

# Weekly policy update from the London Chamber of Commerce and Industry

*A round-up of key policy changes from the seven days (20-26 March 2025)*

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## Spring Statement 2025

On 26 March 2025, Chancellor Rachel Reeves delivered the Spring Statement, emphasising the Government's commitment to delivering change and securing Britain's future. She noted the impact of the war in Ukraine and the uncertain global economic outlook on the UK economy. The Office for Budget Responsibility (OBR) forecasts showed a restored budget surplus and meeting fiscal rules two years early. The OBR forecast net financial debt to be 82.9% of GDP in 2025-26 and 83.5% in 2026-27 before falling to 82.7% in 2029-30, providing headroom of £15.1 billion in the final year of the forecast. Reeves concluded by stating that the Government is driven by delivering security for the country and working people, highlighting that stability has been returned to the economy.

## Capital Spending

The Chancellor announced that capital spending would increase by an average of £2 billion a year compared to the autumn Budget. She emphasised the importance of economic stability, noting that there have been three interest rate cuts since July, with inflation falling in February. The OBR forecasts CPI inflation to average 3.2% this year, falling to 2.1% in 2026, and meeting the 2% target from 2027 onwards. This stable platform is expected to support economic growth.

## Planning System and Growth

The Chancellor warned that there is no shortcut to economic growth and that it would take time to deliver. The OBR concluded that reforms in the Planning and Infrastructure Bill would result in an additional £15.1 billion in the British economy over the next decade.

Reeves recommitted to the Government's pledge to build 1.5 million new homes in England during this Parliament. The impact of the Government's growth policies is expected to result in an additional £3.4 billion for public finances by 2029/30. The OBR upgraded its growth forecast for next year and every year after in the forecast period, with GDP growth now forecast to be 1.9% in 2026, 1.8% in 2027, 1.7% in 2028, and 1.8% in 2029.

## Steps to Protect Working People and Efficiency Savings

The Chancellor announced that the Government would raise a further £1 billion by cracking down on tax avoidance and evasion, while continuing to invest in cutting-edge technology to tackle these issues. She spoke on welfare reforms, emphasising that people should work if they can and receive proper support if they cannot. The Government is making final adjustments to disability benefits cuts, with the OBR assessing that the package will save £4.8 billion. Efficiency savings include a £3.2 billion investment in AI tools and voluntary redundancy schemes, expected to deliver £3.5 billion of savings by 2030. Day-to-day Government spending is expected to increase above inflation for every year of the spending forecast.

## Defence Investment

The Chancellor highlighted new opportunities for the defence industry, with defence spending set to reach 3% of GDP in the next Parliament. The Government is investing £2.2 billion for the Ministry of Defence in the next financial year, aiming to make the UK a "defence industrial superpower." This includes a protected budget of £400 million for UK defence innovation and a commitment to spend a minimum of 10% of the Ministry of Defence equipment budget on new technologies, including drones and AI-enabled technology. Additionally, £200 million will be allocated to support thousands of jobs and secure better homes for military families, alongside £2 billion for UK export finance to support world-leading defence companies.

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## Chancellor Pledges to Cut Spending Costs

Chancellor Rachel Reeves has committed to reducing the Government's running costs by 15% by the end of the decade, aiming to save over £2 billion annually. Speaking on the BBC's Sunday with Laura Kuenssberg programme, Reeves emphasised that the cuts will focus on back-office roles, such as HR and communications, rather than front-line services. This initiative is part of the Government's broader spending review, with Reeves ruling out tax increases and additional borrowing for day-to-day spending. The savings are intended to fund priorities like the NHS, policing, and education. Despite concerns about potential impacts on services, Reeves highlighted that advances in technology and AI would help achieve the savings.

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## 2025 Bank Capital Stress Test

On 24 March 2025, the Bank of England (BoE) commenced the 2025 Bank Capital Stress Test for the seven most significant and most systemic UK banks and building societies, succeeding the Annual Cyclical Scenarios. This hypothetical scenario assesses the resilience of the UK banking system against simultaneous recessions that affect asset prices, rising interest rates, and increased misconduct costs. The macroeconomic scenario involves a severe global aggregate supply shock, resulting in a 2% decline in global GDP, unemployment rising to 8.5%, and inflation reaching 10%. This test is less severe than the one conducted in 2024. It is also the first stress test since the introduction of the IFRS 9 accounting standard, with the Financial Regulation Committee determining that changes to accounting standards will not increase capital requirements in the UK. The results of the stress test will be published in the fourth quarter of 2025.

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## FCA to Cut Financial Sector Rules

The Financial Conduct Authority (FCA) has announced plans to cut over 100 pages of regulatory red tape, following clear feedback from the industry and the Government on the need to enhance efficiency and reduce regulation. Sarah Pritchard, Head of Competition, Consumers, and International at the FCA, stated that these changes would reduce unnecessary costs, support growth, and ultimately help consumers achieve better outcomes. The modifications will impact consumer finance, investments, and mortgage lending.

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## Government Approves Lower Thames Crossing

The Government has granted development consent for the Lower Thames Crossing, a 14.5-mile road and tunnel connecting the A2 at Gravesend with the M25 and A13 near Tilbury. This will be the first new Thames crossing in over six decades. Private financing is expected to fund a significant portion of the project, with construction scheduled to begin in 2026 and a planned opening in 2032. Planning costs have already exceeded £1 billion, including fees for consultants, planning, and land purchases. The Treasury is considering a "regulated asset base" model for private finance, which would allow investors to collect toll revenues to recoup their investments, similar to the scheme used for the Sizewell C nuclear plant.

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## Employment in the UK: Economic Indicators

On Thursday, 20 March 2025, the Office for National Statistics (ONS) published a research briefing highlighting key employment figures. In February 2024, the ONS reintroduced Labour Force Survey (LFS) data, including population reweighting, advising caution with these estimates. Between November 2024 and January 2025, 33.9 million people were employed, representing an increase of 608,000 from the previous year. Of these, 25.501 million were full-time workers, 8.43 million were part-time, 4.39 million were self-employed, and 29.36 million were employees. The employment rate has fluctuated between 74% and 76% since 2016, peaking at 76% in late 2019 before dropping to 74% at the end of 2020 due to the COVID-19 pandemic, and has since stabilised around 75%.

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## Consultation on the Digital Divide in Education

On 21 March 2025, the Department for Education launched a consultation aimed at reducing the digital divide in classrooms, with a £45 million investment to improve connectivity. Schools will be required to adopt new standards for technology infrastructure and the latest technology. This initiative builds on research from the Education Endowment Foundation, which suggests that effective use of technology can accelerate learning. The 2023 Technology in Schools Survey revealed that only 63% of schools have a fully functional Wi-Fi signal throughout the school. The consultation will close on 23 May 2025.

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