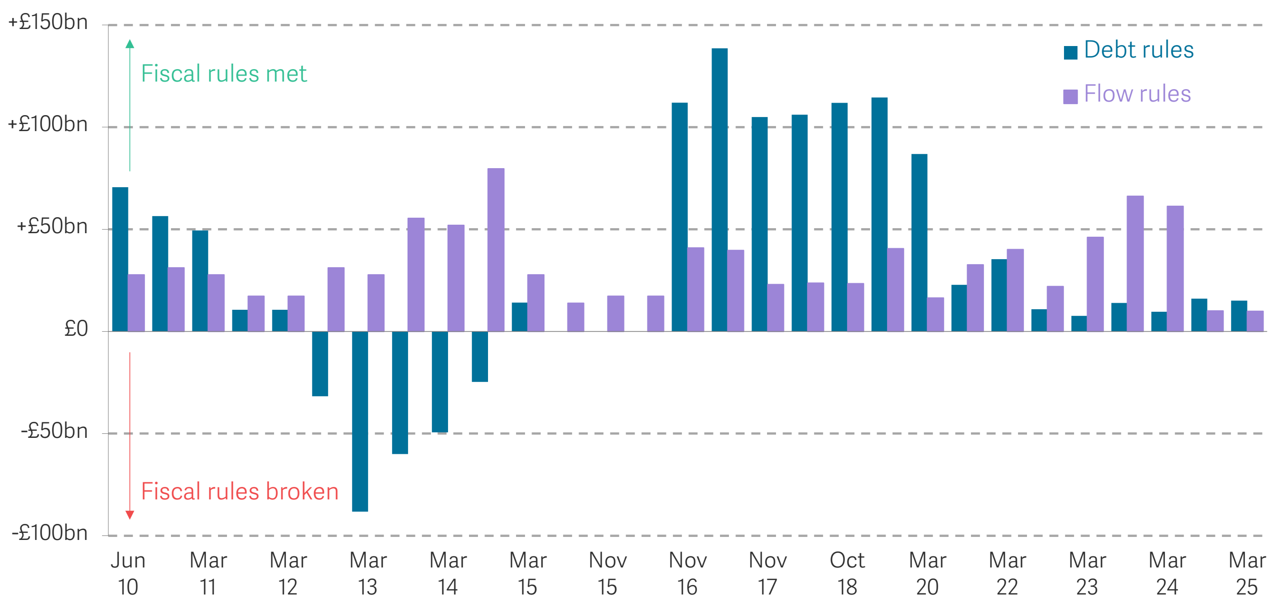
11 These debt measures are calculated on a general government net debt basis using IMF forecasts and so are not consistent with the public sector figures presented throughout the rest of this document, which use OBR forecasts.

12 The OBR's Economic and Fiscal Outlook includes a range of three 'trade scenarios' for various combinations of tariffs, two of which would almost entirely wipe out the Government's headroom.

aspects of the OBR's forecast that remain in the realm of 'fiscal fiction', and we can be relatively confident will be more expensive than currently forecast. These include a £4.6 billion saving currently pencilled in for 2029-30 from the assumption that Fuel Duty will rise in line with inflation from next year onwards (it has now been frozen since 2011-12), and the assumption that Local Housing Allowance will remain frozen throughout the forecast period despite average rents expected to rise by 18 per cent between 2024-25 and 2029-30.

FIGURE 8: **The Chancellor has around a third of the average headroom held by her predecessors since 2010**

Headroom against 'debt' and 'flow' fiscal rules, by fiscal event: UK



NOTES: Past headroom has been calculated in per cent of GDP and multiplied by the March 2025 forecast for nominal GDP (£ billion) in 2029-30. Debt rules use nominal GDP centred end-March in 2029-30. This chart excludes fiscal events during the pandemic (November 2020 and March 2021), during which the fiscal rules were being broken by a significant margin. In July 2015, November 2016, March 2020, October 2021, November 2022 and October 2024, we have measured headroom against the Government's proposed fiscal rules which had not yet been legislated for. The debt target between July 2015 and March 2016 was for debt to fall as a percentage in each year, so for these years the figure is the average yearly headroom to debt increasing (this target was not met in March 2016 as debt was not falling in each year).
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various.

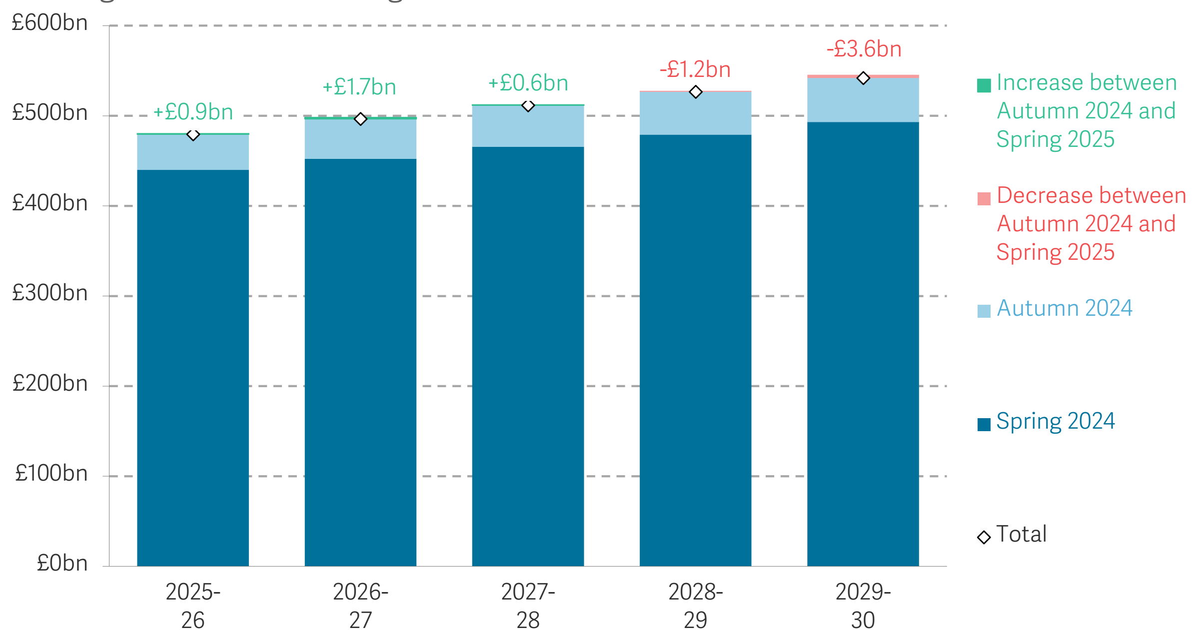
Part of the policy response came in the form of cuts to day-to-day public services spending

Part of the Chancellor's consolidation measures came in the form of reversing some of the day-to-day departmental (Resource Departmental Expenditure Limits, or RDEL) spending increases put in place at the Autumn Budget. At that point, RDEL was increased by £49 billion in 2028-29 compared with Spring 2024, leaving totals increasing

in real terms by 3.9 per cent a year between 2023-24 and 2025-26 and 1.3 per cent for the rest of the Parliament. At the Spring Statement these were reduced to 1.2 per cent real growth from 2025-26, cutting RDEL in the final year of the forecast by £3.6 billion as shown in Figure 9.

FIGURE 9: **The RDEL envelope rises now but dips later, leaving the overall outlook largely unchanged since the Autumn**

RDEL spending plans at the Spring Statement, including changes between Spring Budget 2024, Autumn Budget 2024: UK



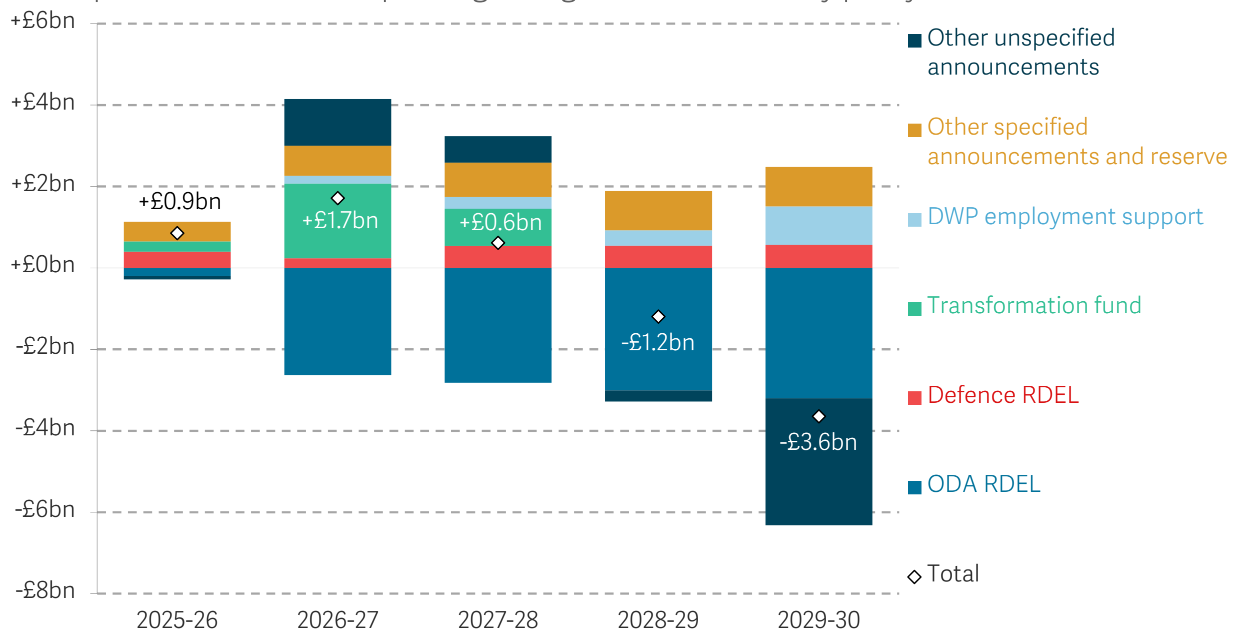
NOTES: Cash figures. Excludes increase in EPR included in OBR departmental spending tables.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

Changes to RDEL come towards the end of the forecast period. Indeed, as shown in Figure 10, spending in the near-term is actually higher, mainly as a result of the 'transformation fund' which is badged as boosting technology adoption in the public sector and peaks at £1.8 billion in 2026-27. More substantive is the much-trailed shift between defence and overseas aid (ODA) spending. Defence spending will increase to 2.5 per cent of GDP by 2027-28, while ODA will fall to 0.3 per cent of GNI within the same period.[13] Notably, 92 per cent (£6.4 billion) of the rise in Defence spending by 2029-30 is investment, with only 8 per cent (£0.6 billion) coming in the form of higher RDEL. And, of the £3.6 billion decrease in 2029-30, the majority of this comes from cuts to the aid budget. Between the near-term increases and medium-term cuts, the cumulative fall in departmental spending over the forecast is actually a modest decrease of £1.3 billion (in 2024-25 prices).

13 K Starmer, Prime Minister sets out biggest sustained increase in defence spending since the Cold War, protecting British people in new era for national security, February 2025.

FIGURE 10: **The majority of spending cuts are from ODA, but only a small proportion of the rise goes to defence**

Departmental resource spending changes since October by policy: UK



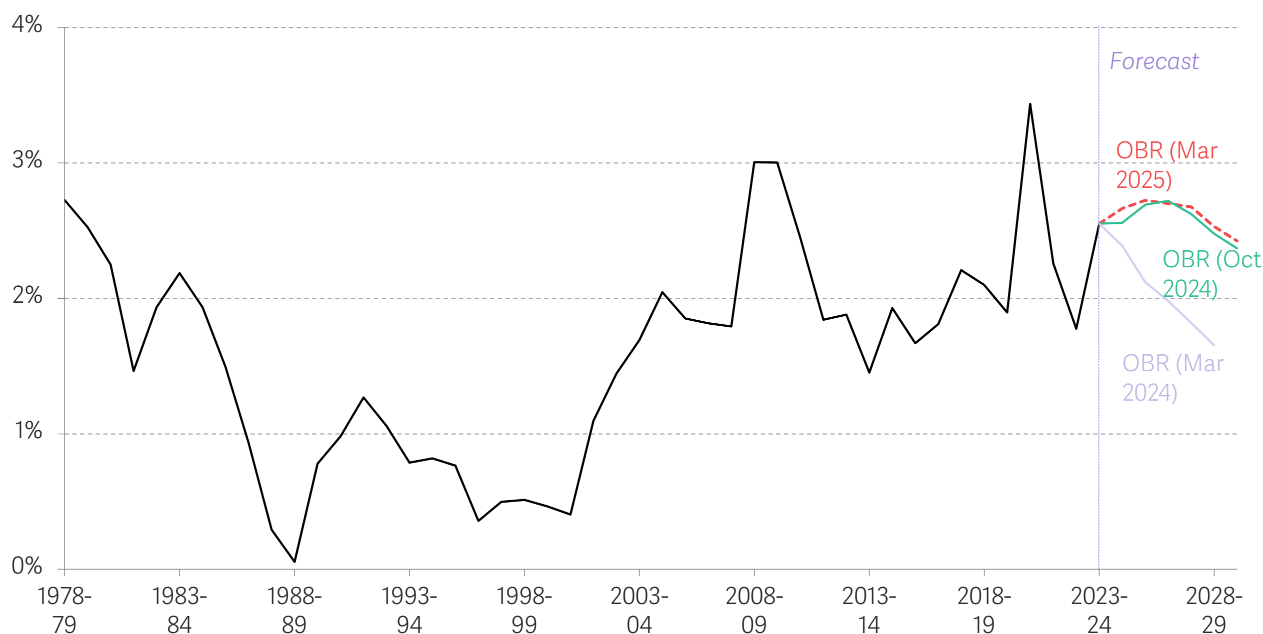
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook.

To the Government's credit, it has not repeated the mistake made at many fiscal events of cutting investment to balance the books.[14] In fact, the envelope for investment spending has also been increased slightly. As shown in Figure 11, public sector net investment (PSNI) is over 2.7 per cent in 2025-26, and remains above 2.5 per cent in 2028-29, compared to plans under the previous Government to cut investment to 1.7 per cent in 2028-29.

14 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023.

FIGURE 11: **Investment has not been used to balance the books – and in fact the envelope has increased slightly**

Public sector net investment, as a proportion of GDP: UK



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various.

This is far from a return to austerity, but the Spending Review 2025 will still be tight for unprotected departments

The Spring Statement leaves real RDEL growing by 12 per cent (£51 billion in 2024-25 prices) from 2023-24 to 2029-30, compared with just 5 per cent (£21 billion) under Jeremy Hunt's plans at the 2024 Spring Budget. This is a far cry from the 8 per cent (£33 billion) reduction in real RDEL during the early years of austerity (from 2009-10 and 2015-16).

Despite this, some are still labelling the Government's plans a return to austerity. This is partly because increases in public services spending have been extremely front-loaded. More than half of the Autumn top up to 'fix the foundations' of public services was used to increase spending between 2023-24 and 2025-26. So growth in real RDEL per capita is set to slow sharply to just 0.8 per cent between 2025-26 and 2029-30 (down from 2.4 per cent per capita growth between 2023-24 and 2025-26), only slightly higher than the 0.5 per cent at the 2024 Spring Budget (although both of these are much higher than the 1.7 per cent annual cuts during austerity from 2009-10 to 2018-19).

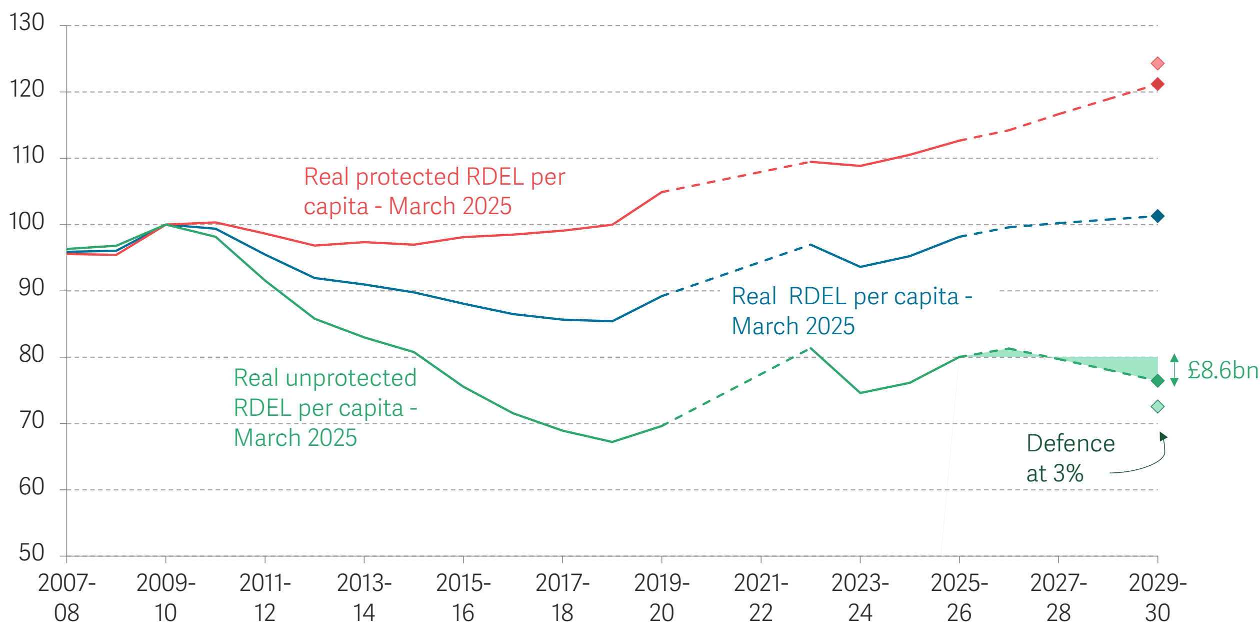
This slow growth in spending towards the end of this Parliament leaves departments with little room for manoeuvre. Once we account for new commitments on defence and ODA, as well as historically kept growth rates for the NHS and schools, unprotected RDEL – which includes departments such as the Ministry of Justice, Local Government and the Home Office – fall by 1.2 per cent per year, adding up to £8.6 billion of implied cuts

by 2029-30 (Figure 12). But the overall changes actually leave unprotected departments £1.1 billion better off than at the Autumn Budget, when implied cuts were £9.7 billion. This may seem surprising, but is explained by the fact that only one-fifth of the cut to ODA RDEL in 2029-30 has been reallocated to defence (£0.6 billion), leaving £2.6 billion available for other departments.

Slightly smaller cuts to unprotected departments – reduced from 1.3 per cent to 1.2 per cent a year – are welcome. But they are facing feast and famine: if distributed evenly these cuts would still amount to 4.5 per cent for each unprotected department, undoing two-thirds of the Autumn Budget spending injections in real per capita terms. This would leave unprotected departments 24 per cent below where they were in 2009-10 (and just above their 2015-16 levels).

FIGURE 12: **Spending changes return unprotected departments to just better than 2015-16 levels by the end of the Parliament, undoing part of the Autumn uplift**

Indices of real per-capita resource departmental expenditure limits (2009-10 = 100), health, education and other departments



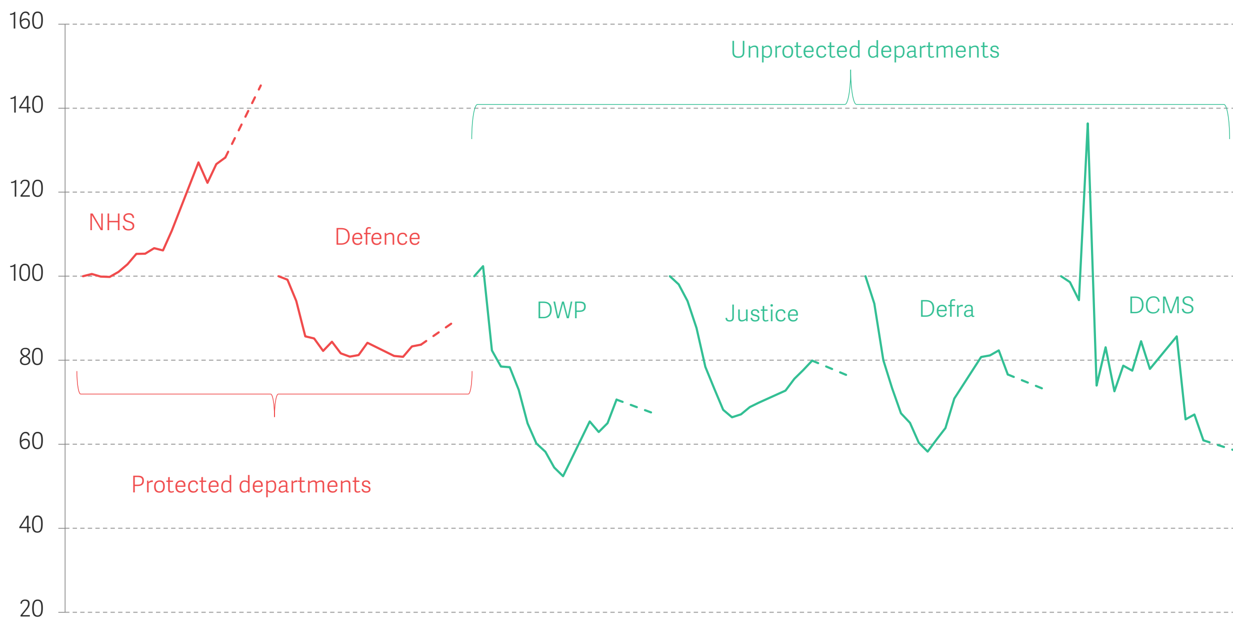
NOTES: Deflated using the OBR forecast for the GDP deflator to 2024-25 cash terms. DHSC budget is assumed to grow by 3.6 per cent a year in real terms; core schools holds per pupil funding constant; defence spending reaches 2.5 per cent of GDP; and ODA shrinks to 0.3 per cent of GNI. Figures include the impact of Barnett consequentials. EPR not included.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

An even cut across departments would mean hitting those that got sizeable settlements in the Autumn Budget, undoing efforts to fix some of the most underfunded spending areas. As shown in Figure 13, the Ministry of Justice, for

example, saw a 6 per cent rise in real per-capita funding between 2023-24 and 2025-26, but would end the forecast period with just a 1 per cent rise between 2023-24 and 2029-30. For the Ministry of Housing, Communities and Local Government (MHCLG), an 8 per cent rise from the Autumn Budget would fall to just 2 per cent by 2029-30.

FIGURE 13: **Evenly splitting cuts across unprotected departments would leave many down or no better off compared to under the last Government**

Index of real (GDP-deflator adjusted) per person RDEL spending (2009-10 = 100), by department: UK, 2009-10 to 2029-30



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various; HM Treasury, PESA Tables, various.

So while this is not austerity, nor are these spending plans that will go far in repairing under strain public services. In 2023-24, real per capita spending by the Ministry of Justice and MHCLG were 24 per cent and 51 per cent below 2009-10 levels respectively, so 1 and 2 per cent rises (respectively) are unlikely to substantially improve departmental outcomes. On the other hand, protecting some departments from these cuts is probably sensible, but would mean ever deeper cuts elsewhere: providing a 1 per cent real annual rise to the Department for Work and Pensions (DWP), Justice and MHCLG would imply a further 2 per cent cut to all other unprotected spending, in real per capita terms. More than half of these cuts – £4.5 billion – will have to be set out at the June Spending Review as they fall between 2025-26 and 2028-29. Delivering the cuts will not be straightforward and will mean tough choices ahead for the Chancellor.

Welfare changes will mean significant income losses for many

The Spring Statement confirmed the details of cuts to disability benefits announced in the previous week's Green Paper, and announced some small new ones

The Spring Statement confirmed big cuts to spending on disability and incapacity benefits to pay for the Government's higher debt interest bill. Most of these were announced last week in a Green Paper, but a few smaller changes were new.[15] The changes are made up of cuts or other savings worth £8.3 billion in 2029-30 (£8.1 billion of which fall exclusively on benefits for people with disabilities or health problems or their carers), and measures that increase benefit spending of £3.5 billion, for a net saving of £4.8 billion.[16]

The main changes to benefit eligibility and entitlements announced in the Green Paper or the Spring Statement, and scored by the OBR, are as follows.[17]

- Reforms to the assessment process for Personal Independence Payment (PIP) – a benefit that is paid regardless of whether someone is in work, to compensate for the additional costs of being disabled – will reduce the number of people who qualify for the daily living element, with changes affecting any new claim or reassessment of an existing claim from 2026-27.[18] This is estimated to save £4.5 billion in 2029-30, or about 55 per cent of the gross savings from yesterday's package.[19] The OBR thinks that around 800,000 people will eventually lose entitlement to the daily living part of PIP, with an average loss of £4,500.[20] Of these, 370,000 are existing claimants. DWP has also clarified that 150,000 other people will lose carer's benefits when someone they care for no longer qualifies for PIP; if they receive Carer's Allowance, then they will be £4,800 a year worse off in 2029-30.
- There will be cuts to Universal Credit for people with health conditions (UC-H), a

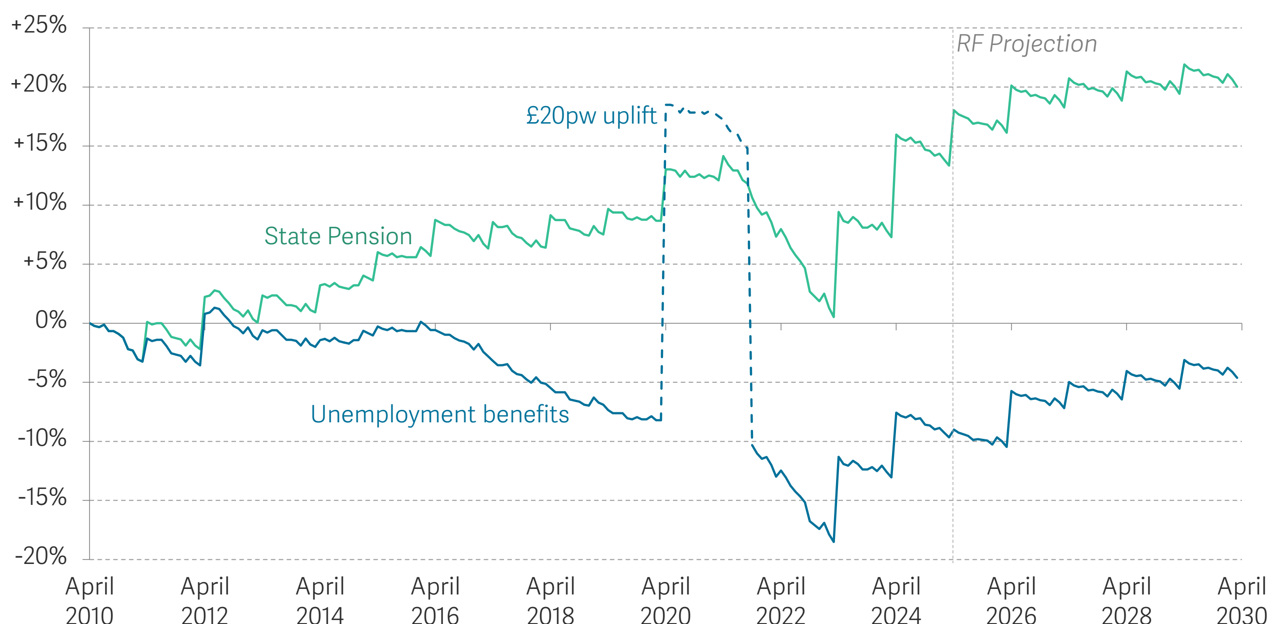
15 DWP, Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper, March 2025.
16 The OBR has said that its estimates should be seen as provisional, and has pointed out that previous attempts to cut welfare spending have "in many cases, saved much less than initially expected, such as the transition from disability living allowance to PIP, … [or] taken far longer to implement than expected, as was the case for the roll-out of universal credit…[or] have been reshaped or reversed at subsequent fiscal events, as was the case for the July 2015 package." (See paragraph 3.12.)
17 The facts in this section are taken from: DWP, Spring Statement 2025 health and disability benefit reforms – Impacts, March 2025; OBR, Economic and Fiscal Outlook – March 2025. Some of the analysis below supersedes that in our initial response (M Brewer, A Clegg & L Murphy, A dangerous road? Examining the 'Pathways to Work' Green Paper, Resolution Foundation, March 2025) because the OBR and DWP yesterday released significantly more details.
18 The eligibility criteria for the daily living part of PIP will be narrowed (the mobility part of PIP is unaffected). Previously, claimants needed to score at least eight points from the 10 daily living headings to qualify for the standard rate of this element. Under the new system, claimants will also need to score at least four points in any single heading, so claimants who previously scored (say) two points in four or more elements would no longer be entitled.
19 The OBR set out that it expects there to be a considerable behavioural response to this change, given that "assessing whether a claimant qualifies for four points in any descriptor is a judgement that heavily relies on an assessors' interpretation of the relevant criteria, and one which depends primarily on self-reported evidence rather than external medical evidence." It also expects there to be more appeals. This means that the saving could be considerably more or less than scored.
20 The daily living component of PIP is currently worth £3,800 for a standard award and £5,600 for an enhanced award. 800,000 times £4,500 is less than the total saving because there are consequential savings in spending on other benefits (like those for carers).

benefit paid to people whose health or disability affects their ability to work (and is sometimes called an incapacity benefit). The value of UC-H paid to claimants deemed unable to work will be cut. For existing claimants, this element will be frozen in cash terms at its current rate of £97 a week for the rest of the Parliament (we would have expected it to reach £107 per week by 2029-30 were it not frozen). From April 2026, it will drop to £50 for new claimants and then be frozen (with the freeze being a new announcement compared to the Green Paper). Together, these are estimated to save £3.0 billion in 2029-30, or just over a third of the gross savings. The Government has clarified that, by 2029-30, 2.3 million people will be affected by the freeze of the existing rate, and there will be 730,000 new claimants receiving the lower rate of £50 a week.

- There are further savings to benefit expenditure from restarting Work Capability Assessments (WCAs), increasing capacity for processing PIP reviews, and more anti-fraud checks (collectively saving £795 million in 2029-30).
- The Government has confirmed that it will not go ahead with a reform to the WCA descriptors that had been announced and scored under the previous Government, and which was due to take effect later this year. This new decision to not proceed with the changes has been scored by the OBR as a cost to government (of £1.6 billion in 2029-30) and is included as a giveaway in the package of changes analysed in DWP's impact assessment. In strict scorecard terms, this is the correct approach, but as it represents the cancellation of a never-implemented cut, it will never be felt as a positive impact by households and we do not consider it further below.
- Finally, alongside these changes to health-related benefits, the Government has committed to gradually increasing the value of the UC standard allowance between April 2026 and April 2029 – the only real-terms increase in the UC standard allowance in its history, outside the temporary boost during the Covid-19 pandemic – such that, by the end of the Parliament, it will be 5 per cent (or just over £5 a week) higher than it would have been under default indexation (with a proportionally equivalent increase for couples). This will benefit an expected 6.9 million families receiving UC by 2029-30, at an estimated cost of £1.9 billion in 2029-30. As shown in Figure 14, the real-terms increases to Universal Credit will undo 49 per cent of the decline in its real value between April 2010 and April 2025.

FIGURE 14: **The real-terms increases to Universal Credit will undo about a half of the post-2010 decline in its real value**

Real change in basic unemployment benefits and the State Pension since April 2010: UK



NOTES: Shows change in the real value of Jobseekers Allowance or Universal Credit for a single person over 25, and the Basic State Pension. Deflated by CPI.
SOURCE: RF analysis of DWP, Pathways to Work Green Paper; DWP, Abstract of Benefit Statistics; OBR, Economic and Fiscal Outlook March 2025.

DWP has described this change and the cuts to UC-H as collectively representing a rebalancing of support within UC. We have previously called for such a rebalancing, arguing, as did DWP in its Green Paper, that such a large difference in UC entitlement between those who do and do not pass the Work Capability Assessment (WCA) may lead to unhelpful distortions.[21] But the Government's changes represent an overall reduction in spending on UC, not a revenue-neutral rebalancing. Assessed at the end of this Parliament, the two UC changes will save a net £1.1 billion – but this figure will grow over time as more people become entitled to the lower rate of UC-H (as mentioned above, three-quarters of UC-H recipients will still be on the old, higher, rate in 2029-30, suggesting several billion further of savings to come later).

Some of the changes to disability benefits will lead to very substantial falls in income

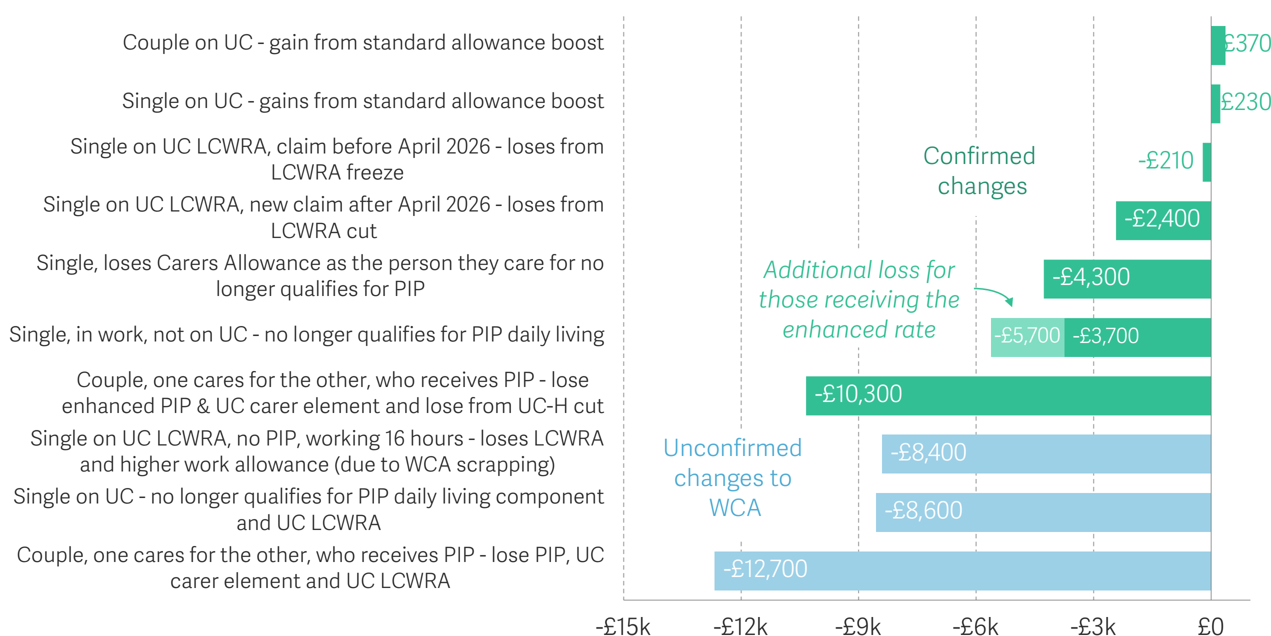
Figure 15 sets out in the green bars some of the potential impacts of the changes that have been scored in the Spring Statement. Losses will fall on those who no longer qualify for PIP daily living, who will be £3,700 worse off in 2029-30 (in 2024-25 prices) if they are receiving the standard rate or £5,700 worse off if they receive the enhanced rate; those

21 L Murphy, Delivering the undeliverable: Five principles to guide policy makers through reforming incapacity and disability benefits, Resolution Foundation, March 2025.

who lose Carer's Allowance because someone they care for no longer qualifies for PIP, who will be £4,300 worse off; and those who claim UC after April 2026 and receive the new lower UC-H rate, who will lose £2,400. Current recipients of UC-H will have that element frozen from 2026, meaning they will lose £210 by 2029-30. The biggest losses could hit couples with a disabled member and somebody who cares for them full-time. If such a family claims UC after April 2026 and receives the limited capability for work and work related activity (LCWRA) element, they could be £10,300 worse off in 2029-30 than they would have been before the Green Paper changes if they lose eligibility to PIP and the UC carer element as well as losing out from the UC-H cut (all 2024-25 prices). On the other hand, UC claimants who do not receive the health element will be better off, from the roughly 5 per cent real-terms rise in UC, worth £230 for single claimants and £370 for couples.

FIGURE 15: **Some families will gain a small amount from the changes, while others will lose thousands of pounds a year**

Annual impact of changes to PIP and Universal Credit, by family characteristics: UK, 2029-30



NOTES: Shows change in income in 2029-30, in 2024-25 prices (deflated by CPI), based on projected amounts prior to the announcements included in the Green Paper. The Green Paper announced that the WCA will be scrapped and eligibility for UC Health determined by the PIP assessment, but details are not yet confirmed.
SOURCE: RF analysis of DWP, Abstract of Benefit Statistics; OBR, Economic and Fiscal Outlook October 2024.

Last week's Green Paper also set out further measures that the Government either intends to pursue but has not yet finalised in detail, or that it is now consulting on. Importantly, these include the suggestion of providing additional support to those existing claimants losing out from the PIP changes, and a possible new UC premium

to protect the income of those with (in DWP's words) "the most severe, life-long health conditions, who have no prospect of improvement and will never be able to work" will operate.[22] None of these policies have yet been scored by the OBR.

The most significant of these for household incomes is the clear intention in the Green Paper to scrap the WCA and instead determine eligibility for UC-H through the PIP assessment. Scrapping the WCA could mean that some people claiming UC in the future who are out of work due to ill health could be £4,994 per year (in 2024-25 prices) worse off than the equivalent claimants now (although the change would be less stark by the end of Parliament because the UC-H premium will be cut to £2,300 a year). Losses of the same scale could also apply to some under-22s if the Government prevents them from claiming UC-H at all, as suggested in the Green Paper. And as the blue bars in Figure 15 show, there would be an even bigger loss for someone who loses both PIP and the LCWRA element from these changes: they would be an astonishing £8,600 per year worse off (in 2024-25 prices) than an equivalent individual now (although we do not know at this stage whether there would be any transitional protection). In the most extreme case, a couple where one member cares for the other who loses entitlement to enhanced PIP as a result of scrapping the WCA could lose PIP, UC LCWRA, and the carer element of UC: a total loss of £12,700 a year.

Figure 16 shows the impact across the income distribution of (only) the changes announced in the Green Paper that were scored by the OBR yesterday.[23] The biggest losses fall on households in the lower-middle of the income distribution: those in the second and third quintiles lose on average £260 and £290 per year by 2029-30 (in 2024-25 prices), or 0.9 per cent and 0.7 per cent of their total income. This compares to £50 – or just 0.1 per cent of income – for households in the top quintile. We estimate that families expected to lose PIP under the new rules will lose an average of 18 per cent of their household income, while those impacted by the cuts to UC-H will lose £1,200 on average, or 4 per cent of household income. Overall, 68 per cent of the welfare cuts announced today are concentrated on households in the bottom half of the income distribution.

DWP's own impact assessment says that 3.2 million families will lose an average of £1,720 from the package of reforms (as well as that 3.8 million families that will gain), and that the changes will increase the number of people in relative poverty by 250,000, including 50,000 children.[24] However, it is important to remember that DWP includes the decision not to go ahead with the changes to WCA descriptors in this package, and not proceeding with these changes represents a poverty-reducing giveaway. This means

22 The Green Paper also suggested a comprehensive review of the PIP assessment and replacing contributory Jobseeker's Allowance (cJSA) and contributory Employment and Support Allowance (cESA) with a new flat rate, time-limited unemployment insurance.

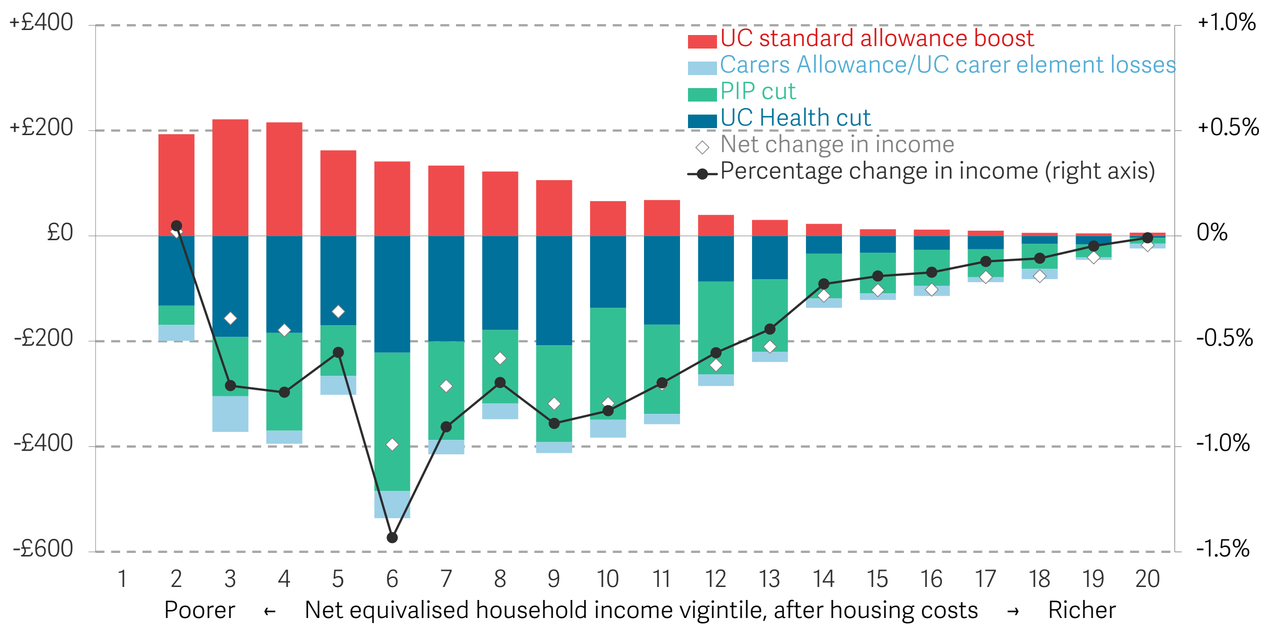
23 The modelled losses from PIP and UC-H have been calibrated to broadly match figures in the DWP Impact Assessment.

24 DWP, Spring Statement 2025 health and disability benefit reforms – Impacts, March 2025.

that the number of families who lose of the changes specifically announced in the Green Paper, as well as the impact on poverty, will be higher.

FIGURE 16: **Over two-thirds of the changes announced in the Green Paper are concentrated among households in the bottom half of the income distribution**

Estimated annual impact of the confirmed changes to PIP and Universal Credit, by income vigintile: UK, 2029-30



NOTES: Impacts shown in 2024-25 prices. Includes the impact of the PIP assessment threshold change; rebalancing Universal Credit between the LCWRA element and the standard allowance; and people losing Carers' Allowance or the UC carer element due to the PIP changes. We exclude the bottom 5 per cent of the income distribution due to concerns about the reliability of data for this group. Income vigintiles are based on equivalised household income after housing costs.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

We should also note that Figure 16 does not reflect any changes in income that might result from people moving into (or out of) work thanks to the reforms. A large part of the stated motivation for the reforms to UC-H was to encourage people to work, and changes to benefit entitlement will be accompanied by a large rise in employment support provided by DWP. The OBR has not yet come to a view on how the changes will affect the number of people in work as "the Government did not provide a comprehensive and robust analysis of these [employment] effects" (it will return to this in the Autumn 2025 Budget).[25]

So we have also not tried to include this in our analysis and it is not apparent that the Government has evidence that the reforms will induce the positive employment effects it hopes for. It should also be noted that the increased DWP spending on employment

25 Box 3.2 of OBR, Economic and Fiscal Outlook – March 2025.

support is very backloaded, reaching only £400 million a year in the period covered by the Spending Review envelope, before more than doubling to reach £1 billion in 2029-30. This means that for many, benefit cuts will bite before it arrives – and we note that even if the Government eventually got an impressive 10 per cent of UC-H claimants into work, at least 2.7 million families would still lose out from changes to that payment alone.

Measures announced by the Chancellor will reduce household incomes across the distribution by the end of the Parliament

Figure 17 shows the distributional impact of yesterday's announcements alongside other policy changes announced earlier in this Parliament, most notably the rise in employer NI from April 2025, and some changes to consumption taxes such as fuel duty. We should note up front that our choice of what policies to include in our distributional analysis is different from that chosen by HM Treasury.[26] Unlike them, we do not model the impact of increasing spending on benefits-in-kind. We also do not include the impact of not going ahead with the previous Government's proposed changes to the WCA descriptors, a change which the Treasury analysis counts as a boost to household incomes.[27] But we do allow for the employer NI rise to reduce wages.[28]

Looking at the variation of the impact of these policies across the income distribution, the second poorest fifth of households are set to lose a significant 1.5 per cent of their income, or £440 (in 2024-25 prices), by the end of this Parliament, while the richest fifth will lose 0.6 per cent of their income, or £610 by 2029-30. Proportionally, households in the bottom half of the income distribution are most affected the most by policy changes announced this Parliament: on average, they will lose 1.4 per cent of their income as a result, compared to 0.7 per cent for households in the top half of the income distribution.

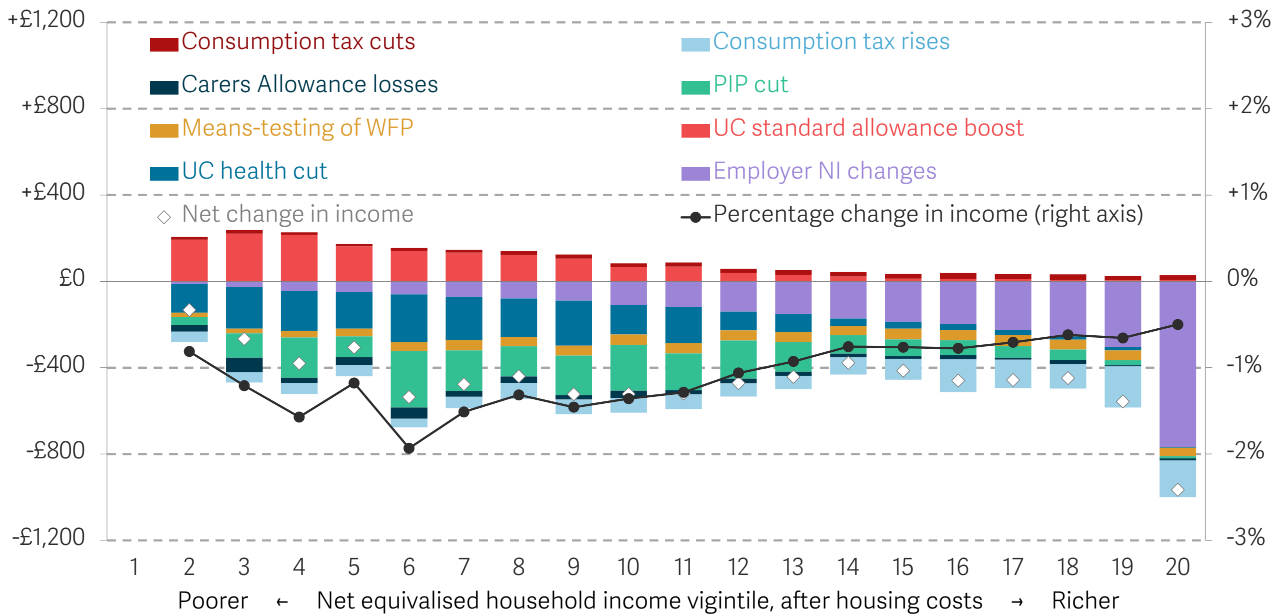
26 HM Treasury, Impact on households: distributional analysis to accompany Spring Statement 2025, March 2025.

27 In Autumn 2024, we modelled changes to the WCA as a cut to household incomes announced by this Government, on the grounds that the Government had said that it would not go ahead with the previous Government's exact cuts but would instead make proposals of their own. See Figure 28 in C Aref-Adib et al., More, more, more: Putting the Autumn Budget 2024 decisions on tax, spending and borrowing into context, Resolution Foundation, October 2024.

28 We assume that the rise in employer NICs leads to a 0.5 per cent fall in earnings, in line with OBR assumptions. We do not model any non-wage effects of employer NI changes, such as higher prices or unemployment.

FIGURE 17: **Tax and benefit policies have cut incomes across the distribution since the election, with low-to-middle income households being the most affected**

Change in annual income as a result of tax and benefit policy changes announced since the 2024 general election, by income vigintile: UK, 2029-30 (2024-25 prices)



NOTES: PIP cut refers to narrowing the qualification criteria for the daily living part of Personal Independence Payment. Carer's Allowance losses refer to losses from carers who would no longer be entitled to Carer's Allowance if the person they cared for were no longer entitled to PIP. UC health cut refers to reducing the value of the LCWRA element paid to UC claimants who are unable to work: to £50 for new claimants and freezing it in cash terms for existing claimants for the rest of the Parliament. UC standard allowance boost refers to a 5 per cent increase for a single claimant by April 2029. Consumption tax rises include tobacco and vaping duties, Vehicle Excise Duty, Air Passenger Duty (APD) and private school taxes. Consumption tax cuts include fuel and alcohol duties. Means-testing Winter Fuel Payments modelling assumes a 5-percentage-point rise in take-up of Pension Credit, as per Government estimates. We assume a 0.5 per cent decrease in earnings as a result of the rise of employer NI, in line with OBR assumptions. We do not model any non-wage effects of employer NI changes, such as higher prices or unemployment. We do not include the impact of changes to Capital Gains Tax or Inheritance Tax. Shows change in unequivalised household income per person after housing costs. People are sorted into income vigintiles by equivalised household income after housing costs, before any policy changes. We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; OBR, Economic and Fiscal Outlook – March 2025.

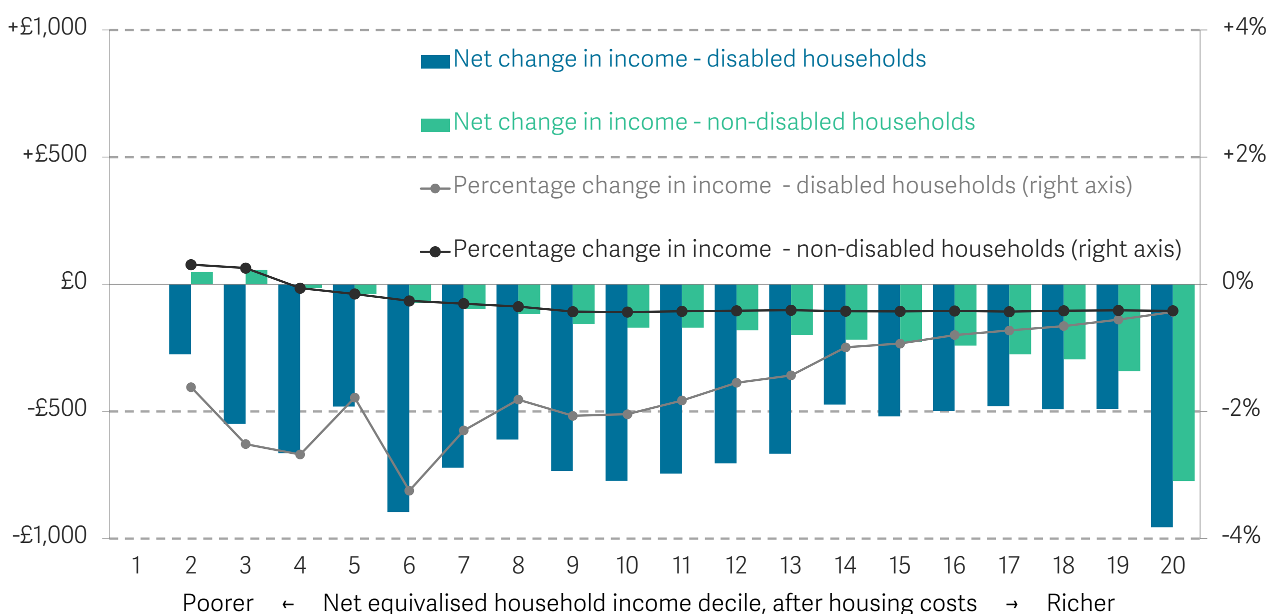
However, Figure 17 doesn't show the reality of yesterday's policy changes for households with a disabled member. Unsurprisingly, if we look at the impact of all policy changes announced this Parliament – excluding changes to consumption taxes, because of difficulties in determining which households in the LCFS contain someone with a disability – then the impact on households with a disabled member is much greater than for households without, even when we control for income, as shown in Figure 18.[29] The largest losses for households without a disabled member are faced by households in the

29 We have classified a household as containing someone with a disability based on the self-reported disability flag in the Households Below Average Income dataset, and on whether it contains someone receiving PIP. The analysis looks at the changes announced this month to disability benefits and Universal Credit, changes to employer NI, and the means-testing of winter fuel payments.

middle income quintile, whose incomes fall by 0.4 per cent on average. But households with a disabled member in the poorest quintile (or poorest 20 per cent of the income distribution) face a fall in income of six times as large, at 2.6 per cent of their income.

FIGURE 18: **The impact of policy changes this Parliament across the income distribution are felt very differently by households with and without a disabled member**

Change in annual income as a result of tax and benefit policy changes announced since the 2024 general election, by income vigintile and whether a household includes a disabled member: UK, 2029-30 (2024-25 prices)



NOTES: Figure shows change in unequivalised household income per person after housing costs. People are sorted into income vigintiles by equivalised household income after housing costs, before any policy changes. We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; OBR, Economic and Fiscal Outlook – March 2025.

The current living standards outlook leaves a lot to be desired

So what does the combination of the economic outlook and tax and benefit policy choices mean for living standards?

The Government has explicitly said that it sees delivering "higher living standards in every part of the United Kingdom by the end of the Parliament" as the key assessment of its growth mission – measured through both GDP per capita and Real Household Disposable Incomes (RHDI) per capita.[30] In keeping with the weak economic outturn data discussed earlier, GDP per capita has got off to a bad start, with a slight decline over the past year (from Q1 2024 to Q1 2025). But the OBR has kept its end-point for GDP per capita unchanged, resulting in a middling total growth of 6.2 per cent between Q3

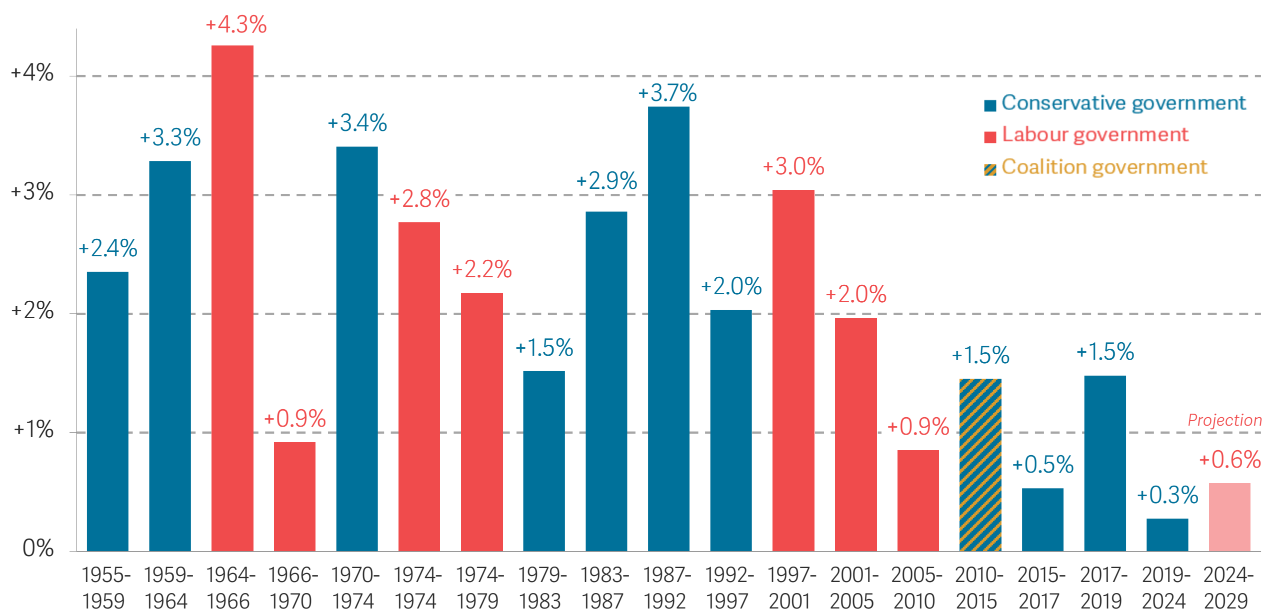
30 The Prime Minister's Office, Kickstarting Economic Growth.

2024 and Q3 2029 (the latter being the latest possible election quarter).[31] Household real consumption per person is similarly projected to grow by 5.5 per cent over this Parliament, but this is underpinned by an unwinding of high savings rates rather than reflecting a rosy outlook for household incomes.[32]

Figure 19 shows how average RHDI per person has grown over previous Parliaments, as well as the OBR's forecast for this one. As has often been noted, the previous Parliament was the worst on record for income growth with a negligible 0.3 per cent a year growth rate.[33] The OBR's new forecast for this Parliament is double that pace of growth – with an average annual growth of 0.6 per cent (or 2.9 per cent in total over 5 years) – slightly up from the 0.5 per cent a year outlook at the Autumn Budget.[34] But the new forecast would still be slow by historical standards, and indeed would be the third worst growth rate on record.

FIGURE 19: **The OBR is forecasting this to be one of the worst Parliaments on record for household income growth, even with double the growth pace of the previous one**

Annualised growth in average Real Household Disposable Income per person, by Parliament: UK



NOTES: Projected growth includes non-profit institutions serving households. OBR forecast data created by stitching indexed OBR forecasts onto ONS outturn data.
SOURCE: ONS, UK Economic Accounts; OBR, Economic and Fiscal Outlook - March 2025.

31 The Government has not stated what baseline period it will use for its growth targets, but we use quarterly data, with Q3 2024 being the date of the last election.
32 Paragraph 2.49 of OBR, Economic and Fiscal Outlook – March 2025.
33 This is based on Q4 2019 to Q3 2024 growth, using the dates of general elections.
34 The level of projected RHDI has improved more notably in the new OBR forecast, but this is partly due to outturns up to Q3 2024 coming in stronger than the OBR previously expected.

Stepping further back, annual RHDI per person is projected to grow by only 4 per cent (£1,200) over the 2020s as a whole. This compares poorly to 13 per cent (£2,900) over the 2010s, and even higher rates in earlier decades, including 26 per cent (£4,800) in the ten years running up to the financial crisis (1997-2007).

RHDI is a useful measure, but it is only an average and has some features that make it slightly removed from households' real-life experiences. We can therefore supplement it by making our own projections of disposable household incomes across the distribution, in a way that is broadly consistent with retrospective survey-based living standards data.[35] Figure 20 presents our projections of how non-pensioner household incomes are set to change between 2023-24 and 2029-30, given the OBR's economic forecasts; some outturn inputs; and post-Spring Statement tax and benefit policies.

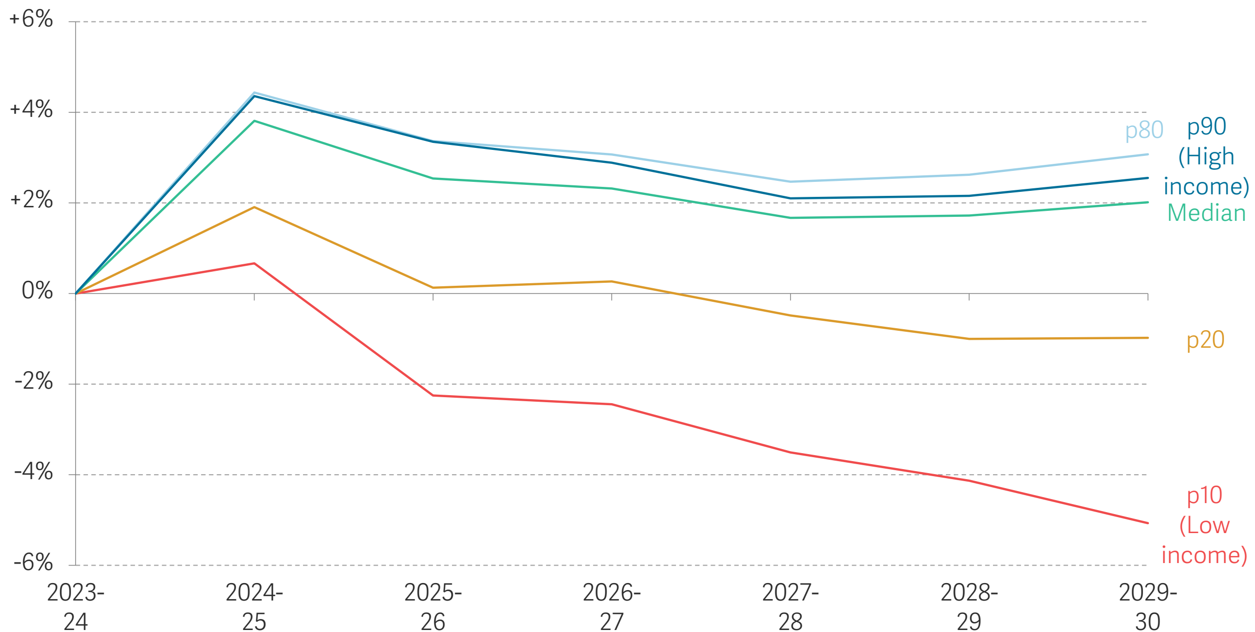
In general, this is somewhat weaker than the RHDI outlook. In small part this is due to our focus on non-pensioners; but also because 'non-labour income' is growing disproportionately within the OBR's RHDI projections (as the labour share is assumed to fall back), and this income may be either entirely excluded from our analysis (in the case of 'imputed rents'); under-represented (e.g. rental income); or because it is important for average income but less so for low-to-middle income households (e.g. for many elements of investment income).[36]

Focusing on low-to-middle income households, Figure 20 shows that the real income of the person one tenth of the way up the income distribution ('p10') or one fifth of the way up ('p20') is projected to be lower in 2029-30 than in 2023-24, by 5 per cent and 1 per cent respectively. In contrast, although even higher-income households may have lower incomes on this measure by 2029-30 than in 2024-25, they would nonetheless be better off than in 2023-24 given the strong growth in 2024-25.

35 See A Clegg & A Corlett, The Living Standards Outlook 2024, Resolution Foundation, August 2024.
36 See also: P Matejic, Spot the difference: why do JRF and OBR forecasts for incomes differ?, JRF, March 2025.

FIGURE 20: **Lower-income households are projected to be worse off by the end of this Parliament**

Cumulative real change in equivalised household disposable income since 2023-24, after housing costs, at selected points in the non-pensioner income distribution: UK



SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; and OBR, Economic and Fiscal Outlook, March 2025.

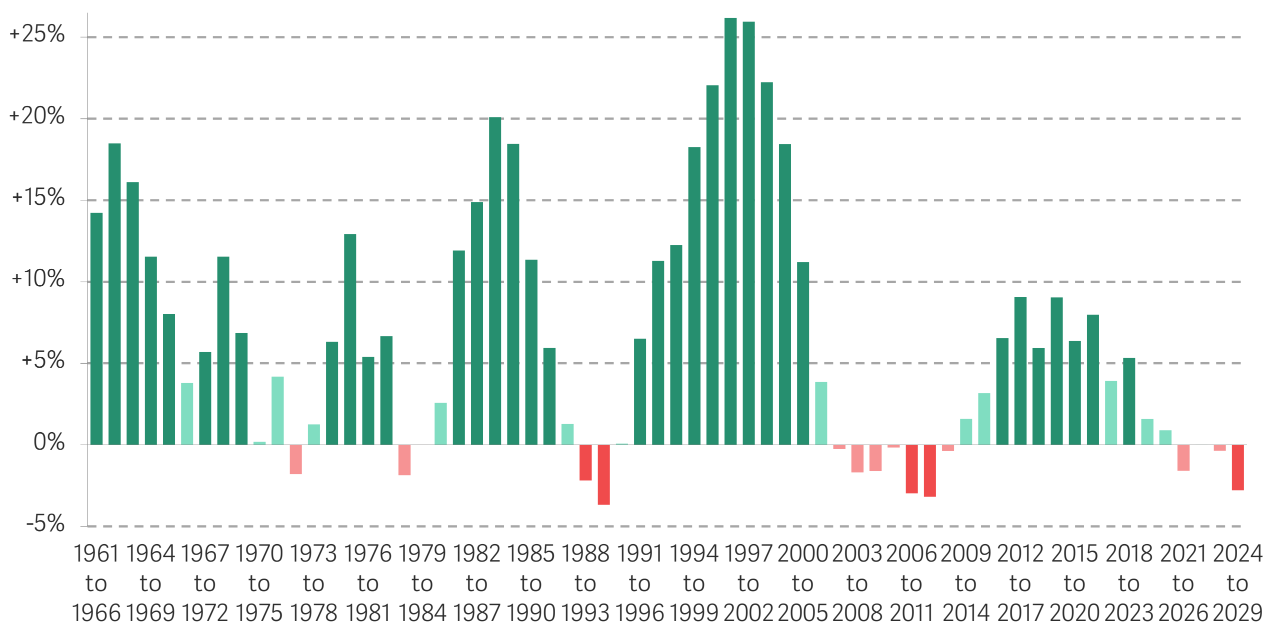
This weak overall outlook (and especially for the poorest) can be put down to a combination of factors: very low real, post-tax earnings growth; savings income falling back as interest rates fall; Council Tax rising in real terms; water bills jumping up; mortgages and rents still rising; frozen Local Housing Allowances; the two-child limit and other social security cuts continuing to grow; and now the addition of PIP and UC-H cuts, which are only partly offset by the boost to the standard allowance in UC. Of course, households may benefit from annual increases in spending on public services – something that ultimately requires taxes to rise approximately commensurately– but it is nonetheless concerning to see real disposable incomes falling.[37]

As ever, the outlook depends on many factors and is by no means set in stone, but any significant decline in incomes for the poorest in society would be historically notable. Figure 21 shows how real household incomes have grown for the poorest half of the non-pensioner population over every (rolling) five-year period since the 1960s.[38] Over the next five years, the average equivalised income of the bottom half is projected to decline by 3 per cent, or £500. And this scale of fall has only been (narrowly) worse during the early 1990s recession (1989 to 1994-95) and the financial crisis (2007-08 to 2012-13).

37 A Clegg et al., Public pivot: How a growing state will shape the living standards outlook for 2025, January 2025.
38 We use outturn data up to 2022-23. New 2023-24 Households Below Average Income results will also be released on 27 March 2025 by DWP; and would change some of these values.

FIGURE 21: **The bottom half of the distribution is projected to see a 3 per cent fall in incomes over the next five years, rivalled only by the financial crisis and 1990s recession**

Rolling five-year total real growth in average equivalised household disposable income of the poorer half of non-pensioners, after housing costs: GB/UK



NOTES: All data beyond 2022-23 is projected. Data is GB from 1994-95 to 2001-02, and financial year from 1993-94. Data source changes in 1994-95.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; and projection including use of the IPPR Tax Benefit Model; ONS, various; and OBR, Economic and Fiscal Outlook, March 2025.

Responding to bad news on the economy with benefit cuts is a damaging recipe for living standards, particularly for poorer families

The Chancellor faced a fraught task in the run-up to yesterday's Statement. Soaring global interest rates have made the tight arithmetic that she'd left herself with last Autumn even tighter. Jittery financial markets are combining with rising anxieties about trade and national security, and making it even more important to retain the fiscal flexibility that an uncertain future may require.

On the plus side, the Chancellor managed to avoid two dangerous temptations – to simply close her eyes to bad news, or to move the fiscal goalposts that were only installed in the Autumn. Instead, she acted decisively to continue to shoot towards her chosen target. And she deserves credit, too, for doing so without recourse to growth-sapping cuts to public investment, which has often been a damaging temptation in the past.

But the big choice the Government has made is to re-establish its buffers against the fiscal rules by cutting benefits, concentrating the pain on a relatively small number of disabled people, the bulk of them already living in the bottom half of the income

spectrum. The projected result is seen in the Government's own "impact assessment," with 250,000 more people set to sink below the headline poverty line, including 50,000 children.

Enhanced employment support – although the majority of that does not kick in until 2029-30 – may eventually help a minority of the losing claimants to find work and a more prosperous future. Most will simply get poorer. The disability benefit bill has been rising, and there are perverse incentives in the system which serious reform would iron out. In the event, cuts were rushed out so fast that the OBR didn't have time to properly assess the costs or effects. Raising taxes – and thereby spreading the pain – before reforming benefits properly would have been better.

Looking ahead, the outlook for growth in living standards is bleak. Weak growth, higher taxes (to spend on public services, as well as higher debt interest costs) and benefit cuts mean poorer Britain is facing the worst Parliament of income growth on record. This reinforces the urgent need for the Chancellor to make good on boosting growth. Before it arrives, the big question is about who bears the cost of adjusting to a painful economy. This Spring, the weight of that adjustment was placed on those least able to bear it.

Annex 1

Data citations

- Family Resources Survey (series page here):
    - Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: http://doi.org/10.5255/UKDA-Series-200017
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We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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