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Stairway to headroom

Putting the Autumn Budget 2025 decisions on tax, spending and borrowing into context

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Executive Summary

The great drumbeat of doom that preceded the Chancellor's big day turned out to be over the top: the forecasts came in better than many had feared. Still, in the face of high borrowing and sticky inflation, she had crucial hurdles to clear – fixing the public finances and easing the squeeze on families. Not two things it is easy to do at the same time. And if that were not enough, there was every danger of being tripped up by her own revenue-raisers, unless she could tax smartly in a way that was fair, sustainable and compatible with finally achieving the growth that is the only way to escape gloomy budgets in future. This report assesses whether Rachel Reeves has been able to clear each of these three bars.

The repair job

In the end, the backdrop was not as grisly as the alarming reports ahead of the Budget, because expectations about wages (and the taxes paid on them) have picked up, offsetting the OBR's deepening pessimism about productivity. The most important borrowing forecast only sank by £5.5 billion. That deterioration was considerably less than the average absolute move in forecast total net borrowing of £21 billion that is typically seen between fiscal events. It is, frankly, the sort of variation that prudent planning should be able to absorb.

Nonetheless, going into the Budget, a repair job was plainly necessary – not least because of the £6.9 billion of Government U-turns since the Spring, notably restoring the Winter Fuel Payment to most pensioners and backing off on the biggest disability benefit cuts. Moreover, before Budget day, the Chancellor had decided she had had enough of being buffeted by events. Having left herself with almost no room for manoeuvre last time, she wisely decided to build more contingency into her arithmetic, and pencilled in a fiscal tightening in 2029-30 which put her a projected £22 billion clear on her budgetary rule.

So how prudent was she? A plan to clear this first hurdle by £22 billion is obviously more likely to come off than the previous plan to pass by just £10 billion. Moreover, Rachel Reeves is now a year closer to the target date which also helps – because forecasts get less certain deeper into the future.

But if there are ways of painting Reeves as a fiscal roundhead, from other perspectives she still looks a little cavalier. The margins she is aiming for are still slight by regular, pre-pandemic standards. Perhaps most troubling of all is that, stepping back from a particular fiscal target, the public finances look weaker over the next few years as a whole. Borrowing is higher than in the March forecast in every year until 2029-30. Debt, on all the measures, is up compared to March, and ends the forecast higher than it starts. This is largely because of those fiscal forecasts, which deteriorate more in the first few years than towards the end of the period. But the effect of Budget measures is also to loosen the purse strings and further increase borrowing for this year and the next. Feasible or not, the pain has been chalked in for 2028 and beyond. So in the end, we have neither Reeves the laughing cavalier nor the stern puritan chancellor, but rather Rachel the flawed Augustinian: "Lord, make me prudent – but not quite yet."

Her plan for fiscal redemption is protracted and, in some ways, uncertain – after all, it is supposed to bite just as the next election moves into sight. Any hope of making it stick will depend on whether she has won the political breathing space to see it through. That is going to depend, as much on anything, on clearing her second hurdle – protecting families from the current squeeze.

Easing the cost of living squeeze

Gripping the cost of living is an obvious political priority, and with the knock-on benefit of helping the Bank of England cut rates to make mortgages cheaper, and thereby easing living costs further. One great motor of price rises over the last four years has been energy bills, so – as price rises continue – it is good that the Chancellor is acting to reduce them with a £130 discount from next year. This help is, though, set to be temporary. Half of the energy bill package comes from the Exchequer picking up some policy costs from bills, but this funding will only last for three years, meaning £55 is set to be added back onto electricity bills in 2029-30.

A freeze in rail-fares will be a relief to some households. As, indeed, will be yet another notionally temporary freeze in duties at the petrol pump. Here there is a plan finally to start phasing-out a supposedly 'emergency' cut, introduced in 2022 when prices were much higher, from next Autumn. It is probably wise to withhold judgment on whether that will actually happen, as opposed to a reversion to the endless fuel duty game of 'pretend and cancel' Putting all this together is forecast to shave 0.5 points off inflation in Spring 2026, a reduction that should give the Bank of England scope to bring forward one or more additional quarter-point cut on interest rates.

Arguably even more urgent is protecting children from hardship: abolishing the impoverishing two-child limit is as welcome as it is overdue, and should result in 450,000 fewer children living in poverty by 2029-30 than if it had been retained. This is the right priority within a welfare bill which is still set to be roughly flat as a share of GDP. Yes, there have been post-pandemic rises in some areas, notably pensions and working-age health and disability. And yes, paying for an ageing and ailing society is a serious challenge. What definitely is not right, however, is asking children in poverty to pick up the tab for the old and ill. The Government deserves credit for moving away from that.

Taxing smarter

One hurdle a Chancellor in need of revenue should always seek to clear is to tax smarter – by reducing, rather than increasing, distortions in the tax system. And when asking people to pay more, it is obviously important to be able to show that this will be done fairly.

Another three years of freezes for tax allowances did the most work in raising money at this Budget. After nine years of rises to the personal allowance in the 2010s, the eventual nine year freeze will still leave it over £1,300 higher in real terms than in 2010-11. But this is undoubtedly a measure that asks working people to pay more: a typical employee will face a £220 higher tax bill in 2030-31 as a result of the freeze extension. It is a somewhat less progressive way to raise personal taxes than a manifesto-breaking rise in Income Tax rates, which would have cost less for anyone earning under £35,000 a year. Be careful what you vote for.

Beyond that, there were welcome gestures towards the principles of smarter taxation, albeit in improvised ways. The new 'mansion tax' reasonably extracts a (pretty modest) extra contribution from an important form of wealth that has swelled in value for decades. And yet it arrives as an appendage to a discredited Council Tax which remains an untidied mess.

The 2 percentage point rise in Income Tax rates on landlords, shareholders and savers is an important step towards treating different forms of income equally. But National Insurance means that the basic distortion against employment and in favour of self-employment remains close to record highs. Capping the perks on pension contributions enjoyed by workers of some (but not all) firms makes sense, but further extends the fiscal bias in favour of the self-employed.

The verdict and the outlook for living standards

What the Budget lacked was a sense of strategy – and not only strategy in the sense that fiscal purists mean, who will always be disappointed by politicians who have to think about messy things like politics.

The deeper confusion relates to the very recent swerve regarding who should bear the pain of consolidation. A matter of months ago in Spring Statement, a big part of the Chancellor's answer was disabled people on benefits, in plans that were in many ways regressive. This week, the same Chancellor was upfront in asking everyone to pay more, and the best-off to pay even more still. Across the Parliament as a whole, policy measures will have a progressive effect on the incomes of working-age households, with the poorer half gaining £90 on average against losses of £1,000 for the top half.

And yet after all the swerving, it is hard to know where the Chancellor would look for further sacrifices if they should be needed. Unfortunately, the possibility of more tough choices is very real, in an economy in which unemployment has been rising and an early fall is not expected. The flipside of the miserable productivity which made the headlines yesterday is continuing stagnation in living standards, with Real Household Disposable Income set to grow more slowly over this Parliament than any other Parliament on record except one – the last. This is a context in which it is important to have a more consistent sense of priorities than the government has so far maintained.

Still, before we can get to the future, we need to get through the present – and the Budget certainly helped with that. The Chancellor squeaked over her first hurdle, ear-marking enough revenue to make her rules believable, but putting off the moment where she actually has to rake the money in. She skipped over the second hurdle, easing the immediate squeeze on households with her cost of living package. The third hurdle wobbled, with significant distortions in the tax system and those much-talked about 'working people' still paying more than others. But in the end she cleared it, by handing much of the bill to those who have got away lightly in the past.

Rachel Reeves is still standing. But one hurdle not yet cleared is boosting growth and improving the outlook for living standards. Only time will tell if she has done enough to make it over the finish line.

The Government faced three big challenges at this pivotal Budget

In the end, the drumbeat of doom ahead of the Budget was overdone. The forecasts came in better than many had feared. As much as anything, the problems this Budget had to fix were political: the inadequate room for manoeuvre pencilled in by the Chancellor last time; major policy U-turns costing a total of £7 billion; and an unpopular government that has been struggling to assert a grip. Matters were made even worse in the immediate run-up to Budget day by extraordinary and very public indecision about whether to break the letter of the Government's manifesto pledge on raising the rates of major taxes.

But even if there are ways in which Rachel Reeves can be described as the author of her own misfortune, there is no denying that she had three serious obstacles to clear. In the face of high borrowing and sticky inflation, she had to fix the public finances and ease the squeeze on families. Not two things it is easy to do at the same time. And if that were not enough, there was every danger of being tripped up by her own revenue raisers unless she could tax smartly, in a way that was fair, sustainable and compatible with finally achieving the growth that is the only way to escape gloomy budgets in future.

This report asks whether Rachel Reeves has been able to clear each of these three bars. In what follows, we put the Chancellor's choices in context, setting out what they mean for the economy, public finances and living standards. We start with changes to the OBR's updated economic outlook, before turning to the choices that have been made on public spending, tax and welfare policy.

The economy forecasts were not as bad as feared by many

The run-in to the Budget has been framed by gloom about a likely markdown to the OBR's assumed trend for productivity growth, effectively the 'speed limit' for the economy. But, in the event, the OBR's judgement here was offset by another big change, this time to the forecast for inflation and wages.

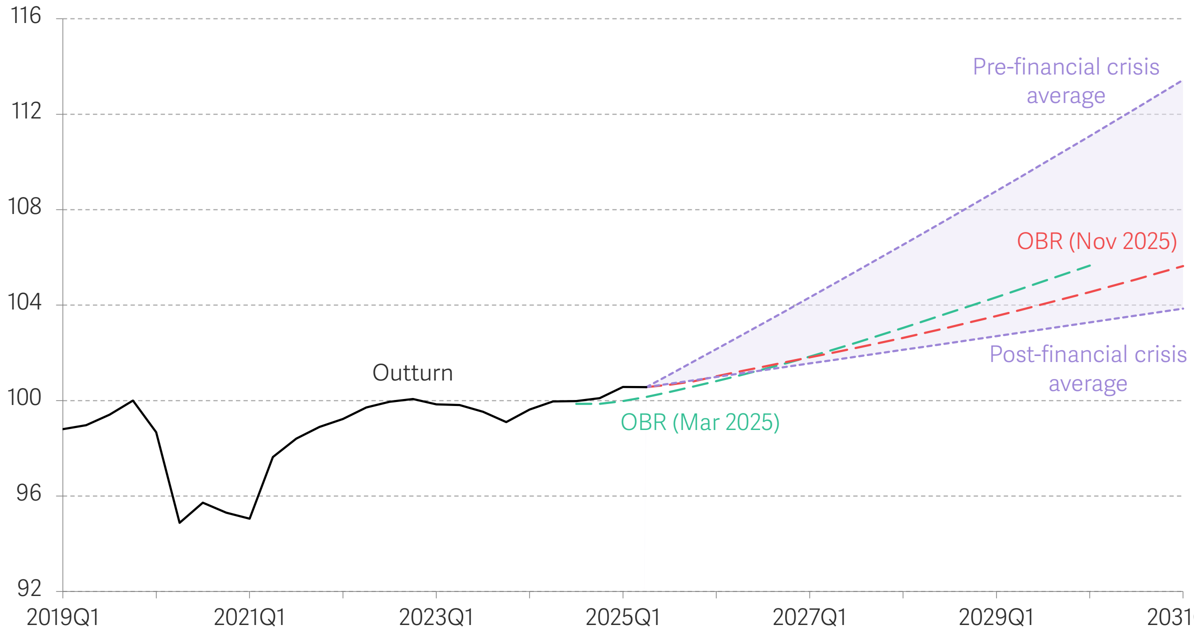
The outlook for growth has deteriorated since March due to a markdown to trend productivity growth …

As expected, the big, headline-grabbing change to the OBR forecast was a 0.3 percentage point cut to its medium-term trend productivity growth rate, to 1.0 per cent (shown in Figure 1). And this reflects that UK workers will continue to need to put in more hours to achieve substantial improvements in their standard of living in future. Such downgrades are infrequent (the last substantial revision was a 0.5 percentage point cut in November 2017) and important, because they signal permanently slower progress. Although they are about the future, the downgrades ultimately reflect past performance, and this judgement was long overdue given years of overly optimistic forecasts on the part of the OBR.[1] But the OBR was keen to stress that this should not be interpreted as a judgement on the growth record of this Government, particularly as recent data suggest that productivity growth has been running at rates last sustained before the financial crisis.[2] That said, it is notable that none of the policy measures announced since the Spring Statement (including in this Budget) are judged to affect post-measures potential output, since all fall below the OBR's newly-raised threshold for what constitutes a 'significant' supply-side impact (changing potential output by at least 0.1 per cent by the fifth year of the forecast).

Although this markdown might appear gloomy, trend productivity growth of 1.0 per cent remains substantially higher than the post-pandemic average of 0.1 per cent.[3] So even hitting this reduced benchmark will require an acceleration from here.

FIGURE 1: **Potential productivity was downgraded across the forecast period**

Potential productivity levels (output per hour worked, index 2019=100): UK



NOTES: The pre-crisis decade is defined as from Q2 1997 to Q2 2007 and the post-crisis decade as Q2 2010 to Q4 2019.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlooks, March 2025 and November 2025.

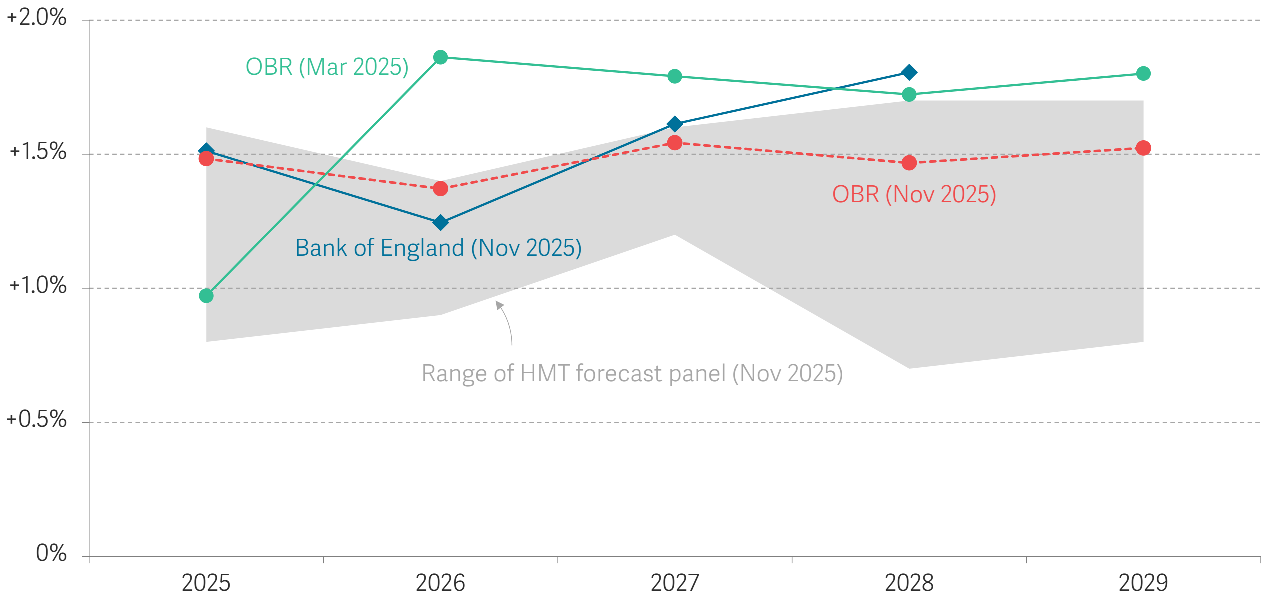
The revised outlook leaves the OBR's medium-term GDP growth forecast more in line with other forecasters (see Figure 2), with cumulative growth from 2025 to 2029 forecast

1 OBR, Forecast Evaluation Report, July 2025.
2 E Christensen & G Thwaites, Trend setters: What is the OBR's forecast for trend productivity growth, and why it matters so much for the Budget, Resolution Foundation, October 2025, https://doi.org/10.63492/puc536.
3 We have defined the post-pandemic period as Q1 2021 to Q1 2025, see: E Christensen & G Thwaites, Trend setters: What is the OBR's forecast for trend productivity growth, and why it matters so much for the Budget, Resolution Foundation, October 2025, https://doi.org/10.63492/puc536.

to be 7.6 per cent, down from 8.4 per cent in March. The OBR has also revised up its 2025 growth forecast by 0.5 percentage points to reflect recent stronger outturns. Taken together, these changes to the OBR's forecast leave the level of the real economy essentially unchanged (0.1 per cent smaller) by the end of 2029.

FIGURE 2: **The OBR's trend productivity assumption means its GDP growth forecast is now more in line with other forecasters**

Forecasts for annual real GDP growth: UK



NOTES: External forecasters are those collated by HM Treasury. The swathe shown only includes forecasts made since January. The number of external forecasts in each year are: 24 in 2025, 22 in 2026, 13 in 2027, 9 in 2028, and 8 in 2029.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2025 and March 2025; HM Treasury, Forecasts for the UK Economy, November 2025; and Bank of England, Monetary Policy Report, November 2025.

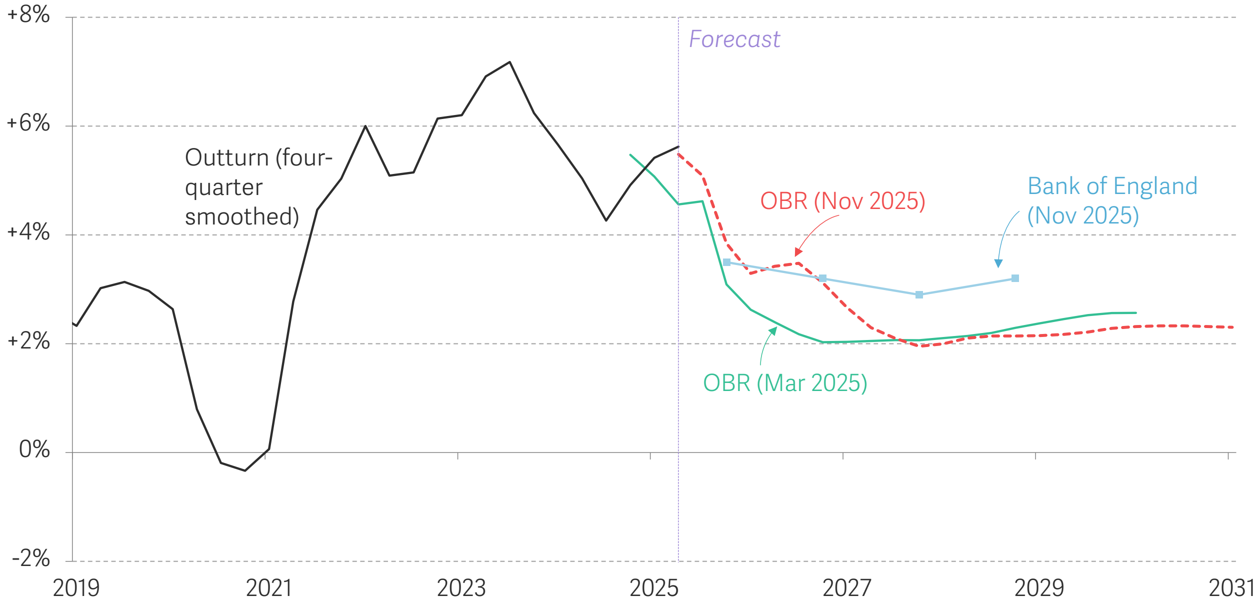
… but the impact on the public finances of lower growth was offset by a higher forecast for wages and inflation – implying a more 'tax-rich' economy

Thankfully for the Chancellor, the impact of the OBR's big productivity downgrade on the public finances was largely offset by another big judgement: a higher forecast for wages and prices, which has boosted expected tax revenue.

In March, the OBR expected average earnings to grow by 14.1 per cent between 2024 and 2029; in the Budget forecast this has been raised to 15.9 per cent. This upgrade largely reflects the OBR moving closer to other forecasters on expectations of near-term wage growth, closing about half the gap to the Bank of England's forecast for earnings growth across 2026 and 2027.[4] Expectations for inflation have also been revised up (despite the OBR judging that the Chancellor's new policies will lower inflation): consumer prices are now expected to rise by 12.6 per cent between 2024 and 2029, compared to 11.8 per cent previously. These two forecast changes imply somewhat stronger real wage growth (entirely from near-term improvements), but the forecast for the level of real earnings is little changed at the end of the forecast (up 0.1 per cent in Q1 2030) because the new figures incorporate a downwards revision to the outturn earnings data.

FIGURE 3: **The OBR has raised its expectations of wage growth, meaning more tax revenue for Government**

Annual growth in average weekly earnings, outturns and projections: UK



NOTES: OBR use a national accounts definition of average earnings (total wages and salaries divided by employees) – this is also used for the outturn data. The Bank of England's forecast refers to private sector average weekly earnings.
SOURCE: ONS, National Accounts; OBR, Economic and fiscal outlook, various; and Bank of England, Monetary Policy Report, November 2025.

Faster wage growth means stronger tax receipts, as labour income is taxed more heavily than other sources. Along with a bigger cash economy, the OBR expects the economy's future 'tax richness' to be higher: the tax-to-GDP ratio in 2029-30 was revised up by 0.4 percentage points before accounting for policy changes.[5] Higher nominal GDP and more tax-rich growth have raised expected 2029-30 tax revenues by an estimated £30 billion (see Figure 4).

4 In March, the OBR forecast was for 4.1 per cent earnings growth between Q4 2025 and Q4 2027, compared to 6.1 per cent in the Bank of England's February forecast. In the November forecasts, the Bank of England's forecast is little changed (6.2 per cent) but the OBR's has risen to 5.1 per cent. These are not perfect comparisons because the Bank of England forecast private sector average earnings growth, and the OBR whole economy average earnings growth.

5 The OBR notes that the effective tax rate on labour income is 'around 40 per cent', compared to 'around 17 per cent' for corporate profits. See: OBR, Economic and Fiscal Outlook, November 2025.

The main policy news on wages was the announcement of the 2026 minimum wage rates. The adult rate is set to rise in line with typical wages, but the youth rates are rising faster – potentially risky for young people's jobs in a context of rising unemployment and a hiring slowdown. This is discussed in Box 1.

BOX 1: **The youth minimum wage rates have been substantially pushed up again**

The main adult minimum wage rate (the 'National Living Wage', or NLW) will rise by 4.1 per cent in April 2026, reaching £12.71.[6] That's substantially smaller than the increases in 2023 (9.7 per cent), 2024 (9.8 per cent) and 2025 (6.7 per cent), and reflects the Government's policy that the NLW should rise in line with median wages.[7] It's also a more cautious approach than that taken by Conservative governments from 2015 to 2024 under which the adult minimum wage rose almost twice as fast (7.3 per cent per year on average) than average wages (4.0 per cent).

The Government's approach to the minimum wage rates for younger workers is bolder In April 2026, the minimum wage rate for 18-20-year-olds will rise by 8.5 per cent, following a 16 per cent increase this year. That reflects the Government's plan to raise the 18-20-year-old rate faster than the NLW until it converges (and the intention is, apparently, for this to happen within the Parliament). A more cautious approach to the youth minimum wage rates may be warranted given the share of young people not working or in education is both high and rising.[8]

The OBR has downgraded the outlook for unemployment, reflecting worsening outturn data: unemployment has risen by 175,000 over the six months to September, reaching 5 per cent. The OBR now think it will remain around this level until 2027. A worse outlook also reflects the OBR's judgement that the economy will remain below 'potential' for longer: in March the OBR thought this would last until 2027; this has been pushed out to 2029.

6 Low Pay Commission, National Living Wage estimate update, August 2025.
7 The minimum wage remit also says that the NLW should not fall in real terms, but pegging to average earnings usually achieves that. Department for Business and Trade, National Minimum Wage and National Living Wage: Low Pay Commission remit 2025, August 2025.
8 J Diniz & L Murphy, False starts: What the UK's growing NEET problem really looks like and how to fix it, Resolution Foundation, October 2025, https://doi.org/10.63492/kvz546.

Changes to the economic forecast push up borrowing by just £5.5 billion in 2029-30

The other key economic influence on the public finances is the interest rates that determine how much it costs the Government to fund its debt. The rate paid on 10-year government debt is higher in the OBR's November forecast (averaging 4.7 per cent in the 10-day forecast window) than in March (4.5 per cent). This pushes up spending on debt interest by £3.6 billion. But this could have looked even worse: had the OBR's forecast come just two weeks earlier, the OBR would have said that the Government would face an additional £1.2 billion in debt interest costs in 2029-30.

Overall, the impact of changes to the economic forecast is a slightly weaker outlook for the public finances. The impact of the markdown to trend growth alone would decrease receipts by an estimated £15.6 billion in 2029-30. But this was more than offset by a higher forecast for prices and wages, which (in isolation from any productivity downgrade) boosted receipts by an estimated £29.6 billion – leaving a net boost to receipts of £14.0 billion.[9] Spending is also higher in the pre-measures forecast due to higher debt interest, accounting for £3.6 billion in 2029-30. Other spending is also boosted by a further £15.9 billion, as a result of the combined impact of changes to the size of the economy and inflation, increases in disability caseloads and increases to locally financed spending (the latter of which accounts for £6.0 billion).

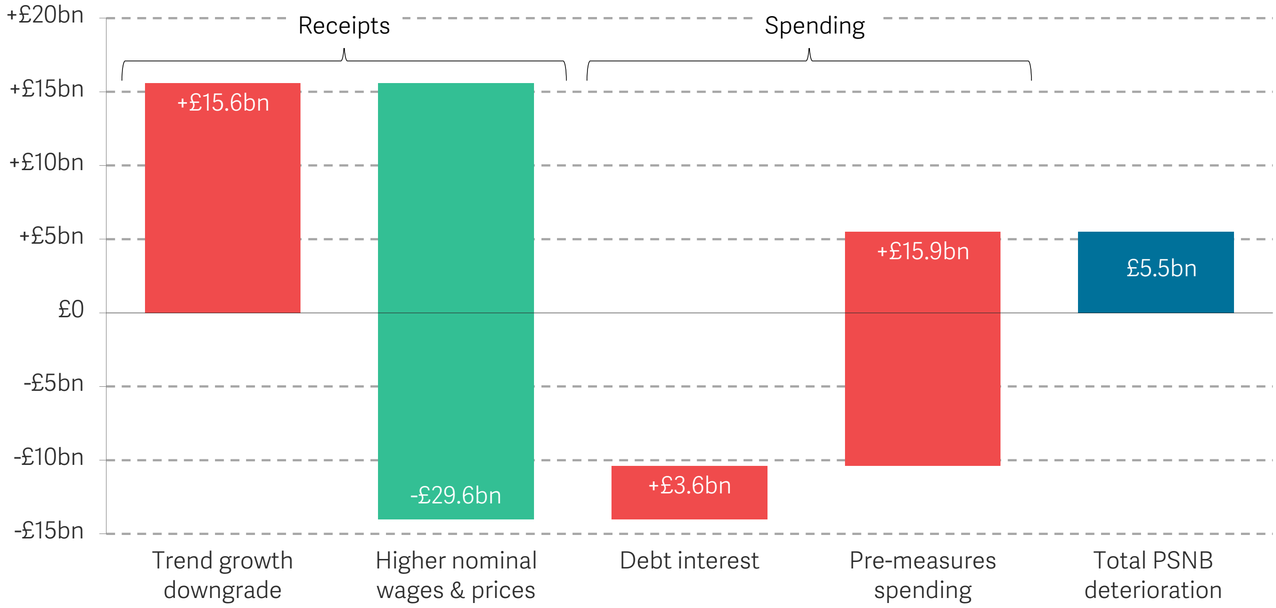
The net impact of the changes in the economic forecast leaves public sector net borrowing £5.5 billion higher in 2029-30 (as shown in Figure 4), much smaller than the £20 billion that some expected.[10] And while this 'pre-measures' deterioration is larger than the one recorded in March 2025, it is far smaller than the previous deterioration in November 2022, when forecast borrowing in the fourth year increased by £56 billion (in 2025-26 prices), and well below the £21 billion average absolute forecast move in borrowing in the fourth year of the forecast (in 2029-30 prices) since 2010.

9 The OBR states higher nominal GDP more than offsets the productivity growth downgrade's impact on receipts. The £29.6 billion figure is estimated by taking the total pre-measure change in income tax, NICs, VAT and other receipts since March (Chart 1.4) and subtracting the estimated fall in receipts from the trend productivity downgrade. This effectively estimates the economic impact the judgement on higher wages and prices would have on receipts.

10 K Makortoff, P Inman & R Partington, Steeper UK productivity cut of more than £20bn makes tax rises more likely, The Guardian, 28 October 2025.

FIGURE 4: **Borrowing is forecast to be £5.5bn higher in 2029-30 as a result of changes to the economy forecast**

Impact of changes to the OBR forecast on public sector net borrowing (PSNB) in 2029-30: UK



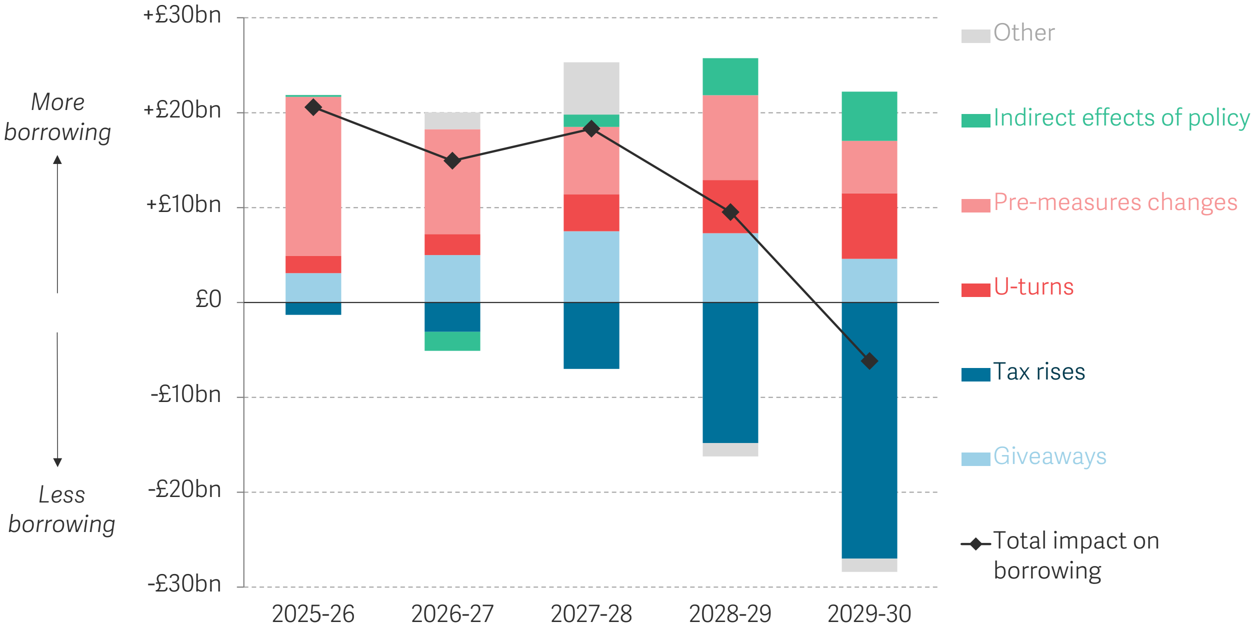
NOTES: Excludes PSNB-neutral lines. The other pre-measures spending increase includes spending related to changes in the economic forecast (from both the productivity downgrade and higher nominal wages and prices), as well as the impact of higher disability caseloads on welfare spending and increases to local authority spending, reflecting revisions to recent outturn and higher forecast spending on special educational needs and disabilities.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2025.

The Government has paid for a worse economic outlook, U-turns and giveaways with backloaded tax rises

As well as a gloomier economic forecast, policy U-turns since March added to the challenge on the public finances: by 2029-30, reversals to proposed welfare cuts cost around £7 billion. In total, changes to the OBR's forecast before new policy announced in this Budget increased borrowing by a cumulative £70 billion between 2025-26 and 2029-30 (see the red bars in Figure 5).

FIGURE 5: **The Government has pencilled in big tax rises for the end of the decade**

Change in public sector net borrowing compared to the OBR's March 2025 forecast: UK



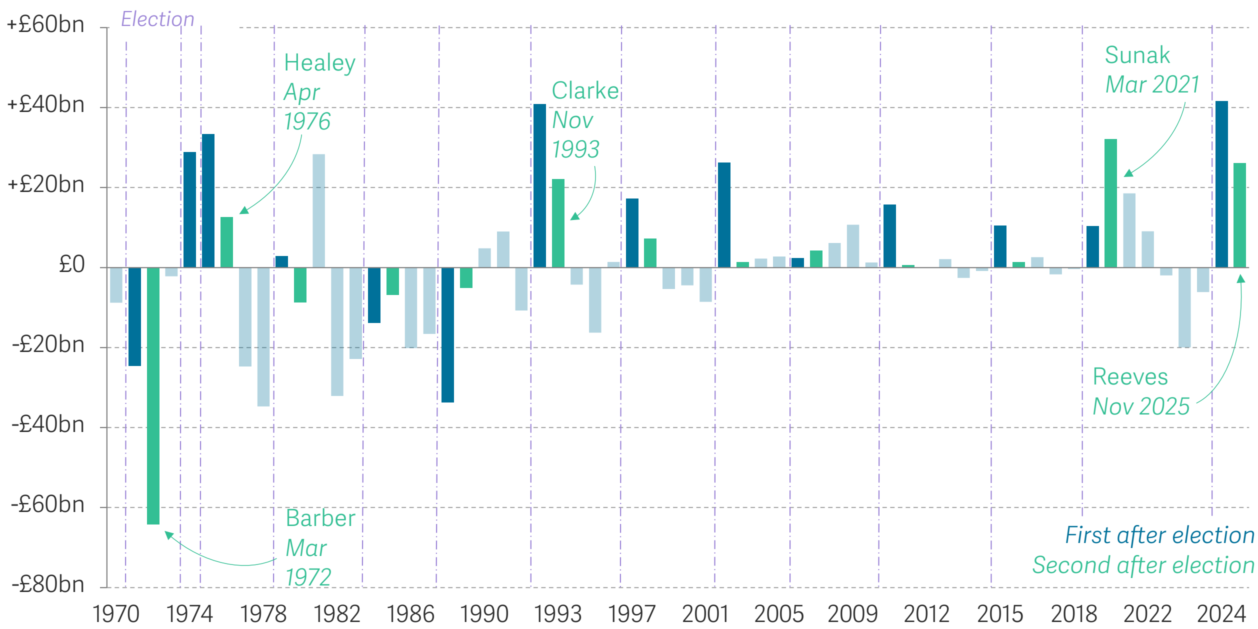
NOTES: 'Other' includes changes to capital and day-to-day spending and the OBR's SEND-related spending judgements. 'Giveaways' include increases to welfare and other spending, and the fuel duty freeze.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2025.

The Government responded by raising taxes by £26 billion in 2029-30, which was enough to fund giveaways elsewhere (summarised by the blue bars in Figure 5). Combined with last year's Budget, these added up to £68 billion in tax rises across the two fiscal events – the largest rise in a new Government's first two major fiscal events on record, and comfortably bigger than anything since the £63 billion raised in the two Budgets of 1993 (Figure 6).[11]

11 For comparability, historic tax rises in Figure 2 are expressed as a percentage of GDP, multiplied by the OBR's latest forecast for nominal GDP in 2029-30.

FIGURE 6: **This Parliament's first two Budgets in combination are one of the largest pairings on record**

Annual impact of tax policy announcements at each major fiscal event since 1970: UK



NOTES: Aggregate effect of tax measures in final year of forecast for each fiscal event, shown in 2029-30 prices, with past values uprated in line with nominal GDP. Based on forecasts from the time of each fiscal event (actual impacts on tax revenue may have differed). Major fiscal event is defined as statements by the Chancellor with measures that were legislated for in a Finance Bill directly after that fiscal event. These are all Budgets aside from the Autumn Statements in 2022 and 2023. Tax measures for excluded fiscal events were all under £15 billion.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2025; OBR, Policy measures database, March 2025.

Savings in this Budget are notably 'backloaded'. Decisions taken on the day are forecast to increase borrowing by £1 billion on average in the first three years of the forecast (2026-27 to 2028-29) versus savings of £24 billion on average in the final two (2029-30 to 2030-31). Three-quarters (73 per cent) of the £77 billion in extra tax raised over the next five years is due to arrive after April 2029. Since 2010, the only tax tightening in which the final two years accounted for such a large share of overall savings was March 2021, when Rishi Sunak announced a cut and a subsequent rise in the effective rate of Corporation Tax.[12] So, although this backloading is far from unheard of, it will require the Government to see through a significant tightening in the run-up to the next election.

The Chancellor has decided to increase 'headroom' against the fiscal rules

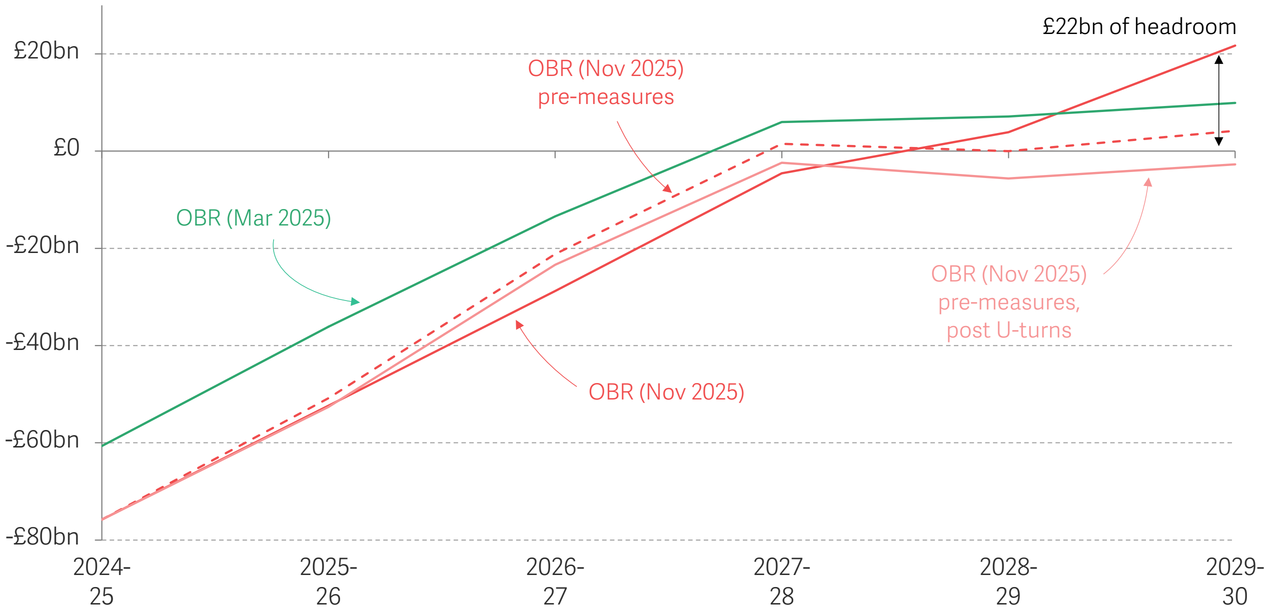
The other big decision taken by the Chancellor was to strengthen the buffers, or 'headroom', against the Government's fiscal rules. After the Spring Statement in March,

12 This was done with a combination of a capital allowances 'super deduction' that applied in 2021-22 and 2022-23 and a rise in the headline rate of Corporation Tax from 19 to 25 per cent from 2023-24 onwards. Income tax thresholds freezes also added to the backloaded nature of the tax package. Overall, the OBR's forecast for tax raised in the final two years of the forecast (£58 billion) more than accounted for all the extra tax raised over the forecast. For more, see: OBR, Economic and Fiscal Outlook, March 2021.

the Government held £9.9 billion of headroom against its binding 'current balance' rule – under which all day-to-day spending must be funded by tax receipts by 2029-30. As shown in Figure 7, this headroom was entirely wiped out by U-turns and changes to the OBR's economic forecast, leaving the Government £2.7 billion short. Policy changes in this Budget boosted headroom to £22 billion, more than double its March level.[13] The majority of this improvement came from a £19 billion reduction in borrowing as a result of newly announced policies (mainly higher taxes), but, bizarrely, there was an extra £5.6 billion boost to the current balance from the policy package – which the OBR says is due to assumptions on the impact of policies on capital and local government spending.

FIGURE 7: **The Government has increased its headroom thanks to higher taxes**

Current balance forecasts: UK



NOTES: Chart only includes the direct impacts of U-turns.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various.

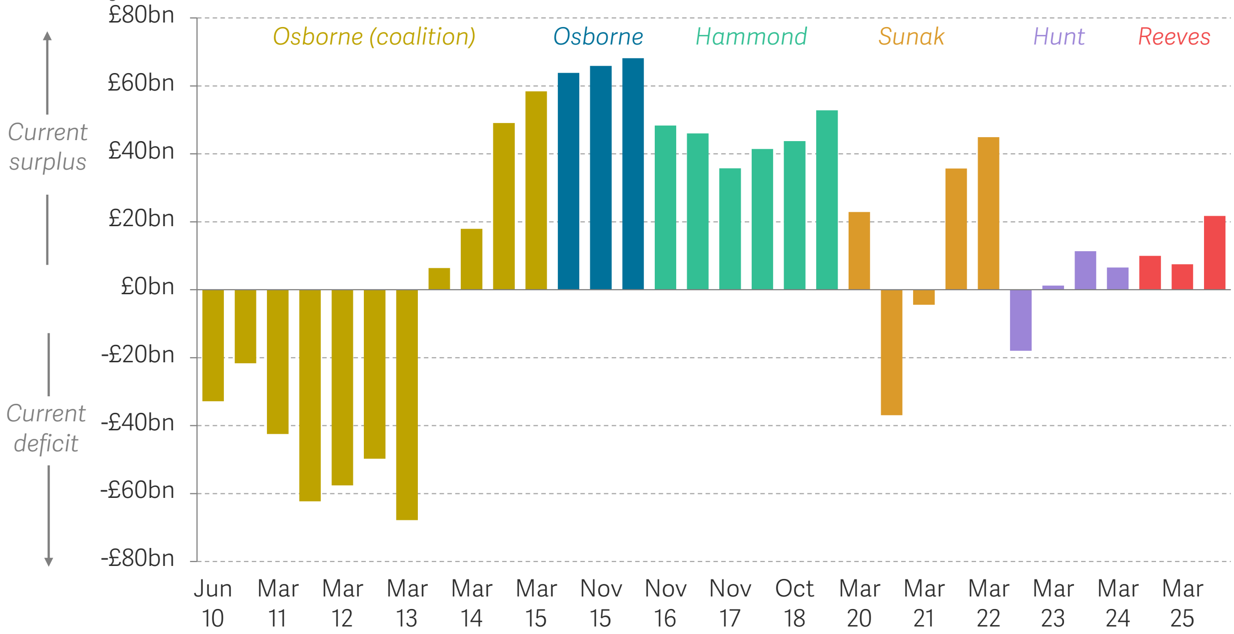
The increase in headroom came despite the horizon for the fiscal rules staying in 2029-30 and moving a year closer to the starting point for the OBR's forecast (2025-26 in November, versus 2024-25 in March). The Chancellor should be commended for keeping her commitment that the fiscal rules would continue to apply in 2029-30, as rolling them on to 2030-31 would have effectively loosened the rules and made her job £3.5 billion easier. At £22 billion, the Chancellor's new level of headroom is a much larger buffer than her predecessor had left after any of his fiscal events. But it is still below the £29 billion average headroom held by previous Chancellors since 2010.

13 The Government has £24 billion in headroom against its supplementary rule that public sector net financial liabilities (PSNFL) should be falling as a share of GDP in 2029-30, up from £15 billion in March. As in March, the PSNFL rule doesn't bind, and the current balance rule remains the tightest constraint on public spending.

Facing a deterioration in the economic and fiscal outlook, the Chancellor admirably prioritised repairing the public finances. Financial markets responded positively on the day, with long-term government borrowing costs falling by around 0.1 percentage points, a relatively large change for a single day. That said, the outlook for the public finances still looks stretched. The £22 billion current surplus in 2029-30 is the highest four-year-ahead forecast since March 2022, but less half the average planned surplus in the late 2010s (£52 billion on a comparable basis between March 2015 and March 2019, as shown in Figure 8). In other words, the bar that the Chancellor set herself was often comfortably cleared by her predecessors over the past decade. And debt is rising across a range of measures. This includes the Government's preferred measure of public sector net financial liabilities (PSNFL), which is set to reach 82.2 per cent of GDP in 2029-30 – a rise of 0.9 percentage points on the latest data (81.3 per cent in 2024-25) and 1.3 percentage points higher than forecast in March. More fundamentally, these projections rest on a backloaded fiscal tightening that will have to be reaffirmed at future fiscal events, increasing the risk that savings won't be delivered. After all, despite the forecasts shown below, the UK has only managed a current budget surplus once since 2001-02 (a miniscule 0.1 per cent of GDP in 2018-19).

FIGURE 8: **Despite a fiscal tightening, the Government only has plans to run a modest surplus in future**

Four-year-ahead forecasts for the current balance: UK



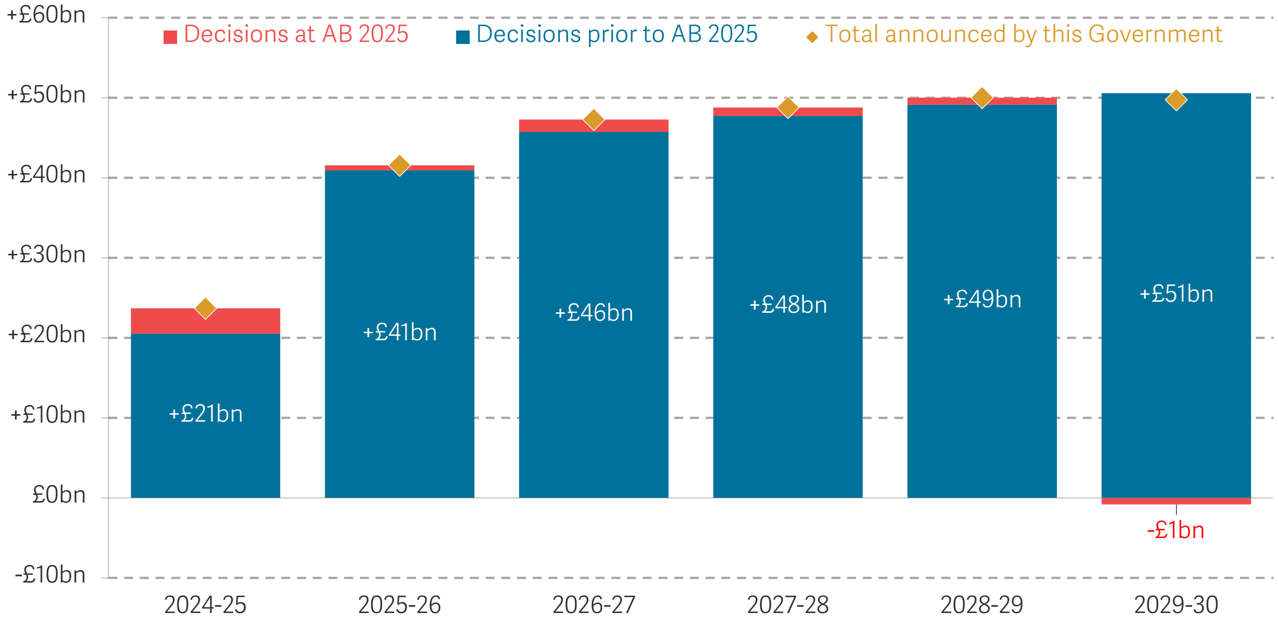
NOTES: Current balance forecasts are presented as a percentage of GDP, multiplied by October 2029-30 nominal GDP for comparability with the OBR's latest forecast.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2025; OBR, Historical Official Forecasts Database.

Some small savings come from backloaded cuts to public services

To help balance the books, the Chancellor has shaved £4 billion off day-to-day spending on public services (Resource Departmental Expenditure Limits, or RDEL) in 2029-30 (Figure 9). The result is a real RDEL growth rate of 0.5 per cent in 2029-30, comparable to the 0.6 per cent average annual growth for the 2025 Spending Review (2025-26 to 2028-29). The final year of the forecast is more generous, with RDEL expected to grow by 1.5 per cent in real terms between 2029-30 and 2030-31. Stepping back, the big picture remains that RDEL has been increased by between £45-54 billion a year between 2025-26 and 2029-30 compared with the plans made by the previous Government.[14] There are only minor adjustments to previous years, and the Government has wisely avoided the common mistake of cutting investment to balance the books.[15]

FIGURE 9: **Cuts to day-to-day public service spending have been pencilled in for 2029-30**

Nominal change in day-to-day departmental spending plans made since spring 2024: UK



NOTES: AB refers to Autumn Budget.
SOURCE: RF analysis of HM Treasury, Budget and Spending Review documents.

The OBR has reduced its assumption for RDEL underspend in 2028-29 to zero. This reflects mounting pressures on departmental budgets. Moreover, the Government has announced that the cost of special educational needs and disabilities (SEND) provision

14 C Aref-Adib et al., A healthy State? Putting the 2025 Spending Review in context, Resolution Foundation, June 2025, https://doi.org/10.63492/pfg738; HM Treasury, Spending Review 2025, June 2025.

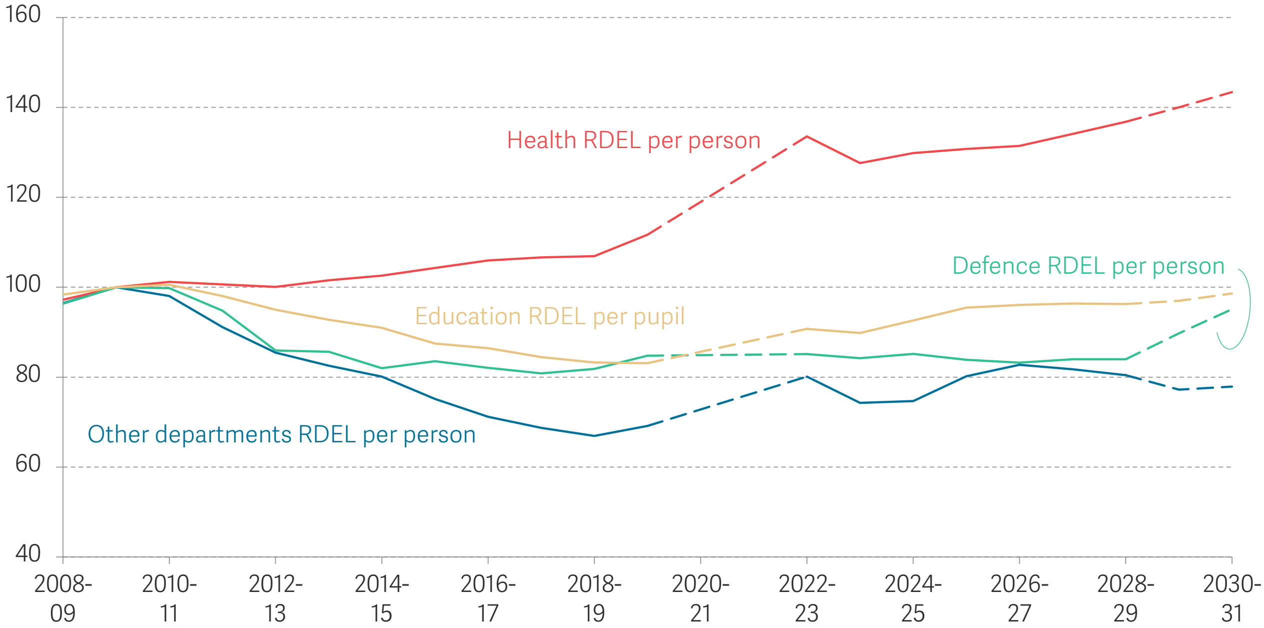
15 Previous fiscal consolidations since the 1970s have all cut public investment as a proportion of GDP, by an average of around one-fifth. But the current Government has increased investment to 2.7 per cent of GDP in 2028-29, substantially above the previous Government's plan to cut investment to 1.7 per cent in the same year. For more, see: 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.

will become part of the overall RDEL envelope from 2028-29, transferring the substantial risk associated with overspend from local to central government. But it has not made clear which department will cover the estimated £6 billion of additional costs this will create.

If the Government raises defence spending to its stated goal of 3.5 per cent of GDP by 2035, health spending grows at its long-run average, and education spending is held flat in real per-pupil terms, then today's announcements imply cutting 'other' departments (including local government and justice) by £6.4 billion in real terms between 2028-29 and 2029-30, as shown in Figure 10.[16] Cuts of this nature would be equivalent to 88 per cent of the average annual cuts made during the peak austerity years (2009-10 to 2018-19). By 2030-31, this would leave real per-person spending in other departments 22 per cent below 2009-10. The Government will have to make clear how it will meet these tight spending plans in the 2027 Spending Review.

FIGURE 10: **Raising defence, health and education spending implies cuts to 'other' departmental budgets**

Indices of real per-person resource departmental expenditure limits (2009-10 = 100), by selected departments and other departments: UK



NOTES: Assumes defence spending rises to 3.5 per cent of GDP by 2035-36, health spending rises annually by 3.6 per cent in real terms and education is held flat in real per-pupil terms. Other departments exclude defence, health and education. Figures include the impact of Barnett consequentials.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various; Explore Education.

16 In February 2025 the Government committed to increase defence spending to 2.5 per cent of GDP by 2027. The Prime Minister has since committed to raise defence spending to 3.5 per cent of GDP by 2035. E Kirk-Wade, UK defence spending, House of Commons Library, October 2025.

The Government paid for higher spending and extra headroom with large tax rises, including a range of welcome reforms, but left some significant anomalies untouched

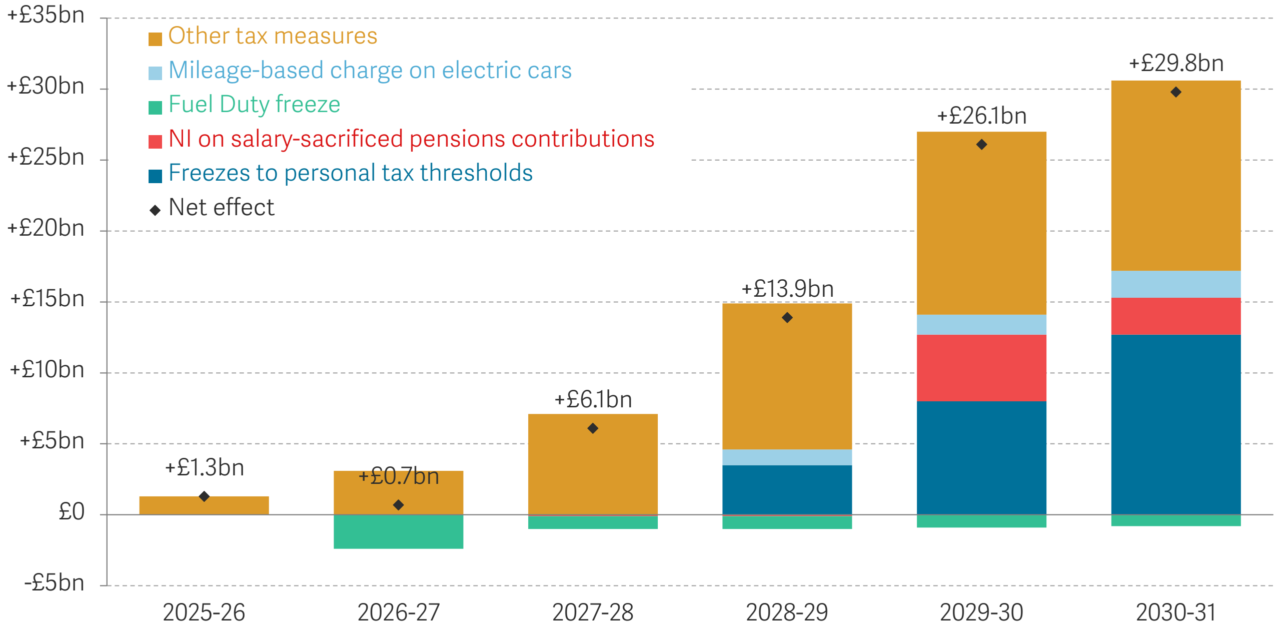
Budget 2025 increased taxes by around £30 billion in 2030-31. When we add in tax rises in the previous Budget and the previous Parliament, the ratio of tax revenue to GDP is set to rise to a record high of over 38 per cent by 2030-31 – up from 35 per cent in 2024-25 and 33 per cent in 2019-20.

The single biggest tax rise in Budget 2025 was a three-year extension in the freeze to personal tax thresholds, raising £13 billion in 2030-31 (Figure 11). The remainder was raised by a series of smaller, largely welcome measures. Overall, as we show later in this note, the package was broadly progressive (see Figure 17). And the OBR did not assess that this tax package will harm the economy, with none of the individual measures clearing their new threshold of a 0.1 percent impact on long-run GDP.

However, the self-employed and pensioners remain relatively undertaxed, and the Government missed an opportunity to remove the many remaining unfair or growth-sapping distortions in the tax system. Moreover, as Figure 11 shows, the tax rises are notably backloaded, raising questions about whether they will all happen as planned.

FIGURE 11: **This Budget's tax rises are backloaded**

Effect in cash terms of Government tax decisions in Autumn Budget 2025: UK



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

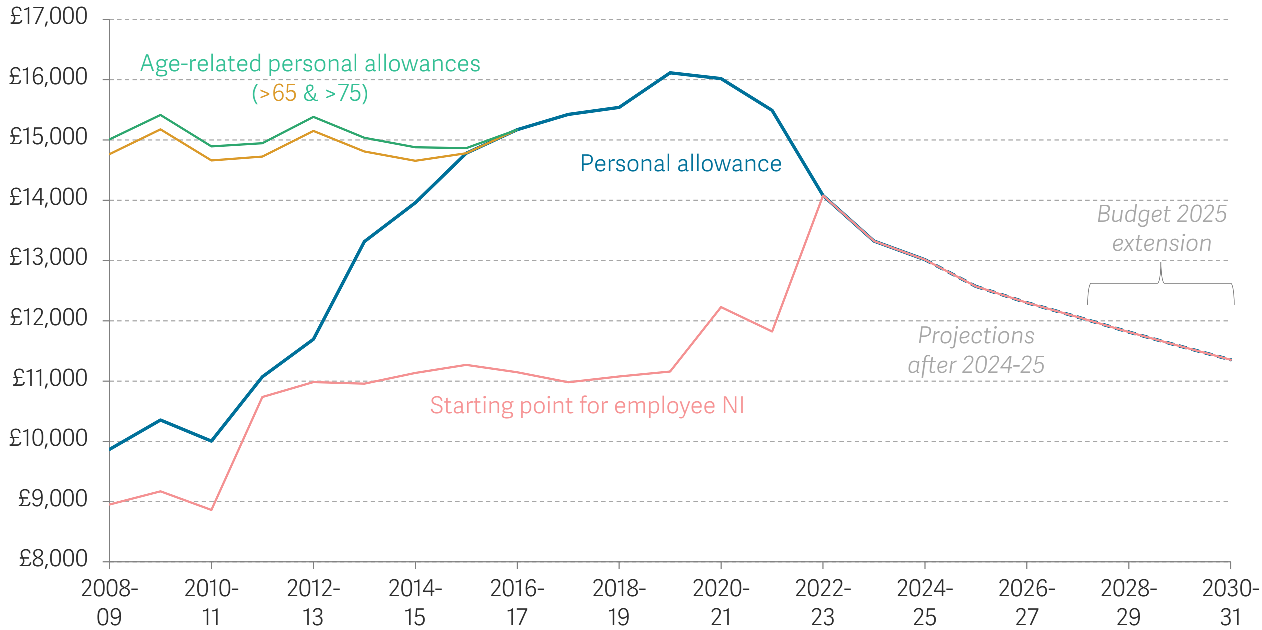
The biggest increase in revenues comes from extending personal tax thresholds for three more years

The six-year freeze in tax thresholds scheduled by the previous Government will become a nine-year freeze. As a result of the changes in this Budget, basic-rate employees will pay around £220 more tax and National Insurance (NI) than they would have done in 2030-31, higher-rate employees will pay around £660 more, and additional-rate payers (who receive no personal allowance) £440 more. Basic-rate pensioners will lose slightly less (£160) because they don't pay NI. The extended freeze extension will mean more people pay tax (the OBR estimates 0.8 million extra in 2029-30 than it thought in March), and more people are brought into the higher rate (0.9 million). Although there will be no overnight tax increases, when compared to the normal increase in tax thresholds, this is a tax increase on working people.

If we zoom out to look over a longer time period (as we do in Figure 12), the (working-age) personal allowance in 2030-31 will still be over £1,300 higher in real terms than in 2010-11 (while the starting point for personal National Insurance (NI) will remain around £2,500 higher). But over three-quarters (78 per cent) of the rise that happened over the 2010s will have been undone over the 2020s. And it is noteworthy – and unwelcome – that the freeze will also apply to the threshold for employer NI, adding around £50 to the cost of each employee in 2030-31, and compounding the impact of last year's threshold reduction on the cost of employing low-paid workers.

FIGURE 12: **Over the 2020s, 78 per cent of the previous decade's real personal allowance rise is set to be reversed**

Real value of Income Tax personal allowances and employee National Insurance allowance: UK

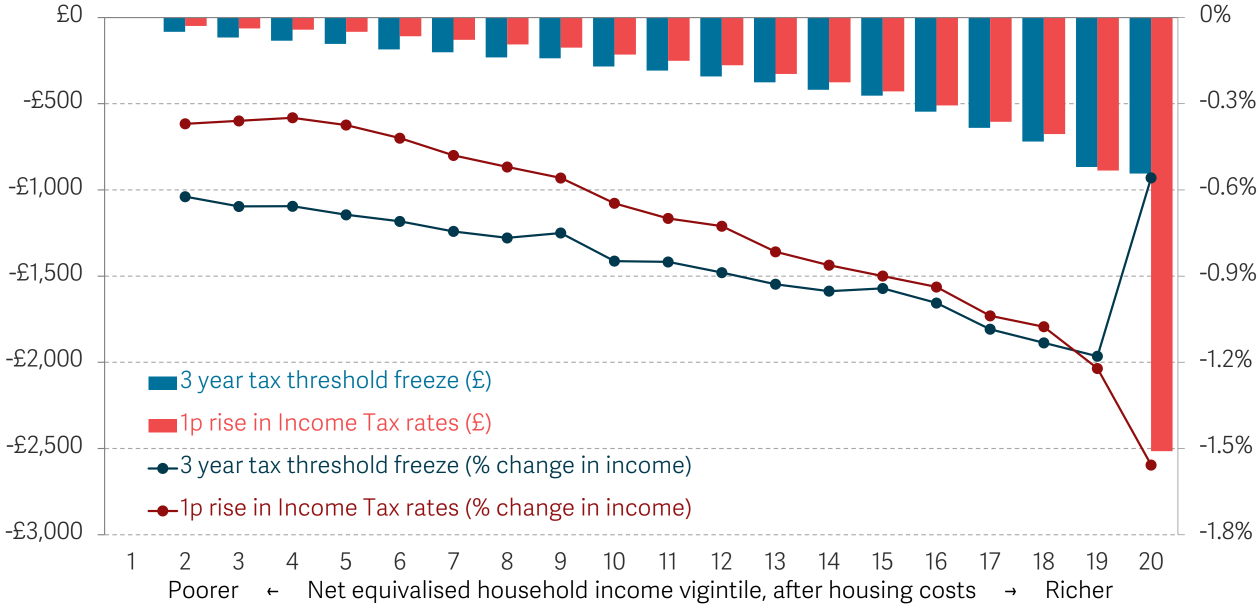


NOTES: CPI-adjusted to 2025-26 terms.
SOURCE: RF analysis with projection based on OBR, Economic and Fiscal Outlook, November 2025.

Compared to a (manifesto-breaking) rise in Income Tax rates – which had been mooted – the distributional impact of a threshold freeze is less progressive on an individual and household level (see Figure 13). A 1p rise in Income Tax raises about the same amount of revenue as a three-year freeze in thresholds, but costs less to anyone earning less than approximately £35,000 per year. However, as we set out below, the Budget contains other measures that particularly affect the top of the income distribution.

FIGURE 13: **In isolation, threshold freezes are not as progressive as increasing all Income Tax rates**

Change in annual income as a result of alternative tax measures, by income vigintile: UK, 2030-31



Notes: Both measures are modelled as raising £12-13 billion.
Source: RF analysis of DWP, Households Below Average Income using the IPPR tax-benefit model; OBR, Economic and Fiscal Outlook, November 2025

The Budget raised large sums from a welcome change to pensions salary sacrifice

The next biggest tax measure was the capping of NI-free pensions salary sacrifice at £2,000 a year. This raises an estimated £4.7 billion in the key year of 2029-30, but this is boosted by temporary effects and diminished later by behavioural responses, so falls to £2.6 billion in 2030-31.

The main direct effect of the new policy is that employers will need to pay 15 per cent employer NI on contributions beyond the limit (for example, £150 a year if £3,000 of salary was sacrificed). But employees will also be directly affected, paying their marginal 2 per cent NI rate on this excess (£20 using the same example) if they are above the higher-rate threshold, or 8 per cent if they are basic-rate payers.

Around 25 per cent of employees use pension salary sacrifice and – although data is very limited at present – perhaps half of these would have exceeded the £2,000 limit in 2029-30.[17] So this change will affect a large number and wide range of households.

However, the tax rise will clearly fall more heavily on higher earners. Using the default contribution rate for employees under auto-enrolment of 5 per cent of qualifying earnings, a salary of over £46,000 would be needed to hit the limit – compared to the current median pay of around £33,000. Meanwhile, the very lowest earners are already excluded from salary sacrifice due to minimum wage rules.

On balance, this is a welcome, base-broadening reform – and indeed a direction that we have recommended.[18] Completely exempting employer pension contributions from employer and employee NI, both at the contribution stage and in retirement, is a very generous part of the pension tax system – and was made even more so by the previous Budget's employer NI rise. Moreover, the level of relief should not depend on the mix of employer or employee contributions – with the former being NI free and the latter attracting NI. Pension salary sacrifice enables employers to take advantage of that differential if they jump through the right hoops.

However, the change adds slightly to the overall weight of employment taxes, and therefore further worsens the bias towards self-employment, which we explore further below.

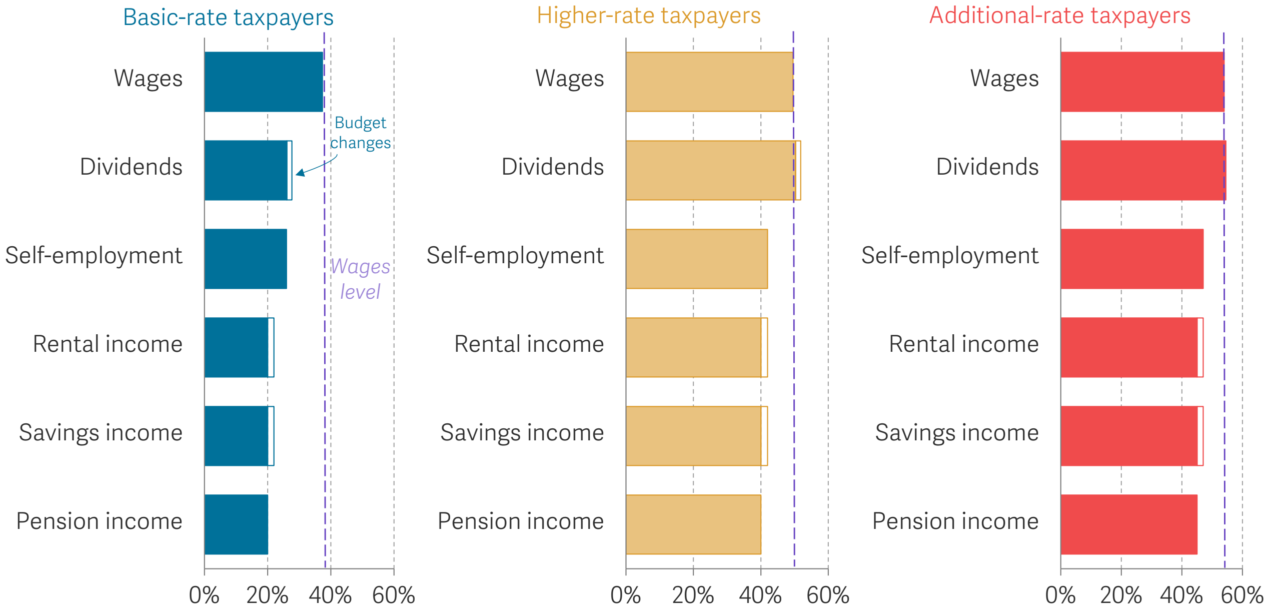
Some gaps in how different forms of income are taxed have been narrowed, though some big challenges have been ducked

The UK tax system features a wide range of poorly justified differences in tax rates between different forms of income, and this Budget has made some progress in reducing these gaps. The basic and higher rates of taxes on dividends will increase by 2 percentage points from 2026-27, and all three rates of tax on savings and property will also increase by 2 percentage points, this time from 2027-28. Given the top NI rate of 2 per cent for employees and the self-employed, one consequence of this is that marginal personal tax rates for higher earners will be aligned across a greater range of income sources at 42 per cent, and at 47 per cent for additional-rate payers. However, when employer NI is taken into account, non-wage income will continue to face much lower tax rates than working-age wages (see Figure 14).

17 ONS, Public and private sector earnings: 2019, September 2020; RF analysis of ONS, Wealth and Assets Survey.
18 M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023; A Corlett, Call of duties: Revenue and reform for Autumn Budget 2025, Resolution Foundation, September 2025, https://doi.org/10.63492/urc611.

FIGURE 14: **The Budget has improved the alignment of tax rates on different forms of income, but did not act on self-employment**

Marginal tax rates from 2027-28, including employer NI and Corporation Tax where appropriate: UK excluding Scotland



NOTES: For dividends, assumes Corporation Tax has been paid at the main UK rate of 25 per cent for higher- and additional-rate payers and the small profits rate of 19 per cent for basic-rate payers. Assumes working-age earnings. Pension income represents the State Pension, self-employment income beyond State Pension age, or private pension receipts beyond the tax-free element and which did not attract taxes at the contribution stage.
SOURCE: RF analysis.

These changes are progressive, in terms of both income and wealth. Savings income tax, for example, only applies beyond a personal savings allowance, which is £1,000 for basic-rate payers. This means that with an interest rate of 3.25 per cent, for example, someone would need personal non-ISA savings of over £30,000 to begin to be affected by this tax rise.

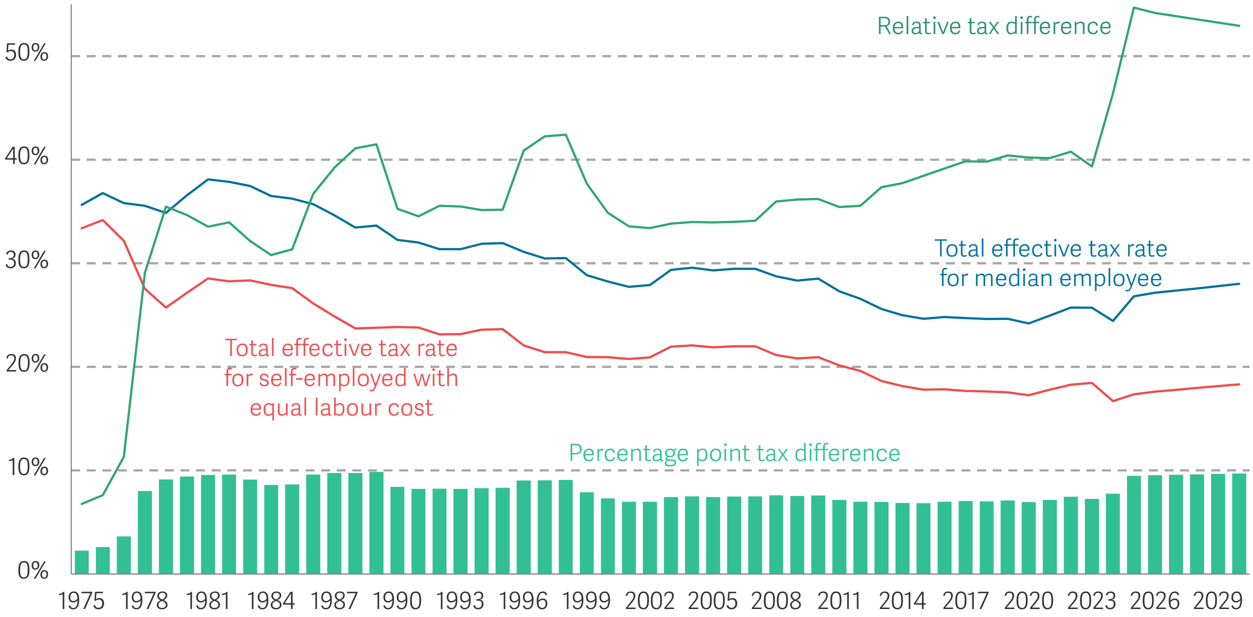
But the Budget failed to act in some important areas. Although some of today's workers (i.e. future pensioners) have been affected by salary sacrifice changes, current pensioners remain relatively lightly taxed, and yet have benefited the most from rises in pensions and health spending over recent years. Moreover, the most obvious Capital Gains Tax loopholes were not closed; the two-tier system created by the UK's high VAT registration threshold was not tackled; and there were no rate rises for self-employment income, despite rumours of a new tax on some or all partnerships to create an equivalent of employer NI. As we have noted in previous work, the difference in taxes between a typical employee and a comparable self-employed worker has been increased to a record high, which is bad for both fairness and competition.[19] Even including the NI cuts

19 A Corlett, It's personal (taxation): Taxes on typical employees aren't unusually high, but the bias against them is, Resolution Foundation, October 2025, https://doi.org/10.63492/vzw6992.

of 2024, the median employee faces an estimated 2.3 percentage point rise in their tax wedge between 2023-34 and 2030-31 (not including any salary sacrifice impacts); but an equivalent self-employed worker would have had a net 0.1 per cent fall in tax rates (see Figure 15). At this salary level, an employee would pay a record 55 per cent more tax than the equivalent self-employed worker in 2025-26, and Budget 2025 did not attempt to change this.

FIGURE 15: **While total taxes on a typical salary have risen since 2023, those on an equivalent self-employment income have not – taking the tax bias to a record high**

Total Income Tax and National Insurance as a proportion of labour cost: UK excluding Scotland



NOTES: For consistency, tax rates are for unmarried employees under 65 with non-volatile earnings, and ignore mortgage interest and pension tax relief. Based on financial years, and the tax parameters that applied in October in years where rates varied. Self-employed Class 2 NI included until 2023, when the requirement to pay this was removed.
SOURCE: RF analysis using median earnings figures from ASHE/NESPD and tax history from HMRC and IFS.

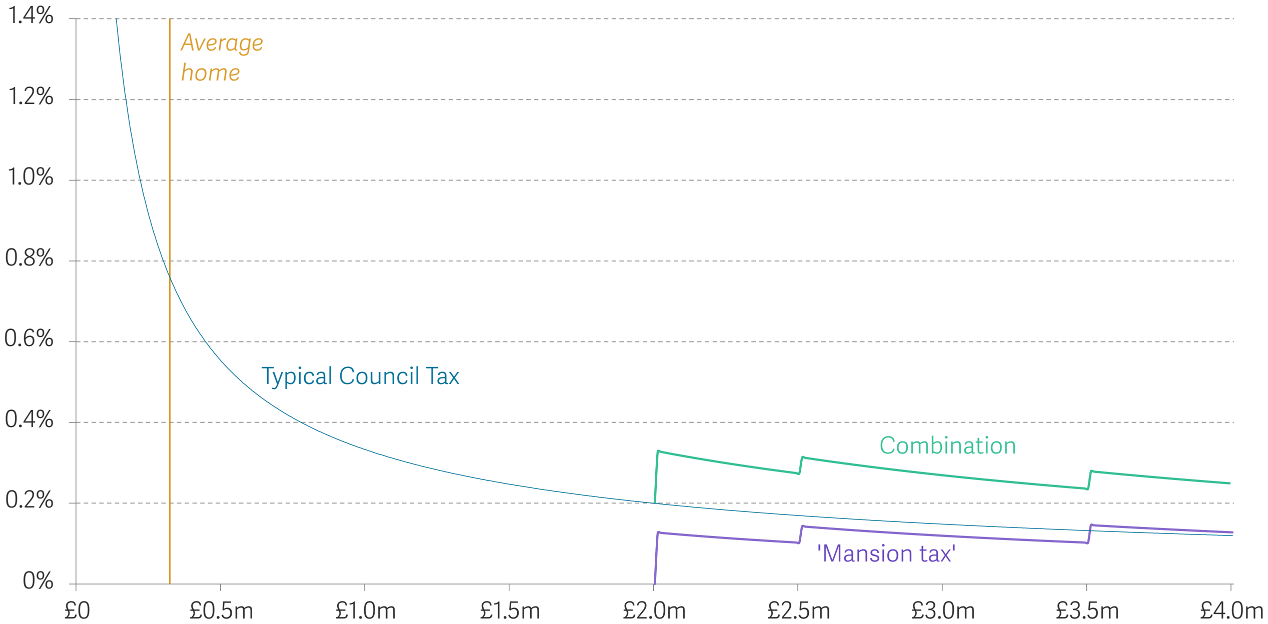
The new 'mansion tax' is a progressive shift in wealth taxation which we hope will pave the way for broader reform

A new 'High Value Council Tax Surcharge' (widely referred to as a 'mansion tax') will be introduced in England from April 2028, levied on the owners of homes worth more than £2 million. It will be collected alongside Council Tax, and like Council Tax, the annual charge will be based on banded property values. Homes valued between £2 million and £2.5 million, for example, will be liable for a charge of £2,500 a year, while properties worth over £5 million will be charged £7,500 a year.[20] The new tax will apply to an estimated 165,000 properties and is estimated to raise £430 million by 2029-30, but unlike Council Tax, mansion tax revenue will go to central government rather than local authorities.

This is a very welcome step towards a more proportional system of property taxation in England, but we should not overstate the change this represents. As Figure 16 shows, households in low- and middle-value properties currently pay more in Council Tax as a proportion of their property value than those in higher-value homes. The introduction of the mansion tax will make the property tax system moderately more progressive at the very top end of the house price distribution: the owner of a £2.5 million home is set to pay 0.3 per cent of their property value each year through Council Tax and the mansion tax combined, up from under 0.2 per cent without the new levy. Nonetheless, the existing Council Tax structure means that occupants of an average-priced home in England might pay an amount worth 0.8 per cent of the property value, and lower-value homes would pay an even more proportion.

FIGURE 16: **High-value homeowners will still enjoy a significantly lower effective tax rate on their housing wealth than most, even after the introduction of a mansion tax**

Annual property tax paid as a proportion of property value, by value of property: England, 2029-30



NOTES: House prices and Council Tax amounts in the source data have been uprated in line with OBR forecasts to provide estimates for 2029-30. Mansion tax charges have been uprated by the OBR's forecast CPI in 2028-29 to estimate levels in 2029-30. Council Tax figures are a smoothed estimate of median ratios by value band.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; ONS, UK House Price Index: monthly price statistics.

20 There will be two bands in between. Homes worth £2.5 million to £3.5 million will be charged £3,500 and homes worth £3.5 million to £5 million will be charged £5,000. See: HM Treasury, High Value Council Tax Surcharge, November 2025.

Perhaps unsurprisingly, we estimate that the vast majority (around 90 per cent) of properties affected by the mansion tax will be in London and the South East and that half of those affected will be occupied by people in the top tenth of the household income distribution.[21]

As the supply of high-end property is relatively fixed, the most likely outcome is that the mansion tax will cause the price of high-value homes to fall, meaning existing owners will lose, and future owners of expensive homes will pay less to buy them. Unlike Income Tax, VAT or Stamp Duty, no economic activity is discouraged by a mansion tax. Overall, there are therefore many good reasons to tax property using up-to-date values and in a more proportional way. And a proportional property tax is a particularly good idea when our tax system does not apply VAT to housing services, and exempts capital gains of main residences.

However, although it is a move in the right direction after decades of inaction on Council Tax reform, the mansion tax falls far short of an overhaul of the Council Tax system which many (including us) have been calling for many years.[22] In showing that routine property revaluations are possible, leaving the existing Council Tax system unchanged will be even harder to justify.[23] The mansion tax must act as a roadmap towards wider reforms, not a permanent sticking plaster.

A new per-mile charge for electric vehicles has put motoring taxes on a fairer path, and made up for around half of lost Fuel Duty from the electric vehicle transition

The shift to electric vehicles (EV) is essential for reducing the UK's carbon footprint. But the growing share of (tax-free) electric motoring will reduce Fuel Duty receipts by £7 billion in 2029-30 as EVs account for an ever-greater share of miles driven – increasing to £28 billion by 2050.[24] Moreover, half of EVs and one-in-three hybrid cars are owned by households in the highest income decile.[25] Failing to act would have seen both an erosion – and a shift in the distribution – of the motoring tax base.

So it is welcome that the Chancellor outlined plans to set motoring taxes on a fairer and more sustainable footing with a road pricing scheme for electric cars. Cars (but not vans or lorries) will pay a charge of 3p per mile and 1.5p per mile for plug-in hybrids, with an annual CPI-linked increase. The Government expects this new tax to raise £1.9 billion by

21 RF analysis of Land Registry, Price Paid data for 2024, ONS, Wealth and Assets Survey.
22 See, for example: M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.
23 Revaluations for the mansion tax will be conducted every five years. See: HM Treasury, High Value Council Tax Surcharge, November 2025.
24 A Corlett et al., Getting the green light, Resolution Foundation, October 2024, https://doi.org/10.63492/uhie438; OBR, Economic and Fiscal Outlook, November 2025.
25 RF analysis of ISER, Understanding Society.

2030-31 – or around £250 per vehicle, around half the cost of Fuel Duty and slightly more than April 2025's £195 EV Vehicle Excise Duty rise.

The Budget's announcement is a vital new step in future-proofing how the UK taxes driving. But it will offset only a quarter of the long-run loss in Fuel Duty, because of the lower rate, and because vehicles other than cars are excluded from the policy.[26] It seems likely that this lower rate was likely chosen to avoid derailing the transition to electric cars by increasing their running costs too much. But the Government's measures to reduce electricity prices, the extension of the Electric Car Grant (worth up to £3,750 on the purchase of a new EV) by another year, an increase in the expensive car supplement for electric cars from £40,000 to £50,000, the retention of EV salary sacrifice rules, and the binding minima on sales of EVs should keep the decarbonisation of private transport on track.

Even after these largely welcome changes, there remains lots to fix in the UK tax system

Alongside these major changes, the Government also announced changes to Fuel Duty and electricity 'taxes' which are dealt with below. There were also many smaller measures on gambling, capital gains, business taxes and tax collection, some of which go in the right direction, others of which do not.

Overall, the Government has raised taxes in this Budget in a reasonably fair and efficient way. But it has left the bulk of tax increases coming in dangerously close (in a political sense) to an election, leaving the tax system with many problems untouched, and without a clearly articulated strategy for reform.

Help with the cost of living

One of the Chancellor's main priorities for this Budget was to help households with the cost of living. She did this with two big measures that directly affect prices:

- a package of measures to remove £130 from household energy bills next year, costing £2.6 billion, with government support lasting until 2028-29; and
- extending the 5p Fuel Duty cut until the end of August 2026, with rates then gradually returning to March 2022 levels by March 2027. The planned increase in line with inflation for 2026-27 will also be cancelled. This package costs £2.4 billion next year, but £0.8 billion a year by the end of the forecast period.

As a result of these and other more minor changes, the OBR considers that inflation in 2026-27 will be lower by 0.4 percentage points (with a peak impact of 0.5 percentage

26 OBR, Economic and Fiscal Outlook, November 2025.

points in the second quarter of 2026).[27] Falls of this magnitude should help create space for the Bank of England to cut rates – a simple calculation based on the Bank's policy rule suggests this could allow it to bring forward one or more quarter-point cuts.[28] Inflation will then be 0.1 percentage points higher in 2027-28, primarily due to the Fuel Duty freeze ending, and in 2028-29, due to the mileage-based charge on electric cars, with almost no impact on inflation in the fourth and fifth years of the forecast.

The Chancellor also announced the full abolition of the two-child limit, at a cost of £3.1 billion in 2029-30.

We discuss these three changes in more detail below.

The Chancellor announced big cuts to energy bills, but half of the saving will only last for three years

The Chancellor's main cost of living giveaway was to intervene to bring down energy bills. This is the right choice: bills remain £600 higher than pre-energy crisis levels, are particularly salient for the public, and policy decisions are an important part of the rise in prices.[29]

The Government has done this by not renewing the Energy Company Obligation (ECO) – a scheme that helps fuel-poor households cut their energy use – and will move 75 per cent of the cost of the Renewables Obligation from electricity bills to the Exchequer.[30] Together, this will deliver savings worth £130 for the typical household in 2026-27 at a cost of £2.6 billion, more than offsetting the £70 increase in the price cap currently forecast for April 2026.[31] It will reduce the headline rate of inflation by 0.25 percentage points in 2026-27.

As Figure 17 shows, higher-income households will save more than those who are poorer (£145 for the median household in the top income quintile compared with £115 in the lowest), but poorer families will see a greater upside as a share of expenditure (0.6 per cent compared with 0.4 per cent). But because savings materialise through lower unit prices, the exact savings for households will depend on how much, and what sort of,

27 The Government also announced that all regulated rail fares in England will be frozen in March 2026, and that it will freeze the cost of prescriptions in April 2026.

28 Based on the contemporaneous Taylor-type rule described in: Bank of England, Annex 1 of the November 2025 Monetary Policy Report: Model-based policy simulations, November 2025.

29 J Marshall, Splitting the bill: How can Government help families with high energy bills?, Resolution Foundation, October 2025, https://doi.org/10.63492/hpc653.

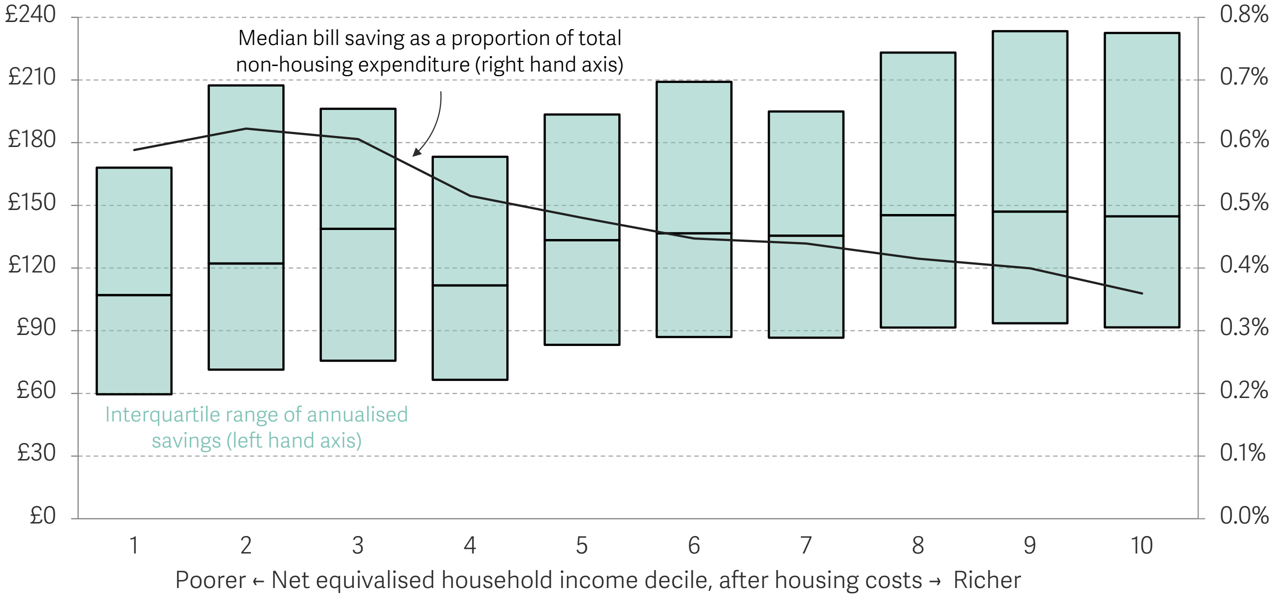
30 As per Government and Ofgem parlance, ECO refers to the cost of both ECO4 and the 'Great British Insulation Scheme'. ECO has come under significant criticism for being wasteful and funding poor quality work. See, for example: National Audit Office, Energy efficiency installations under the Energy Company Obligation, October 2025.

31 EDF, Price cap predictions, accessed 25 November 2025; Cornwall Insight, Predictions & Insights into the Default Tariff Cap (Price Cap), accessed 25 November 2025; B James, 2030 GB Electricity Bill Estimate, accessed 26 November 2025. Note that the Government places this figure slightly higher at £150 per household, but this is based on an average that includes electrically heated homes that are not on the gas grid. The typical household refers to a dual fuel customer with an electricity demand of 2,700 kilowatt hours of electricity and 11,500 kilowatt hours of gas per year. Note that there is no cost to HM Treasury from scrapping the ECO scheme.

energy they use: a low-income, high energy-using household will see a bigger cash saving than one with greater income but lower bills, as shown by the interquartile ranges in Figure 17.[32] What's more, the proportion of families for whom energy bills account for more than 10 per cent of total spending will fall from 29 to 25 per cent – much needed progress ahead of the Government's imminent Fuel Poverty Strategy.[33]

FIGURE 17: **Cutting energy bills is a boost for those on low incomes and for those with high levels of consumption**

Median and interquartile (p25-p75) range of annual savings resulting from announced energy bill measures, and median savings as a proportion of total non-housing expenditure, by after-housing-costs income decile: GB, 2026-27



NOTES: Based on Q1 2026 price cap prices. Annual consumption values derived from LCFS spending data and re-weighted to account for recent changes in Ofgem's typical domestic consumption values (TDCVs). Assumes price cuts passed through to households on fixed tariffs.
SOURCE: RF analysis of Ofgem price cap methodology; ONS, Living Costs and Food Survey.

The Government should be commended for acting in a way that reduces electricity costs more than gas costs: nearly three-quarters (72 per cent) of the announced savings will fall on electricity bills.[34] However, the Budget confirmed that funding to help with energy bills will only last for three years, with £55 set to be added back onto electricity bills in 2029-30. This is concerning considering forecasts that electricity bills will continue to rise for the rest of the decade – driven to a large extent by the continued (and increasing) use of energy bills as a means of funding wider government policy.[35]

32 Renewables Obligation costs are levied on electricity unit prices and ECO costs are spread across gas and electricity unit prices. No measures announced will impact standing charges.
33 RF analysis of ONS Living Costs and Food Survey, Ofgem Price Cap Methodology, OBR EFO data.
34 For more on the importance of cheap electricity to the net zero transition, see: E Fry & J Marshall, Electric dreams: How can we decarbonise electricity without disadvantaging poorer families?, Resolution Foundation, April 2024.
35 B James, 2030 GB Electricity Bill Estimate, accessed 26 November 2025

Another Fuel Duty freeze will provide respite for motorists, but more welcome are plans for a gradual unwinding of the 'temporary' 5p cut

The Chancellor once again froze the uprating of Fuel Duty by RPI and extended the 'temporary' 5p cut (that was due to expire in March 2026) until September 2026. As such, 9p will not be added to the cost of a litre of petrol and diesel, saving the typical driver £89 per year and chipping 0.13 percentage points off the headline inflation rate.[36]

In contrast to energy prices, which have increased rapidly, petrol prices have fallen significantly (29 per cent in real terms) since the 5p cut was introduced as a temporary measure in 2022, and Brent oil futures prices are down close to $10 per barrel over the past year.[37] This undermines framing this policy as a cost of living measure.

These measures cost £2.4 billion in lost tax receipts over the next financial year. But, encouragingly, the Chancellor announced a 'gradual' removal of the 5p cut between September 2026 and March 2027. This in theory is a good way to unwind this giveaway, but the fact remains that no Chancellor has managed to increase Fuel Duty for 16 years – at a cumulative cost of £120 billion.[38] Delivering on this pledge, and re-instating inflation-linked upratings, is essential to restoring an important source of Government revenue – especially when taxes on electric vehicles are being increased.

The two-child limit has been fully repealed

We let out a cheer at the Budget announcement that the Government will fully repeal the two-child limit, with effect from April 2026. The rule, which means that the vast majority of families in receipt of means-tested benefits are currently ineligible for additional support with any third or subsequent child born since April 2017, is a poverty-producing policy.[39] Its repeal will cost Government £3.1 billion by 2029-30,[40] a significant spend, but the full removal of the limit is the most cost-efficient single measure to bring down child poverty in the UK over the course of this Parliament.[41] After taking into account the benefit cap (discussed further below), an estimated 560,000 families will gain an average of £5,310 in 2029-30.

Although the Government's full Child Poverty Strategy is yet to be published, measures that have already been confirmed (removing the two-child limit together, the extension of Free School Meals to all families on Universal Credit in England from next year, the

36 OBR, Economic and Fiscal Outlook, November 2025.
37 Source: The Intercontinental Exchange.
38 OBR, Economic and Fiscal Outlook, November 2025.
39 See, for example: K Stewart, The two-child limit: A growing hole in the UK's safety net, LSE Research for the World, September 2023.
40 Table 4.1 in HMT, Budget 2025: Strong foundations, secure future, HMT, November 2025. This figure includes block grant to Northern Ireland. In contrast, the OBR excludes this element in their £3.0 billion costing of the two-child limit's repeal for 2029-30 in Table 3.2 in: OBR, Economic and Fiscal Outlook, November 2025.
41 For further details, see: A Clegg & L Judge, No half measures: Setting child poverty on a downward course at the Autumn Budget, October 2025, https://doi.org/10.63492/lmc139.

expansion of Breakfast Clubs, and the over-indexation of the UC standard allowance over the next four years) look set to have a significant impact on the number of children growing up in poverty. The Government estimates that there will be 450,000 fewer children growing up in poverty in the UK in 2029-30 as a result of the two-child limit repeal than would otherwise be the case.[42]

The majority (63 per cent) of families affected by the policy have three children, while for all the headlines they attract, families with six or more children constitute just 4 per cent of those affected by the two-child limit. Moreover, close to six-in-ten (59 per cent) families affected contained at least one person in work, while four-in-ten (40 per cent) have a family member with a health condition or disability of sufficient gravity for them to be in receipt of a relevant benefit.[43]

However, there are a number of low-income families who may expect to benefit from the repeal of the two-child limit, but who in practice will enjoy little or no income gain as they subsequently fall foul of the benefit cap, a separate policy that limits a family's total benefit income if they are not working or receiving a health-related benefit.[44] In May 2025, 124,000 families in the UK were subject to the benefit cap, a number that will be increasing over time given the current policy of freezing the level of the cap in nominal terms.[45] Of families currently affected by the two-child limit, around 38,000 are hit by the benefit cap too, meaning they will not gain from the two-child limit's repeal. There are no official figures for how many families are likely to be benefit capped in the future, but our best estimate is that by the end of 2029-30, 150,000 to 200,000 families in total will see their benefit income capped, 15,000 to 25,000 of whom would not be hit by the cap if the two-child limit were still in place (and so will not benefit in full from the two-child limit removal).[46] Repealing the benefit cap would cost the Government an additional £1 billion in 2029-30.

Alongside this big social security spend, the Government announced a number of small changes to the benefits system that they expect to save money in the coming years. First, it indicated it will extend Targeted Case Reviews of UC claimants into 2030-31, saving £1.3 billion in that year, and the accuracy of Pension Credit claims will be improved (scored to save £75 million in 2029-30). Second, more face-to-face assessments for health and disability benefit claimants are expected to save the Government £580 million by 2029-30. Third, pensioner Housing Benefit and Pension Credit administration will be

42 HM Treasury, Budget 2025: Strong foundations, secure future, November 2025.
43 DWP, Universal Credit Claimants statistics on the two-child limit policy, April 2025, July 2025.
44 Since 2013, the benefit cap has placed a cash upper limit on the amount of benefit income that out-of-work households can receive in the UK. For the latest details, see: www.gov.uk/benefit-cap.
45 DWP, Benefit cap: Number of households capped to May 2025, September 2025.
46 Source: RF analysis of DWP, Family Resources Survey using the IPPR tax benefit model. This number is relatively low for two reasons. First, many of the families affected by the two-child limit are in work or in receipt of disability benefits, both of which exempt them from the benefit cap. Second, many of the larger families will already be subject to the benefit cap.

brought together from Autumn 2026, with efficiency savings of £225 million by 2029-30. Finally, Insurance Premium Tax will be applied to vehicles leased under the Motability scheme (which helps disabled people access cars, scooters and electric wheelchairs) from July 2026, while premium vehicles leased will also be subject to VAT, raising £280 million in 2029-30; the Treasury assumes that just over a third of this will be borne by the disabled people who use Motability.[47]

New help with the cost of living and the top-heavy tightening in policy means this Budget changes incomes in a relatively progressive way

We have shown above how Budget 2025 implemented a large, if back-loaded, fiscal consolidation, but also announced measures to help families with the cost of living. In this section we show what those changes taken together mean for families across the UK. We do this by first looking at what Budget 2025 (and other changes made since Budget 2024) mean for some example families, before showing the overall distributional impact of the main tax and benefit changes. We then zoom out to look at all the impact of all changes announced since the general election, both those to taxes and benefits directly affecting households, and those to public services. Finally, we look at what the OBR think the changes to the economic outlook and policy means for the Government's preferred measure of living standards, real household disposable income (RHDI).

In 2028-29, many typical families will benefit from the policy package announced in this Budget

The impact of the key measures announced since the last Budget on ten typical families is shown in Table 1. This shows us that, across a range of typical families, most will benefit in 2028-29 from the combination of policies announced since Budget 2024.[48]

Of course, the majority of working families are hit by the freeze to income tax thresholds: these amount to an annual reduction in income of £73 for basic-rate taxpayers and an annual reduction in income of £222 for higher-rate taxpayers in 2028-29 (i.e. after one year of the additional freeze); for basic-rate pensioners – who do not pay National Insurance – the impact of these freezes is less, at just £52 per year.

But for most families, the impact of these threshold freezes in 2028-29 will be offset by other policy changes, most notably, the energy bill measures. And for low-income families, especially those with children, this impact will certainly be outweighed by

47 See page 24 of HM Treasury, Budget 2025: Policy Costings, November 2025. A separate change to the scheme means that so-called 'premium' brands will no longer be available.

48 In our case study modelling, we include the key policy changes that affect the incomes of typical families (see notes for Table 1 for a full list). This means we do not model all of the policy changes announced since last year's Budget – for example, we do not model changes to tax on rental income or Capital Gains Tax.

increases in social security entitlements, including the ending of the two-child limit, increases to the Universal Credit standard allowance, and an expansion of Free School Meals. For example:

- A single parent in London with three children who is working full-time at the National Living Wage would be £4,960 per year better off in 2028-29 (in 2025-26 prices), as they benefit from changes to Universal Credit (including the two-child limit), energy bill measures (more so than average as they are a high energy-use family) and the fact that Fuel Duty is not being increased with inflation. For this family, these policy giveaways far outweigh the impact of frozen Income Tax thresholds.
- A typical couple in the South East with two children, earning low-to-median wages, would also benefit, albeit from a lower amount (£235 per year). Although they are worse off as a result of frozen tax thresholds, this would be outweighed by energy bill measures and rail fare freezes.
- A typical single adult on with relatively high earnings will be worse off in 2028-29: someone earning a high wage in London and who drives an electric vehicle will be worse off by £295 per year (in 2025-26 prices). This is because they are hit by the Income Tax threshold freezes and changes to EV policies, and only benefit slightly from the energy policy giveaways (as they are a low-energy-use household).

TABLE 1: **Key measures since Budget 2024 will result in many typical families being better off in 2028-29 than would otherwise have been the case**

Change in annual income (in 2025-26 prices) as a result of the key measures announced since Autumn Budget 2024, for ten specimen families: 2028-29

Household type	Household income decile	Annual income change in 2028-29 (in 2025-26 prices), due to...			Total annual income change in 2028-29 (in 2025-26 prices)
		Tax and benefit policy	*Energy policy*	*Transport policy*	
Single parent with four children, not working and subject to the benefit cap, lives in London, does not drive	1	£0	+£135	£0	+£135
Single parent with three children, working full-time at the NLW, lives in Wales, drives a petrol car	3	+£4,750	+£135	+£75	+£4,960
Single adult, unemployed, lives in the North East, does not drive	3	+£195	+£85	£0	+£280
Single parent with one child, working part-time at the NLW, lives in the North West, drives an electric vehicle	4	+£670	+£90	-£270	+£490
Couple with two children, both working low-to-median wage jobs, live in the the South East, commute by rail	4	-£135	+£195	+£175	+£235
Single adult, working full-time at the NLW, lives in the South West, drives a petrol car	5	-£70	+£85	+£75	+£90
Single pensioner, receives average private pension income, lives in the East Midlands, does not drive	5	+£140	+£75	£0	+£215
Pensioner couple, both receive average private pension income, live in Yorkshire and the Humber, drive a petrol car	7	-£100	+£120	+£45	+£65
Couple without children, both work full-time at median-to-high wage jobs, live in the South West, drive a petrol car	8	-£275	+£130	+£75	-£70
Single adult, works full-time in a high-paid job, lives in London, drives an electric vehicle	9	-£210	+£85	-£170	-£295

NOTES: This modelling includes: changes to Income Tax thresholds, removal of the two-child limit, Universal Credit rebalancing, Free School Meals expansion, Winter Fuel Payment expansion, energy bills measures, fuel duty changes, electric vehicle tax changes and rail fare freezes. Household income deciles are calculated on a pre-measures basis.
SOURCE: RF case study model; RF analysis of DWP, Households Below Average Income.

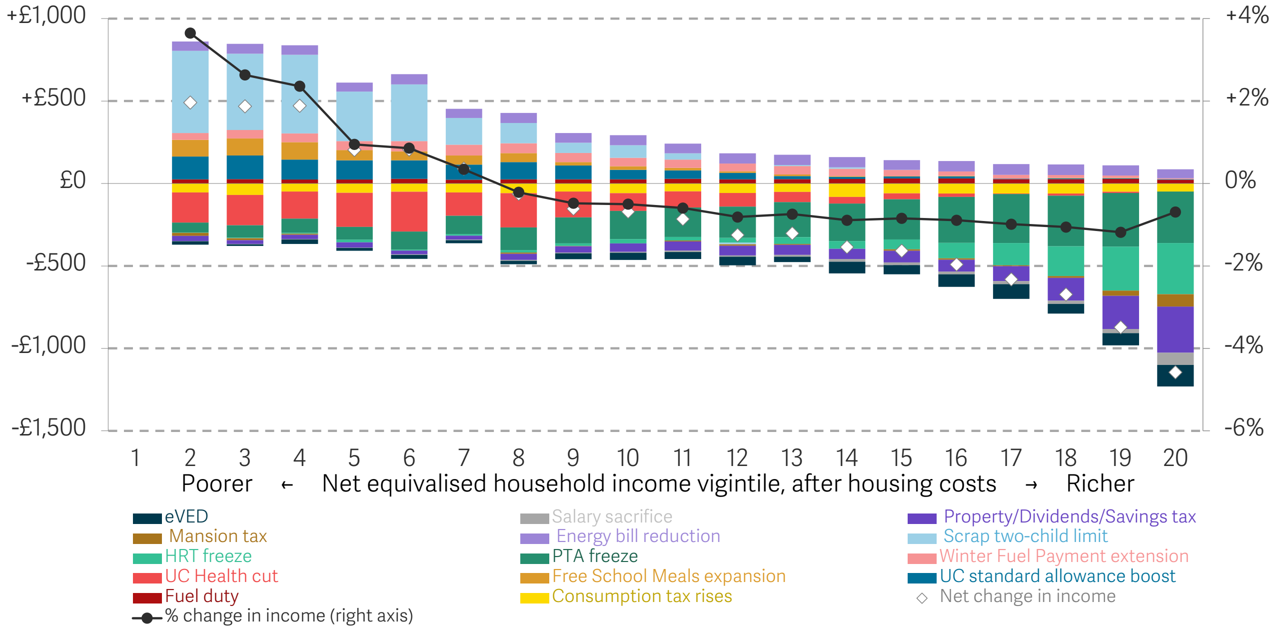
The analysis In Table 1 shows the position in 2028-29, which is the first year of the newly announced three-year freeze to tax thresholds. In 2026-27 and 2027-28, the tax threshold freezes will not yet have kicked in, and so policies announced in since Budget 2024 will lead to many typical households being better off (even though the 5p temporary Fuel Duty cut is due to have ended by then). On the other hand, the phasing out of most of the support for energy bills by 2028-29 means that, if we had focused on what the measures announced since Autumn Budget 2024 mean for families in that fiscal year, then the conclusions would have been much more negative.

Households in the bottom half of the distribution have gained, on average, from tax and benefit changes since Autumn Budget 2024

Figure 18 shows that, overall, the combination of tax rises and giveaways since last year's Autumn Budget is progressive, with incomes for households in the bottom half of the distribution increasing by 1.0 per cent and incomes for households in the top half falling by 0.7 per cent.[49] (Box 2 discusses what measures have and have not been included in this analysis.)

FIGURE 18: **Permanent tax and benefit changes since Autumn Budget 2024 have been progressive**

Change in annual income in cash terms (left-hand side) and as share of income (right-hand side), as a result of tax and benefit policy changes announced since Autumn Budget 2024, by income vigintile: UK, 2029-30



NOTES: Shows change in disposable household income per household, after housing costs. Winter Fuel Payment extension refers to extending eligibility for WFPs to pensioners with an income up to £35,000 a year. UC Health cut refers to cutting and then freezing UC Health for new claimants, and uprating UC Health for current claimants by less than inflation. UC standard allowance boost refers to its above-inflation uprating. Free School Meals expansion refers to extending them to children in families on UC in England. PTA freeze and HRT freeze are the three-year freeze to the personal tax allowance and higher rate threshold. Energy bill reduction refers to moving the funding of certain energy bill levies from energy bills to being funded by the Exchequer. Manion tax refers to the High Value Council Tax Surcharge. Property/dividends/savings tax refers to the 2p increase on income tax for those forms of income. Consumption tax rises includes changes to gambling taxes, the soft drink levy, Air Passenger Duty, and taxes on taxis. Consumption tax cuts includes changes to Fuel Duty. Salary sacrifice refers to charging employer and employee NICs on salary sacrificed pension contributions above £2,000 a year. eVED refers to Electric Vehicle Excise Duty.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR Tax-Benefit Model; ISER, Understanding Society; ONS, Living Costs and Food Survey; ONS, Wealth and Assets Survey.

49 The main measures announced between Autumn Budgets 2024 and 2025 were welfare changes, including: the partial U-turn to means-testing Winter Fuel Allowance, the increase to the standard allowance of UC, and the cut to UC-H for new claimants.

The biggest boost to incomes for the poorest comes from the removal of the two-child limit. This only benefits families with three or more children claiming UC, of course, but the income gains for these families are large, around £3,570 per extra child element received in 2029-30 (2025-26 prices); the average increase in income from this change across all households in the poorest fifth of the distribution is £360. Smaller but more evenly distributed boosts come from the over-indexation of the UC standard allowance, which benefits all families receiving UC that do not get the LCWRA element, and from the changes to energy costs, which reduce bills for households right across the distribution. The extension of Free School Meals will benefit working parents on UC in England, while pensioners with incomes below £35,000 benefit from the partial reversal of last year's Winter Fuel Payment cut.

Offsetting these income boosts are the freezes in Income Tax and National Insurance thresholds until April 2030, which reduce incomes across the distribution but hit the richest households hardest in cash terms, with households in the richest fifth losing around £540 on average compared to around £64 for those in the poorest fifth. The new 'mansion tax' also disproportionately impacts the richest households: those in the richest tenth lose £50 on average, compared to an average of £5 for bottom half. And households in the bottom half will lose an average of £160 from the cut to the UC-Health element, but this will only impact new claimants from April 2026.

BOX 2: **What measures are included in our distributional analysis?**

Broadly, our distributional analysis of changes to taxes and benefits includes those that directly affect household incomes. For example, when considering the changes announced since the Autumn Budget 2024, we model the freeze to Income Tax thresholds, consumption taxes – such as gambling and fuel duties – and welfare changes including the end to the two-child limit. But we do not model many of the 'smorgasbord' of tax changes, including changes to Capital Gains Tax or measures that affect tax administration, compliance and debt collection.

For our distributional analysis of public spending, we take a similar approach by modelling the changes which deliver tangible benefits-in-kind to households.[50] That is, we model changes in spending to public services in departments like Health and Education, where households would otherwise have to pay for these services themselves, but do not model

50 For more information about our methodology for distributional analysis of changes to spending on public services, see: C. Aref-Adib, E. Fry & Z. Leather, At your service?: Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.

changes in spending to departments like Defence or the FCDO.

Overall, in our distributional analysis we model just over half (52 per cent) of the total tax changes announced since Autumn Budget 2024 and the majority (85 per cent) of the total welfare spending changes; we model £20 billion of the total £34 billion positive and negative movements in tax and welfare. Meanwhile, for public spending (RDEL), we model 70 per cent of the total changes announce since Autumn Budget (£47 billion of the total £67 billion of positive and negative movements in departmental settlements by 2028-29).

It is therefore important to note that we model a higher proportion of changes to public spending than we do changes to taxes; and it is also true that the total amount of tax raised since Autumn Budget 2024 does not equal the amount of additional public spending (since the Government has also increased borrowing). As a result, our distribution analysis of changes to tax and benefits and our distributional analysis of changes to public spending cannot sensibly be combined.

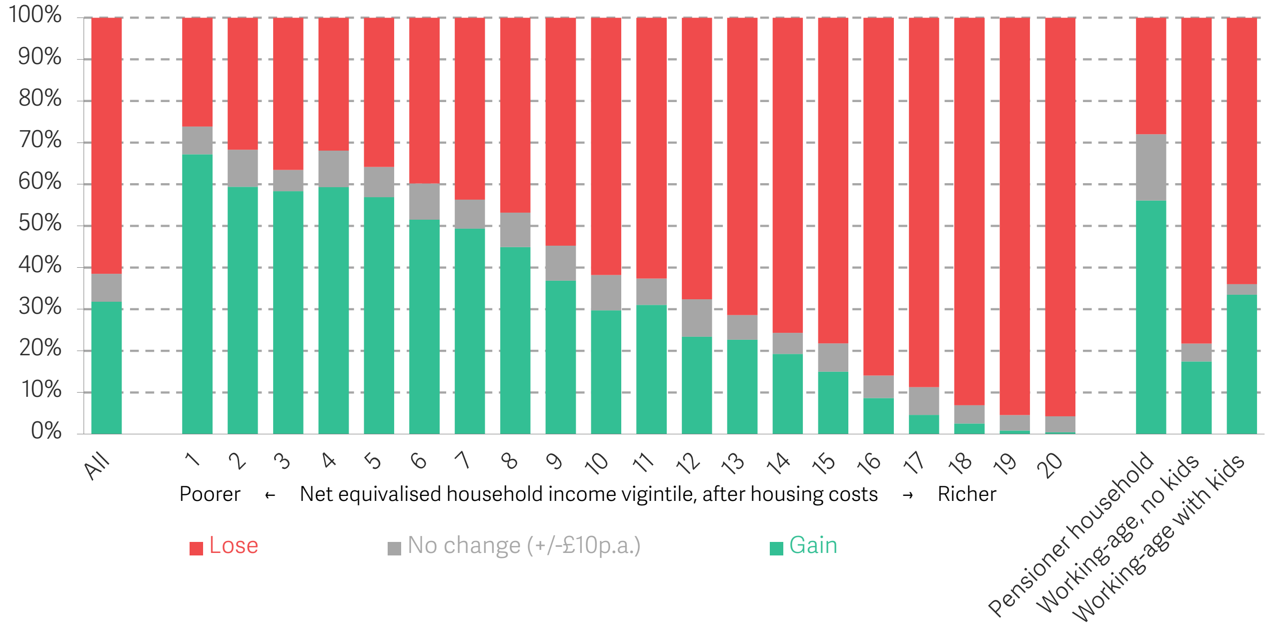
Finally, we note that our distributional analysis is not exactly comparable to that published by the Treasury.[51] First, the Treasury analysis models changes in 2028-29, while our analysis of changes to taxes and benefits focuses on 2029-30 (the final full year of this Parliament, and when the Chancellor's fiscal rules bite). Second, the precise list of measures included in the Treasury distributional analysis is slightly different to the list of measures included in ours.

Although some of the biggest gains go to a limited group of households, the combined impact of the energy price cut, the Fuel Duty freeze, and the new benefit policies announced since Autumn Budget 2024 outweigh the new tax rises for half (51 per cent) of households in the bottom half of the distribution, and two-thirds (64 per cent) of households in the poorest decile. In contrast, four-fifths (78 per cent) of households in the top half, and almost all (96 per cent) of households in the richest decile, will find themselves worse off overall (see Figure 19).

51 HM Treasury, Impact on households: distributional analysis to accompany Budget 2025, HM Treasury November 2025.

FIGURE 19: **Two-thirds of households in the bottom decile of the income distribution gain from tax and benefit policies announced since Autumn Budget 2024**

Share of households receiving a net gain/loss from tax and benefit policies announced since Autumn Budget 2024, in 2029-30: UK



NOTES: Policies included are listed in the notes of . Based on change in disposable household income per household, after housing costs.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR Tax-Benefit Model; ISER, Understanding Society; ONS, Living Costs and Food Survey; ONS, Wealth and Assets Survey.

Across the Government's first two Budgets, the Government has announced tax rises to fund higher public spending and more generous welfare benefits for families

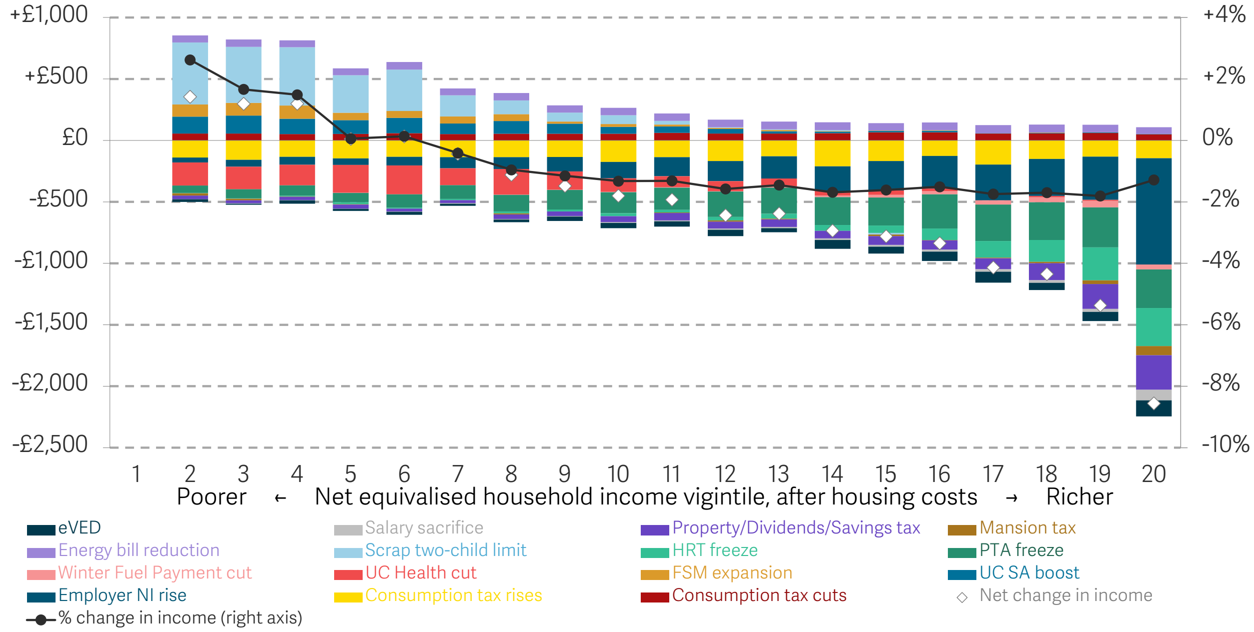
Stepping back, compared to the plans of the previous government, the Labour Government has increased taxes (in 2028-29) by a net £56 billion. This has been spent on increases in day-to-day spending of a net £46 billion, and additional welfare spending of a net £3 billion. The Government has also increased investment by a net £30 billion, leaving borrowing £48 billion higher (after also taking account of the impact of the tax and spending decisions on the economy).

In this sub-section, we show an estimate of how those changes to taxes, welfare and public services have affected households in different parts of the income distribution. But it is important to remember, as we set out in Box 2, that we have not been able to model all of the changes announced in the past two Budgets. In particular, we model just over half (52 per cent) of the total tax changes announced since Autumn Budget 2024, the vast majority (85 per cent) of the total welfare spending changes, and 70 per cent of the total changes to RDEL announced since Autumn Budget 2024. This means we model a higher proportion of changes to public spending than we do changes to taxes, and it is also true that the total amount of tax raised since Autumn Budget 2024 does not equal the amount of additional public spending (since the Government has also increased borrowing). As a result, our distribution analysis of changes to tax and benefits and our distributional analysis of changes to public spending cannot sensibly be combined.

With that in mind, Figure 20 shows the cumulative impact of tax and benefit policies announced by this Government. It shows that incomes of households in the bottom half will be reduced by 0.1 per cent on average in 2029-30 from the changes announced by this Government so far, while incomes for the top half will fall by 1.4 per cent. However, although the size of the income losses for the top half increases further up the income distribution, the losses are relatively flat as a proportion of incomes, with deciles 6 to 10 all losing between 1.5 per cent and 1.7 per cent of their income on average. This is a very different picture from that which was estimated after the Spring Statement, when planned cuts to health and disability benefits were set to have a greater impact on the income of poorer households than the rises in employer NICs and consumption taxes would have on richer households (assessed as a proportion of their income). Announcements since then have changed the picture, partly due to the U-turn on cuts to PIP and UC-Health, and partly due to the Budget 2025 decisions to scrap the two-child limit and freeze tax thresholds.

FIGURE 20: **The distributional impact of tax and benefit policies announced this Parliament is progressive**

Change in annual income in cash terms (left-hand side) and as share of income (right-hand side), as a result of tax and benefit policy changes announced this Parliament, by income vigintile: UK, 2029-30



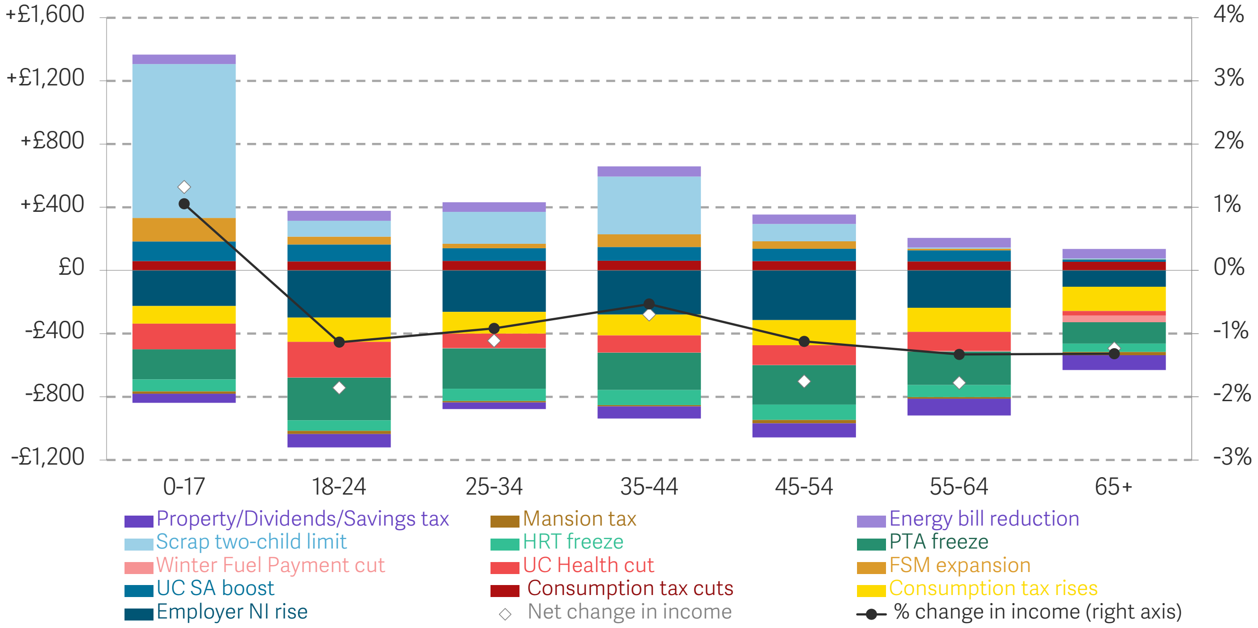
NOTES: Shows change in disposable household income per household, after housing costs. Employer NI rise refers to cutting the tax threshold and increasing the rate to 15 per cent. Winter Fuel Payment extension refers to extending eligibility for WFPs to pensioners with an income up to £35,000 a year. UC Health cut refers to cutting and then freezing UC Health for new claimants, and uprating UC Health for current claimants by less than inflation. UC standard allowance boost refers to its above-inflation uprating. Free School Meals expansion refers to extending them to children in families on UC in England. PTA freeze and HRT freeze are the three-year freeze to the personal tax allowance and higher rate threshold. Energy bill reduction refers to moving the funding of certain energy bill levies from energy bills to being funded by the Exchequer. Manion tax refers to the High Value Council Tax Surcharge. Property/dividends/savings tax refers to the 2p increase on income tax for those forms of income. Consumption tax rises includes changes to gambling taxes, the soft drink levy, Air Passenger Duty, taxes on taxis, private school taxes, Vehicle Excise Duty, and tobacco and vaping duties. Consumption tax cuts includes changes to Alcohol Duty and Fuel Duty. Salary sacrifice refers to charging employer and employee NICs on salary sacrificed pension contributions above £2,000 a year. eVED refers to Electric Vehicle Excise Duty.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR Tax-Benefit Model; ISER, Understanding Society; ONS, Living Costs and Food Survey; ONS, Wealth and Assets Survey.

Figure 21 shows the impact of policy changes this Parliament across the age distribution. Children are the only age group who are net winners (with a 1.0 per cent boost to their household incomes on average), chiefly due to the abolition of the two-child limit, the expansion of Free School Meals to children in families receiving UC in England, and the above-inflation increases to the Universal Credit standard allowance. All adult age groups lose out on average, but those aged 35-to-44 years do slightly less bad than the other age groups, mostly because they are more likely to be parents than other age groups and therefore benefit from the scrapping of the two-child limit. They lose 0.6 per cent of their incomes on average, compared to 1.4 per cent for those aged 55-to-64 years and 1.3 per cent for over-65s. These age groups lose from the tax threshold freezes and Autumn

Budget 2024's employer NI and consumption tax rises, and are less likely to have this offset by boosts to benefit income.

FIGURE 21: **Tax and benefit measures announced this Parliament so far benefit children the most**

Change in annual income in cash terms (left-hand side) and as share of income (right-hand side), as a result of tax and benefit policy changes announced this Parliament, by age group: UK, 2029-30

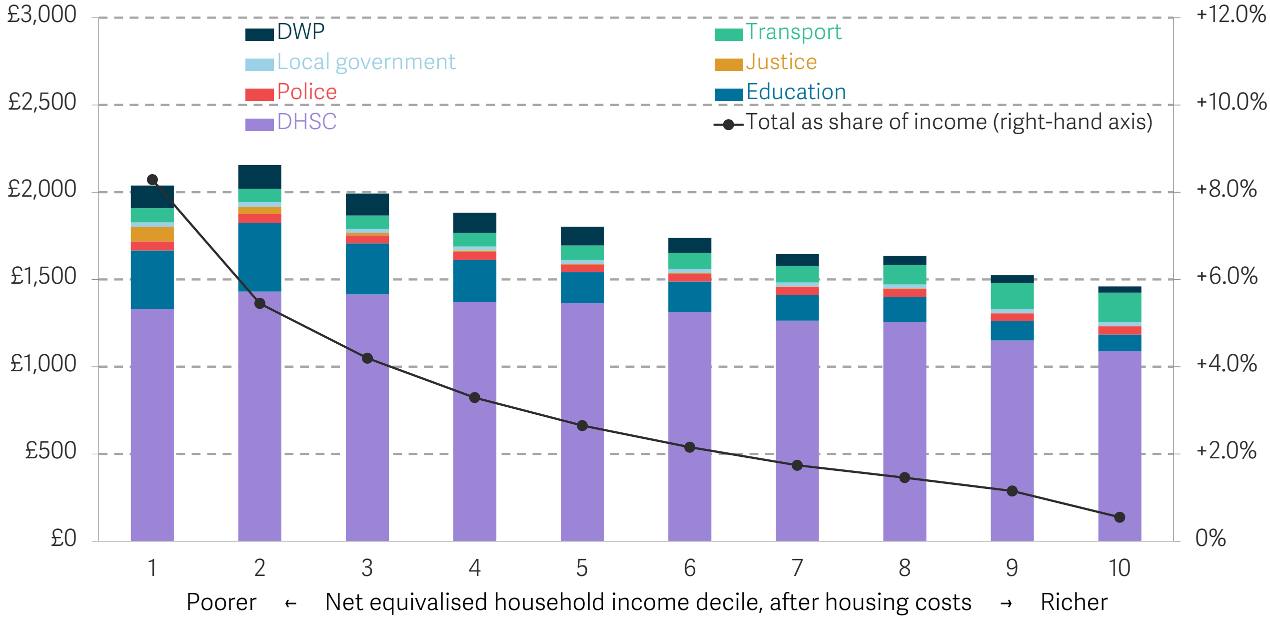


NOTES: Policies included are listed in the notes of Figure 20. Shows change in disposable household income per person, after housing costs.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR Tax-Benefit Model; ISER, Understanding Society; ONS, Living Costs and Food Survey; ONS, Wealth and Assets Survey.

As we explained above, the Government's new taxes are fuelling substantially more spending on day to day public services than the previous Government's plans. Much of this spending directly benefits households. Figure 22 shows our estimate that households will on average receive an additional £1,790 in benefits-in-kind from this Government's spending plans by 2028-29. Low and middle income households benefit more from these spending plans. The poorest fifth will receive an extra £2,100 a year of in-kind-benefits, equal to 7 per cent of disposable income, compared to £1,500 for the richest tenth, worth just 0.8 per cent of their disposable income. These increases were announced at this year's Spending Review, and this Budget has largely kept these plans.

FIGURE 22: **The Government's increases to taxes over the past two Budgets have come along with higher spending announced at Spending Review, leading to additional in-kind benefits for households**

In-kind benefits in cash terms (left-hand side) and as share of income (right-hand side) from the Government's plans compared to previous Government's plans, by equivalised household income decile: England, 2028-29



SOURCE: RF Analysis of HMT Spending documents; DWP, Households Below Average Income; Family Resources Survey; ONS, Wealth & Assets Survey; Understanding Society; National Travel Survey.
NOTES: See Annex 1 in C Aref-Adib, E Fry & Z Leather, At your service?, Resolution Foundation, April 2025 for assumptions. Police funding is treated as Home Office excluding asylum.

The outlook for living standards has deteriorated since March

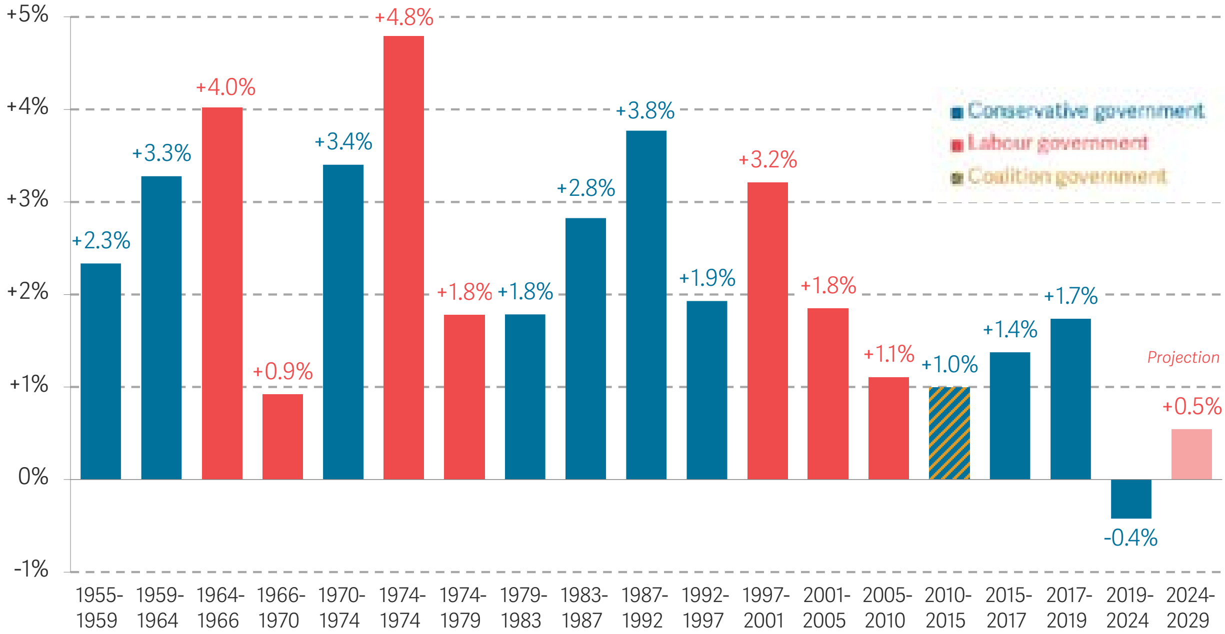
Since the start of the current Parliament, growth in RHDI per person has been relatively strong: RHDI per person grew by 2.0 per cent from Q2 2024 to Q2 2025 and has grown by 4.3 per cent in the last 18 months of outturn data. But the latest forecast is less good, with growth over the rest of the Parliament being close to zero, at 0.8 per cent (£210) between Q2 2025 and Q2 2029. In fact, the OBR's forecast for RHDI over this Parliament is weaker than their forecast in the Spring by around a quarter of a percentage point a year, on average. This largely reflects, it says, the rise in personal taxes announced in the Budget.

As a result, RHDI per person is forecast to have grown by 0.5 per cent a year on average (or £740 in total) by the end of the Parliament. This would be an improvement on the negative growth of the last Parliament, but it would still be the second worst Parliament for income growth on record, as Figure 23 shows.

Although this Budget did (rightfully) focus on easing the cost of living, the poor outlook for RHDI reflects the lacklustre forecast for growth, the fact that unemployment is set to remain above its normal levels for some time, and that more taxes rises are now pencilled in for the end of the Parliament. RHDI per person is set to grow over the 2020s by just 2 per cent (£490), much lower than growth in the 2000s and 2010s of 20 per cent (£4,000) and 12 per cent (£3,000) respectively.

FIGURE 23: **This Parliament looks set to be the second worst for income growth on record**

Annualised growth in Real Household Disposable Income per person in 2025-26 prices, by Parliament: UK



NOTES: Based on election dates and quarterly data. A quarter is included in a parliament if the quarter mostly falls within the parliament.
SOURCE: ONS, UK Economic Accounts (series CRXX); OBR, Economic and Fiscal Outlook, November 2025.

Overall, the Chancellor helped with immediate cost of living pressures, but her public finance fix relies on significant future restraint

In the event, the verdict on this pivotal Budget is inescapably mixed. Against low expectations and intense political pressure, the Chancellor's first big decision was – quite rightly – to restore some order to the public finances, and protect herself from being buffeted around by events as much in future. The Chancellor's next big (and rather anguished) choice was to duck out of straightforward rises in tax rates that would have broken manifesto promises, and instead secure the revenues she needed by reaching for a 'smorgasbord' of small tax increases. Individually, there was much in these measures to welcome, such as the modest moves towards tackling the tax privileged status of unearned income over earnings. She also deserves credit for all she has done to ease the immediate squeeze on families: help with energy bills tackles the widest problem at root, and abolition of the impoverishing two-child limit smooths the very hardest edges.

The big problem, however, on cost of living support and the public finances alike will be locking in the progress. Energy support is time-limited, and – in theory – the government will finally find the courage to do what every government has failed to do in well over a decade, and start raising the duty on petrol at the pumps next year. More generally, the Budget plan involves the government displaying enormous self-restraint, and allowing taxes to rise in the run-up to the General Election – and at the end of a Parliament where living standards will have been pretty stagnant. This is possible, but it seems fair to ask whether it is likely. That nagging question invites doubts about how the plans in this Budget will actually unfold in future. But, before we get there, we have to get through the now. And in her second Budget Rachel Reeves managed to help both the country and the battered borrowing forecasts with that.

Annex 1

Data citations

- Labour Force Survey (series page here):
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  - Department for Work and Pensions. (2021). Households Below Average Income. [data series]. 3rd Release. UK Data Service. SN: 2000022, DOI: http://doi.org/10.5255/UKDA-Series-2000022
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The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

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