green alliance...

Briefing
Was the spending review good for environmental priorities?

June 2025

Summary

This week's spending review (SR) brought welcome news for climate and environmental programmes and the wider benefits these can offer. Especially notable were renewed commitments to farming and warm homes budgets, which had been widely reported to be at risk. There was a 16 per cent real annual increase in the capital budget for the Department for Energy Security and Net Zero (DESNZ), although much of this was for nuclear reactors and new carbon capture and storage (CCS) clusters. Also welcome was the uplift in the capital budget for public transport although this was also tempered by a five per cent cut in day to day spending, which may mean fare rises. The funding picture for other green priorities, such as the circular economy and industrial strategy, remains unclear.

Introduction

The spring 2025 SR has built on the one year SR unveiled in the autumn 2024 budget (which covered the years 2024–25 and 2025–26). Together they outline the overall public spending envelope for government departments up to 2028-29 (2029-30 for capital budgets).

Despite fears that flagship public transport and home decarbonisation schemes might be scaled down, the chancellor was able to announce major spending increases in these areas, alongside other welcome commitments to farming and skills. See below for more detail.

Health and defence spending were the other big winners, with £39 billion earmarked for social housing.

To achieve this, the chancellor made some difficult choices. Overall, the SR squeezes current (day to day) spending to pay for some major increases in capital spending. An additional £120 billion will be invested over the SR period compared to the plans set out at the Conservative's last budget in spring 2024. This is economically beneficial, as it addresses historic shortfalls in investment that have hammered productivity growth and made delivering on the government's climate agenda harder, but politically risky as it will take time to deliver its full benefit.

The path to more capital spending was smoothed by tweaks to the fiscal rules in the last budget that make borrowing for investment easier. Changes to the Treasury's 'green book', have also been broached, which if implemented will tilt the balance of funding towards poorer areas where investment will have a greater economic impact. These changes enabled shifts in transport capital spending towards the Midlands and the North of England.

Can the spending review be delivered?

Although the chancellor laid out big increases in spending which entail higher borrowing, she said her fiscal rules on debt and borrowing remain intact. However, economists warn the uncertain economic climate has almost certainly wiped out her margin for error, the 'fiscal headroom', making further tax rises likely in the coming budget. This needs to be approached carefully to avoid impacting investment and lower income households.

The autumn 2024 budget saw a very negative market reaction, leading to a temporary spike in government borrowing costs over concerns about its economic strategy, but markets were largely unmoved by the new announcement. This bodes well for the government's ability to deliver on its spending pledges over the full three years of the SR. With much of the spending front loaded and due to arrive next year, there is also less risk that its plans could be blown off course if the economy and public finances deteriorate. Spending could even be increased in later years closer to the election if the economy performs well.

Further announcements are to come later this month on the government's infrastructure and industrial strategies, the latter expected to include important details on how it will tackle high electricity costs for business. If well received, these will help to spur the private investment the government needs to deliver its goals.

Departmental and spending settlements

Heat and buildings

Despite alarming rumours that the Warm Homes Plan would be scaled down, the SR confirmed the government's manifesto commitment of £13.2 billion of funding. However, £5 billion of this is to come from 'financial transactions', which could mean less desirable loans and equity investments rather than grants, with delivery supported through the National Wealth

Fund. The government expects that a combination of warm homes funding and regulatory measures, such as Minimum Energy Efficiency Standards for the rented sector, will lead to the upgrade of five million homes over the course of the parliament, with a strong focus on fuel poor households.

Further details of funding allocations are due by October, which should cover how the money will be distributed, the schemes it will benefit and the government's overall approach to working with industry and local authorities. Design of the plan is important as it is an opportunity to boost delivery under effective existing schemes and avoid the mistakes of failed past policies such as the Green Deal or Green Homes Grant. It is also vital that the plan is easy for people to access to maximise uptake.

Department for Environment, Food and Rural Affairs

Although Defra was handed an unwelcome annual real terms cut in its budget of 2.7 per cent, our top priority was to avoid deep cuts in funding for the Farming and Countryside Programme budget, which had been widely feared. The budget was broadly maintained in cash terms at £2.3 billion a year, with an additional £400 million for other nature schemes, particularly peat restoration and tree planting. Though a small real terms cut, it has been welcomed by environment and farming groups who were braced for worse.

The ongoing transition in how the farming budget is spent will see this funding deliver increasing value for the taxpayer. Previously, £1.7 billion was spent through the Basic Payment scheme, which paid a per hectare sum, regardless of how sustainable the production was. By the end of this parliament, that spend will have shifted into the Environmental Land Management (ELM) schemes, which will get £2 billion of the total £2.3 billion. These are more targeted at delivering public goods and assisting farmers at the margins.

Avoiding a significant cut to this budget means Defra will be able to reopen and grow all three of its Environmental Land Management schemes. We would like to see the Landscape Recovery and Higher Tier schemes grown substantially, with more limited growth in a (sharper) Sustainable Farming Incentive scheme.

We also welcome a five per cent boost in cash terms to the flooding budget, which is essential to helping communities cope with climate change, though the government should reassess spending rules to ensure nature-based solutions are prioritised.

The review was notably quiet on the circular economy, although funding for the ongoing move to 'simpler recycling' was confirmed. The government is due to deliver the first ever Circular Economy Strategy for England in the autumn. A successful strategy will undoubtedly require adequate resources for policy development, as well as some capital spend, so we will be watching for further announcements.

Department for Transport

Although the SR settlement will deliver genuine improvements in many areas, it will not lead to the radical transformation in public transport that many hoped for. Overall, the SR delivered a real terms cut to the transport budget. However, as we had called for, capital investment in transport (excluding HS2) is set to grow by 3.9 per cent annually in real terms, with investment concentrated in historically underfunded regions, such as the Midlands and the North of England.

A particularly welcome feature of the SR is that more responsibility for spending has been handed to local and regional authorities. City region transport spending will double by 2029-30, compared with 2024-25, through the multi-year Transport for City Regions (TCR) settlements in the SR. This marks a welcome break from years of fragmented investment and centralisation. For too long, regions and nations across the UK have had far lower rates of per capita investment in transport than London. For example, in 2023-24, London received about 80 per cent more transport spending per head than other regions with major cities, like the North West and the West Midlands.

The £750 million granted annually to maintain and improve bus services, and pilot franchising, is also good news. This will help to end annual, stop-start funding cycles. But while this level of bus funding for areas outside major cities will help to stem the tide of cuts, it is unlikely to enable local transport authorities to restore the socially necessary routes they have lost over the past decade.

However, with £24 billion of spending earmarked for roads over four years, it also seems likely that some major new road projects may be on the cards. We urge the government to review this as public transport alternatives are frequently more economically productive as well as lower in carbon emissions and air pollution.

The flipside of the good news on capital investment is that day to day spending on transport will see average falls of five per cent annually over the SR. This is likely to require higher bus and train fares over the longer term which will be bad news for the government's ambitions to grow passenger numbers as cost remains a key barrier to use. However, the £3 national bus fare cap will at least be extended to March 2027, protecting the poorest households most likely to rely on bus services over the short term.

Also disappointing is the halving of support for council and businesses to install electric vehicle (EV) charging. Although overall charger installations continue to grow rapidly, the regional distribution of chargers remains uneven and targeted government funding is an important mechanism that could address this. The step change in funding needed for walking and cycling was also missing.

The chancellor should balance public transport fare increases with an end to the 5p cut in fuel duty and 14 year fuel duty freeze in the upcoming autumn budget. This would incentivise sustainable transport choices, raise over £2.5 billion in revenue during 2026-27 and help to offset the decline in fuel duty received by the exchequer as more drivers switch to EVs.

Department for Energy Security and Net Zero

The energy department got a good headline settlement from the SR, with annual average real terms growth in its capital budget of 16 per cent (even excluding the £14.2 billion earmarked for Sizewell C). However, much of this total is money for small modular nuclear reactors (SMR) and £9.4 billion from the capital budget for carbon capture and storage (CCS). These are relatively expensive, untested solutions and must continue to be supported by cheaper and well tested options, such as energy efficiency and renewables. In the case of CCS, we would urge the government to move rapidly to a funding model based on the polluter pays principle rather than public subsidy.

It was positive to see a strong recommitment to Great British Energy (GBE), which will be important to delivering clean power by 2030 and expanding community energy. However, it looks like GBE will have to share its £8.3 billion funding with a new body, Great British Energy – Nuclear, set up to develop SMRs. The SR also confirmed GBE's status as a 'designated financial institution', akin to the National Wealth Fund and British Business Bank, rather than a wholly state-owned institution.

The upcoming industrial strategy will need to provide more details on how UK industry's energy bills will be cut, as they are the highest in Europe. The SR contained no indication of any funding allocated for this purpose, which is cause for concern.

Authors: Steve Coulter, Roz Bulleid, Nick Davies, Lydia Collas and Libby Peake.

For more information, contact
Steve Coulter, head of economy, scoulter@green-alliance.org.uk