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Spread thin

Analysing the Autumn 2026 Budget

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Summary

Following six months that shook the world, the Chancellor has chosen not to rock the boat. The last set of economic projections were finalised shortly before Donald Trump unleashed Operation Epic Fury, and with it a fresh and inflationary global energy crunch. Closer to home, politics was upended with Andy Burnham ousting Keir Starmer, while promising to overhaul Britain's economic model.

And yet the first Budget from his new Chancellor – in the face of a new cost of living shock and deteriorating forecasts – was remarkable for its lack of action, rather than its radicalism. Amid falling living standards, support was poorly targeted and thinly spread. Little effort was made to repair the damage done to the public finances through higher debt interest costs. Overall, the absolute value of giveaways and clawbacks totted up to just £7 billion, making it an altogether more modest affair than Rachel Reeves' two Budgets, across which this figure averaged £72 billion.

'First do no harm' is a fine principle when things are moving the right way. The difficulty for a new Prime Minister and Chancellor, however, is that they will have to defend their light touch at a time when the country is feeling a sharp pinch. Having grown early in this Parliament, living standards are now set to fall in the next few years. The 2020s look set to be an almost completely lost decade for living standards. It is no wonder voters keep agitating for change – this Budget did not deliver it.

The rising borrowing bill

Some of the changing economic conditions flowing from war-related disruptions offset each other where the public finances are concerned. Yes, there is a hit to growth over the next couple of years (after a modestly stronger 2026) but there is also higher inflation, which tends to swell the government's coffers. What can't be offset, however, are rising government borrowing costs in volatile global markets. The 20-year rate on gilts, for example, has risen by 44 basis points since the Spring. From a starting position of high public debt, the effect will eventually be to add £13 billion to the government's interest bill. This more than accounts for the overall average annual increase of £11 billion in public borrowing which the Office for Budget Responsibility (OBR) projected over the forecast period (before factoring in anything announced on the day).

This slippage was the starting point for Healey, and it was hard for him to know even if the slippage had stopped, because markets have continued to move since the OBR closed its forecast. Had the fiscal forecasts been read at the recent peak of rates, it would have added around £2 billion in extra debt interest costs.

Sharpening dilemmas

Two considerations sharpened the dilemmas that this deterioration posed for the new Chancellor. First, the looming effect on families (for whom inflation has none of the upside that the Exchequer enjoys) of further hikes in the price of essentials, extending a five-year cost of living crisis. Second, the tension between pencilled-in plans to barely grow departmental spending for the rest of the Parliament and the ambitions of a new Prime Minister and Cabinet. Most acutely, Healey himself had previously resigned as Defence Secretary in objection to tight military budgets.

For all these reasons, this should have been a Budget for confronting, rather than ducking, Britain's fiscal bind. In the event, Healey has not been bold.

On the tax side, he has brought in an average of about £5 billion annually from next year: by (temporarily) levying the banks, ramping up charges on gambling machines and, more substantially, a range of technical measures to close the 'tax gap', bringing over £3 billion annually by 2030-31. He has usefully edged tax rates on savings and rental income up towards those on earnings, but missed the chance to embrace a more general approach to tax reform which could, potentially, have boosted economic output and public revenues at the same time. Indeed, minor Budget moves on the taxation of some pensioners and entrepreneurs drift in the direction of adding more complexity to an already-creaking system.

On the spending side, the supposedly fixed spending totals in the current Spending Review period were topped up by an average of £3 billion a year (for the day-to-day spending known as 'RDEL'); twice the level of funding given to households in cost of living support. While higher inflation does eat away at the value of spending plans, there is an offsetting force at play. A reduction in the projected population reduces the number of people public services have to cover, and so mechanically raises expenditure per head. These effects broadly net out: a smaller population and extra cash announced in this Budget roughly offset the hit from higher inflation, leaving real RDEL per person comparable to the March 2026 forecast. This leaves the real-terms per-person value of RDEL spending around £100 higher than anticipated when the Treasury initially did the Spending Review.

Recalibrating the state

More consequential could be the shifting balance between departments. Part of the increase in day-to-day totals was to accommodate the previously published Defence Investment Plan, while the bigger problem of progress towards NATO's 2035 defence budget target of 3.5 per cent of GDP was shunted to next year's Spending Review. This is looking tough for all the residual services not covered by the shields thrown over health,

education and defence. If the Chancellor is serious about sticking to his overall plans – which is far from certain – then all the unprotected areas (which include justice, local government and jobcentres) will dwindle from 5.4 per cent of GDP this year to 4.7 per cent of GDP in 2031-32. That is close to a record low, and indeed lower than it was when Labour arrived in power.

Away from public services, one big and welcome change in outlays on transfer payments was prefigured by Burnham's recent move to rewrite the arbitrary and unsustainable pensions triple lock. The switch takes effect in 2030-31, but the savings are uncertain and accrue very gradually, and the OBR noted the reform is not due to alter State Pension expenditure within the forecast period. Another, far smaller, move announced is to eliminate the benefit 'cliff edge' that unpaid carers in receipt of Carer's Allowance tumble over when they cross an earnings limit. This comes with a modest £80 million cost by 2031-32, though carers will have to wait until 2030 for the change to come in.

Beyond that, the Chancellor had little to say about social security, not least because the Milburn Review on young people and work and the Timms Review on Personal Independence Payment (PIP) have yet to report. But the issues that the Government will now need to resolve in a White Paper next year remain thorny: hardship is widespread among both economically inactive young people and disabled claimants. But if PIP can be focused more squarely on the extra costs that it was designed to cover, then that could yield savings, and thereby help to fund employment support for young people. Such a joined-up approach would be far preferable to making a raid that singles out younger claimants.

Crude comfort

Some decisions couldn't be delayed: most importantly dealing with the cost of living consequences of a sharp rise in the Ofgem energy price cap in January, which is forecast to push the typical dual-fuel household bill to £2,192 next year (an increase of over £600 on a year earlier, calculated on a consistent basis). Healey had previously signalled an understanding that a principled balance between public and family finances required a tight focus on the vulnerable, and rightly rejected an unaffordable, across-the-board subsidy. But his main chosen channel for relief – a £100 money-back scheme for homes in Council Tax bands A to D – is not far off from that, offering thinly spread relief across the vast majority (20 million) of English households. Other cost of living moves – the temporary removal of VAT from electricity, and yet another costly freezing of Fuel Duty (where only around half the £1.4 billion cost directly goes to households at all) – were not targeted. All told, the poorest half gain on average £145 from the cost of living measures, a paltry £15 more than the £130 in giveaways enjoyed by the top half.

The energy crunch bites hardest on people who face the double whammy of low incomes and high energy needs. Many, including us, had long warned the Government that it should have ready a scheme to pinpoint subsidies in case it were needed. It is now needed, but the preparatory work has not been done. Indeed, with perverse timing, the Chancellor has chosen this moment to rebalance gas bills, by abolishing flat-rate standing charges by ramping up unit costs. Yes, more families will gain than lose, but 9.9 million households will be worse off by £61 on average, and with most upward pressure on what are already the biggest bills, which are notably paid by many families with children. The Chancellor did offer a few more ideas on longer-term energy market reform, including capping new costs on bills, pressing on with endeavours to weaken the link between gas and electricity prices and to speed up grid connections. But, welcome as they are, such moves won't lift the immediate chill in the bleak winter ahead.

It was also disappointing that a Budget that put some serious resources behind the Prime Minister's admirable drive to end rough sleeping didn't apply the same resolve to a fast-growing force for homelessness: the widening chasm between the rent support available to private tenants and the rents they actually pay, which have risen by 23 per cent since the last uplift to Local Housing Allowance (LHA), to create a record-breaking gap. The mismatch is now set to widen further because LHA will be frozen again in 2027-28. The Chancellor's 'Your First Home' deposit scheme for first-time buyers purchasing new-build homes is welcome, but won't offer a reliable escape route for many in the LHA trap. We estimate that three-quarters (76 per cent) of the private renter households with the resources to access Your First Home are in the top half of the income spectrum.

Investing in the future

In the end, the only way to improve the arithmetic that future Budgets must grapple with is to expand the economy. The Chancellor underlined his desire to get behind wealth creation, and – in a particularly welcome move – boosted the capacity of the National Wealth Fund by £15.4 billion and the British Business Bank by £5 billion by 2031-32 – a combined £20.4 billion, exploiting the extra scope for the state to acquire financial assets which was facilitated by Rachel Reeves' rewrite of the fiscal rules. This, like other measures to support growth in this Budget, represents sensible steps in the right direction.

Also notable and interesting was a developing drive to fiscal devolution. This is, again, another agenda that could be very important for the future, but it will do little to ease the Chancellor's more immediate headaches.

Shades of disappointment

Factoring the Chancellor's decisions this week in alongside the evolving economy, the crunch 'headroom' number – that is, the margin of error on the key fiscal rule – becomes £14.5 billion, compared with Reeves' final £23.6 billion buffer. That is a genuine reduction, even after making a plausible allowance for the fact that the crunch point on the rule is now closer for Healey than it was for Reeves in her last Budget. Healey argues that now is the time to draw on, rather than build up, his insurance against the future. That is a fine argument if one could be sure that, having deteriorated over the last six months, the public finances will now get stronger. But it is hard to think what grounds for such confidence could be.

If the public finances look frailer than they did, so too do family finances. The overall outlook for household incomes over this Parliament remains dismal, even if not quite as dismal as the last. What is more alarming, however, not least for a government seeking re-election, is the profile of this anaemic growth. Putting pensioners to one side, living standards – as measured on our preferred after housing costs disposable income measure – rose at a decent clip in the first year of this Parliament, then stalled, and are now set to fall by 3 per cent (£1,050) between this year and the end of this Parliament.

Admittedly, this Budget considered in combination with others under Labour diverts some of this disappointment away from those who can afford it least, redistributing in favour of the poorest fifth by £320 a year while the bulk of the range loses out, mainly through higher tax (than the plans set out by Jeremy Hunt when Chancellor). But rebalancing between stagnant or falling incomes is unlikely to achieve more than shades of disappointment.

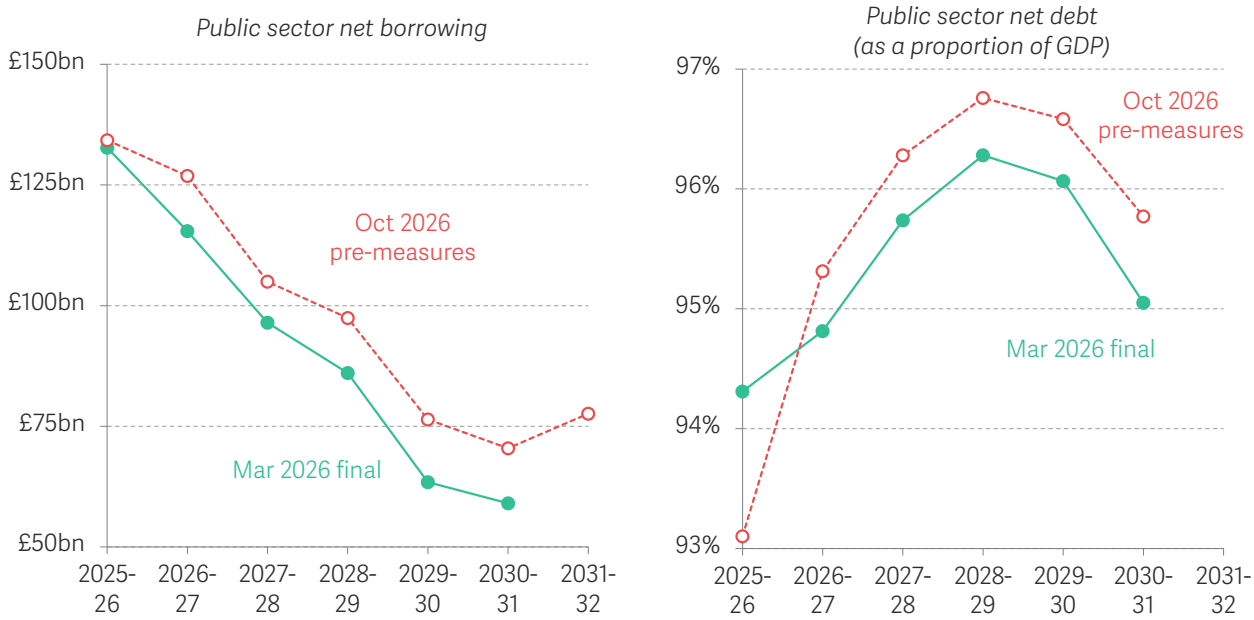
In the face of uncertainty and economic shocks, John Healey chose a limited response. His actions failed to rise to the scale of the challenges facing Britain. In the short term, his thinly spread energy support will fail to provide adequate compensation to some of those most vulnerable to the sharp rise in energy bills. In the medium term, the Chancellor has left himself little space to absorb any further negative news. Looking further ahead, he shed little light on how Britain can pay for many of the really big things that our new Government says need to be done. And for families, disappointing living standards continue to cast a shadow that stretches for as far as the eye can see.

Events overseas are the main reason why the Government has less money to spend

The previous six months have shaken the world. The last set of economic projections were finalised shortly before Donald Trump unleashed Operation Epic Fury, and published just as the Iran War began, which brought a fresh and inflationary global energy crunch.[1] Unsurprisingly, incorporating the economic fallout has worsened the outlook for the public finances (see Figure 1). News since March raised the OBR's 'pre-measures' borrowing forecast by £11 billion a year on average over the next five years. As a result, the new forecast was for public sector net debt to peak at 97 per cent of GDP in 2028-29 before measures announced on Budget day.

FIGURE 1: **Before accounting for measures taken at the Budget, the OBR forecasted more borrowing and higher government debt than in March**

Forecasts for public sector net borrowing (left panel) and public sector net debt as a proportion of GDP (right panel): UK



NOTES: Pre-measures forecasts have been derived by removing the impact of measures from the relevant post-measures forecasts. For public sector net debt, this is only possible up to 2030-31.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026 and October 2026.

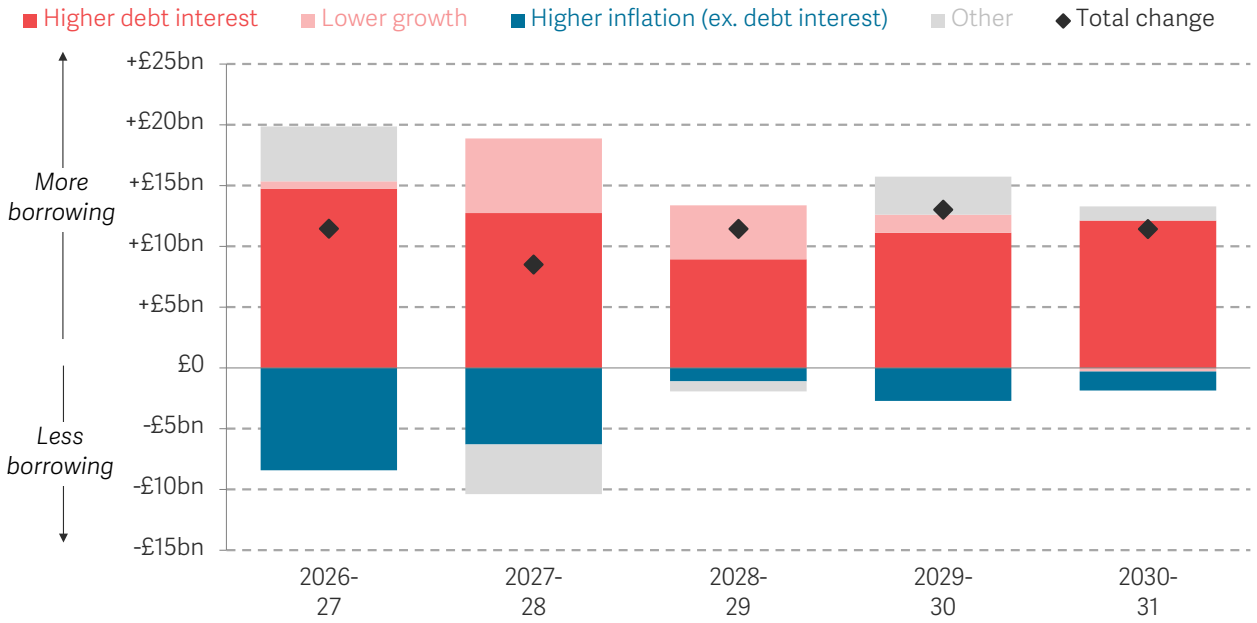
Global energy prices have surged since war broke out, pushing up inflation and dampening growth expectations. In the OBR's reckoning, higher prices – which raise more in cash tax receipts than they add to non-interest spending through uprating – reduced average borrowing by £4 billion, partly offset by weaker growth, which pushed up borrowing by an average of £2.5 billion. But most of the 'pre-measures' rise in borrowing

1 The start of the Iran War is generally dated to 28 February 2026, when Israel and the US began strikes on Iran. The OBR's economic forecast for its March Economic and fiscal outlook was finalised on 12 February.

reflects a larger debt interest bill for the Government. As we discuss more below, forecasts of higher debt interest payments have pushed up borrowing by an average of £12 billion between 2026-27 and 2030-31 (see Figure 2).

FIGURE 2: **Most of the hit to borrowing comes from higher debt interest payments**

Estimated contributions to the change in the OBR's forecast of public sector net borrowing between March 2026 and October 2026, before policy measures: UK



NOTES: Contributions come from separate decompositions of non-interest receipts and spending. Receipts are split using a log-mean Divisia index (LMDI) into real GDP, the GDP deflator and the receipts-to-GDP ratio, with the March GDP forecast rebased to the October level in 2024-25. Spending is split into net debt interest (net of the APF and of interest and dividend receipts), RDEL and CDEL, and AME; AME is split using an LMDI into price changes (based on Q3 CPI, approximating September CPI uprating) and real-terms changes. 'Inflation' combines the GDP deflator's effect on receipts and CPI's effect on AME; 'Other' combines the receipts-to-GDP ratio, RDEL and CDEL, and real-terms AME.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026 and October 2026.

This note describes the balancing act facing the new Chancellor, caught between the need to help household finances hit by higher energy prices and to repair the public finances hit by higher interest rates. We review the action he took on the cost of living, and his other measures on tax, spending and growth. We show where all this leaves the outlook for public and household finances. And we end with our assessment of whether the Chancellor has got the balance right.

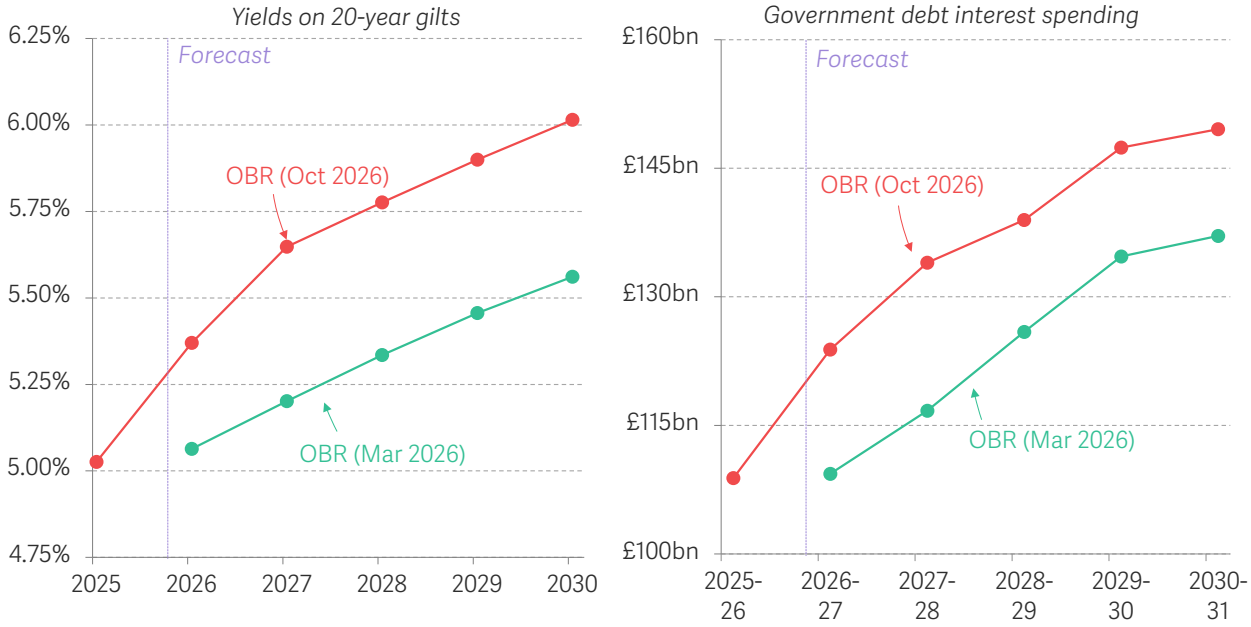
Debt interest costs are high and rising

The Government already spends a lot to service its debts: £110 billion in 2025-26, and this was already expected to rise. But interest rates are substantially higher than in March, which means the debt interest bill will increase by more than previously expected. This

is not solely a UK issue: government borrowing costs have risen around the world due to higher-than-expected inflation following the war in the Middle East, together with broader concerns about government borrowing. As shown in the left panel of Figure 3, the OBR's forecast for 20-year gilt yields is up almost half a percentage point (44 basis points) on average between 2026-27 and 2030-31. As a result, debt interest spending is now forecast to reach £147 billion in 2029-30, £13 billion more than in March.[2] This leaves debt interest spending at 4.1 per cent of GDP in 2029-30 (and peaking marginally higher at 4.14 per cent in 2031-32, the highest on record since 1956-57) and above the total expected spend on Universal Credit, Housing Benefit and Child Benefit combined in that year.

FIGURE 3: **Higher gilt yields are pushing up government borrowing costs**

Yields on 20-year gilts (left panel) and central government spending on debt interest (right panel), March and October OBR forecasts: UK



NOTES: Long-term interest rates (20-year gilts); Debt interest (£bn) = Central government debt interest, net of Bank of England Asset Purchase Facility.
SOURCE: OBR, Economic and fiscal outlook, March 2026 and October 2026, detailed forecast tables; OBR PSF aggregates databank, March 2026 and October 2026.

The inflation shock from the war wipes out real earnings growth

The change to the outlook for inflation – thanks to war in the Middle East pushing up import prices – is significant. In March, the OBR expected consumer price inflation to peak at 2.1 per cent in mid-2026. It now expects inflation to peak at 3.8 per cent in Q1 2027, and does not think that CPI will be back at its 2 per cent target until Q3 2028 – a delay of almost two years. And this may prove an underestimate: the Bank of England

2 This is based on post-measures spending on central government debt interest, net of APF, which is higher than the pre-measures total net debt interest for the public sector which is presented in Figure 2.

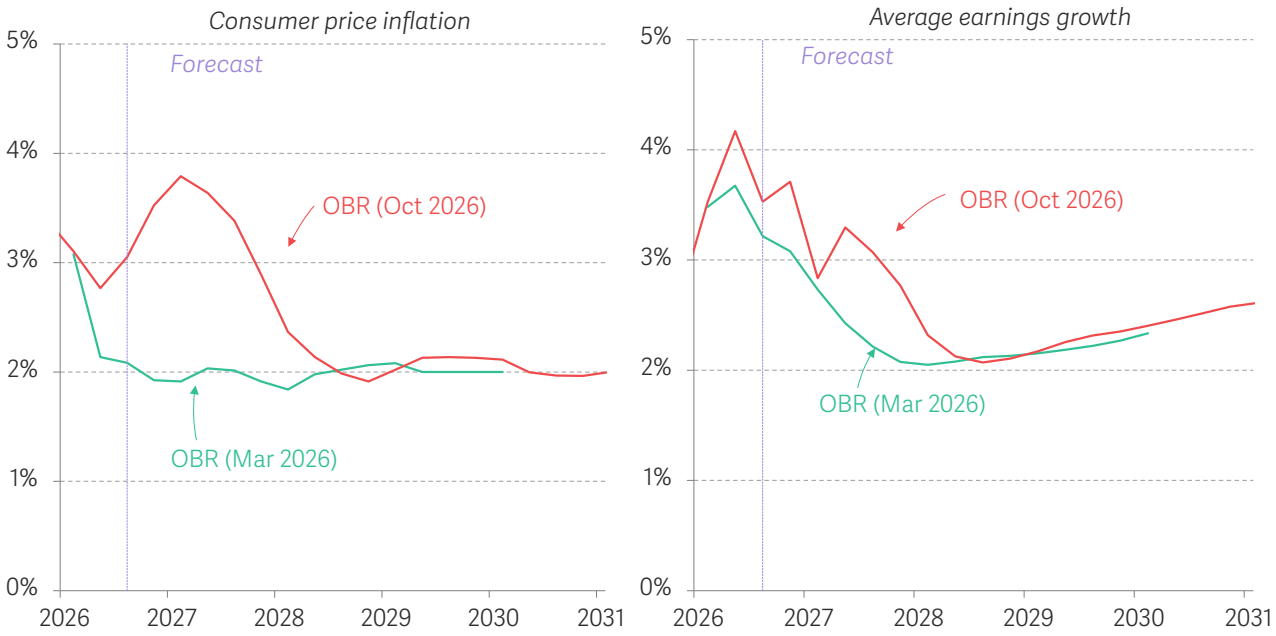
now expects inflation will peak slightly above 4 per cent in Q1 2027, based on September energy prices that were higher than the August prices used in the OBR's economy forecast.[3] Nevertheless, the OBR's slightly out of date forecast still leaves consumer prices rising by a cumulative 16 per cent between 2025 and 2030, up from the 13 per cent expected in March. And the 2020s are set to see two decades' worth of inflation, with prices now forecast to rise by 43 per cent over the course of the decade, twice the 22 per cent rise that would take place over ten years of on-target 2 per cent inflation.

A key question is how earnings respond to faster inflation. All else equal, faster earnings growth is better for both household incomes and the public finances. With unemployment remaining elevated (it is not expected to fall below 5 per cent until the beginning of 2028), the OBR judges that workers are only able to claw back a minority – roughly a third – of the increase in inflation through higher earnings (inflation between 2025 and 2027 has been marked up by 68 per cent, and earnings growth by 26 per cent). This translates into a worse real earnings outlook: the OBR now thinks average weekly earnings will not grow at all in 2027 and 2028, leaving the level of real earnings in Q2 2029 no higher (in fact fractionally lower) than in Q2 2026. Comparing against previous episodes, no real earnings growth for three years is not as bad as the real earnings deteriorations that took place after the financial crisis or during the post-Covid inflation shock, but worse than the recent past (average real earnings in 2026 are expected to be up 3.8 per cent on 2023 levels).

3 Bank of England, 2026 September Monetary Policy Summary and Minutes, September 2026.

FIGURE 4: **The war in the Middle East has pushed up consumer prices, and higher earnings will only partially compensate**

Consumer price inflation and average earnings growth projections: UK



SOURCE: OBR, Economic and fiscal outlook, March 2026 and October 2026.

There is better news for minimum wage earners, with the Chancellor confirming 3.9 per cent increases in both the adult rate and youth rates in 2027. The 50p increase in the adult rate to £13.21 will be worth £1,040 a year for someone working 40 hours a week. Based on the OBR's expectation of 3.6 per cent inflation in Q2 2027, a 3.9 per cent cash increase should mean a small real-terms pay rise for minimum wage workers. Box 1 provides more detail.

BOX 1: **The minimum wage in 2027**

In 2027, the adult and youth rate minimum wages will rise by 3.9 per cent. The increase in the adult rate (the National Living Wage, NLW) is similar to the 3.7 per cent increase that the Low Pay Commission (LPC) forecast back in April would be needed to maintain it at two-thirds median hourly earnings.[4]

But the increases are nevertheless noteworthy, for two reasons.

First, the adult rate could have gone up by more. Data from the ONS's 2026 Annual Survey of Hours and Earnings was published last week and showed surprisingly fast growth in median hourly pay in the year to April 2026 – 5.9 per cent.[5] The LPC has noted that this

4 Low Pay Commission, The National Minimum Wage in 2026, April 2026.
5 Office for National Statistics, Employee earnings in the UK: 2026, October 2026.

data would have led to an 'on-course' NLW increase (to maintain the two-thirds 'bite') of around 5.7 per cent.[6] So in choosing a lower uprating than this, the LPC appears to have used the flexibility afforded it in its current remit and decided that economic conditions warrant departing from this benchmark.

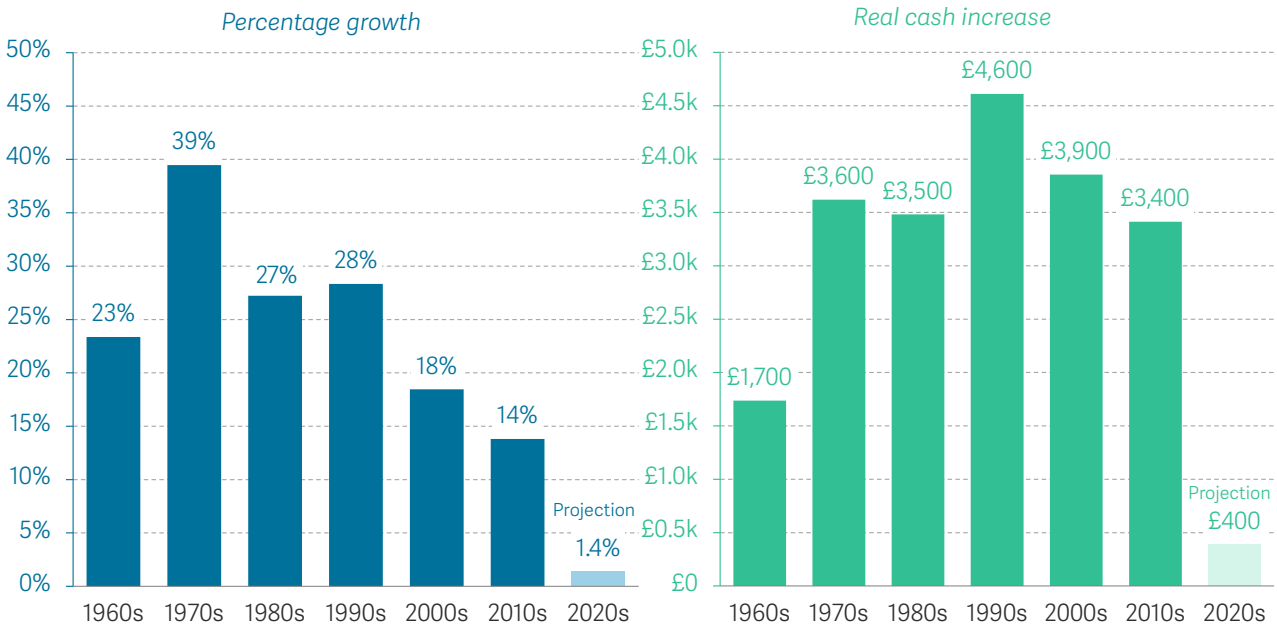
Second, the LPC's remit for increasing the youth rate (which currently applies to 18-20-year-olds) is to raise this to the level of the adult rate over time. If it had pursued a linear convergence path, targeting convergence by 2029 (i.e. within the current Parliament), this would have led to a 10 per cent uprating in the 18-20-year-old rate in 2027. However, this year the LPC's remit gives it explicit freedom to choose the pace of convergence, and to balance convergence against risks to youth employment. In choosing to uprate the youth rates by 3.9 per cent – the same increase as the adult rate – the LPC has not attempted any convergence this year. This again indicates flexibility in the face of a weak labour market.

This weak outlook for real earnings contributes to a bleak picture on disposable incomes. As Figure 5 shows, the 2020s are on course to have the lowest growth in incomes of any decade on record when measured using Real Household Disposable Income (RHDI). RHDI is projected to rise by just 1.4 per cent in total over the decade (equivalent to £400 in 2026-27 prices), one-tenth of the growth rate achieved in the 2010s (which itself was the second-worst decade on record). Income growth this decade is set to be much weaker than GDP growth because of rising taxes and import prices.

6 Low Pay Commission, Minimum wage rates for 2027, 28 October 2026.

FIGURE 5: **Real household disposable income growth in the 2020s will be the worst on record – ending just 1.4 per cent higher than when the decade started**

Total growth in Real Household Disposable Income per person, by decade: UK



NOTES: Real cash income is in 2026-27 prices.
SOURCE: ONS, UK Economic Accounts (series CRXX); OBR, Economic and Fiscal Outlook, October 2026.

GDP has been downgraded in the near-term, but is set to recover by 2030

The OBR has also had to come to a judgement about what impact the immediate effects of the Middle East war – higher inflation and higher borrowing costs across the economy – will have on real GDP growth.

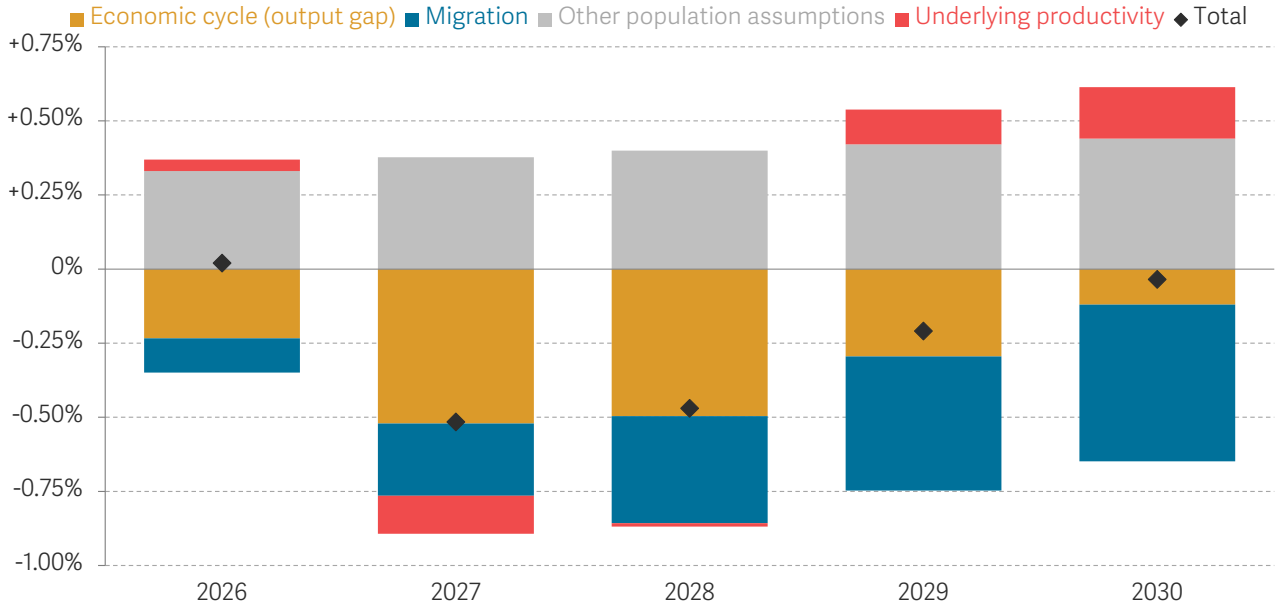
Its answer is a temporary hit, with little lasting damage (see Figure 6). Despite much stronger-than-expected growth at the start of the year, the forecast for 2026 growth has only been raised from 1.1 per cent to 1.2 per cent. As higher energy prices and interest rates squeeze households and businesses, the OBR expects growth to slow, with growth in 2027 just 1 per cent, 0.6 percentage points lower than it forecast in March. This leaves the level of GDP around 0.5 per cent below the March forecast in 2027 and 2028. Most of this hit is cyclical: spare capacity in the economy is expected to be more persistent than in the March forecast, only closing by 2031. Growth picks up to an average of 1.75 per cent a year in 2029 and 2030 as energy prices fall back, the output gap closes and strong business investment boosts trend productivity. All this leaves the level of output almost unchanged from the March forecast in 2030.

One important change in the GDP forecast has nothing to do with the war: it comes from a smaller population. The OBR has cut its net migration forecast by around 70,000 a year on average, which on its own would lower the level of GDP by around 0.5 per cent by 2030 (the blue bars in Figure 6). This would also, on its own, mean a hit to the public finances

– we estimate £7 billion in 2029-30 (see Box 2). However, other changes to the forecast offset this migration change. These include a higher 2026 starting population based on Labour Force Survey data (the grey bars in Figure 6) and the small productivity boost mentioned above. All of this leaves the OBR's forecast for the size of the real economy in 2030 unchanged on its March forecast.

FIGURE 6: **The forecast for the level of GDP in 2030 is unchanged – growth speeds up after a near-term hit, and other population assumptions make up for lower migration**

Change in real GDP level between the OBR's March and October forecasts, decomposed into the output gap and potential supply components: UK



NOTES: The economic cycle is real GDP less potential output. The migration contribution applies the change in forecast net migration since mid-2026 (82 per cent adults) to the OBR's 16+ population forecast, holding potential output per adult fixed. "Other population assumptions" is mostly a higher adult population from Labour Force Survey outturn data.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026 and October 2026.

BOX 2: **The fiscal impact of lower net migration**

Lower net migration has added to the pressure on the Government's fiscal buffer. The latest ONS data put net migration in the year ending 2025 at 171,000, down nearly half from 331,000 the year before, and lowered its long-run projection from 340,000 to 230,000 a year.[7]

7 ONS, Long-term international migration, provisional: year ending December 2025, October 2026; ONS, National population projections, migration assumptions: 2024-based, April 2026.

The OBR anticipated some of this at the Spring Forecast in March, when it cut its own long-run assumption to 290,000; at this Budget it has cut this again to 230,000 a year, with an average annual reduction of 70,000 over the next five years relative to its March forecast. The OBR does not spell out how much of the fall in headroom this accounts for, because the effects of lower migration are folded into its wider economy forecast. But its own previous analysis of the fiscal effects of migration suggests the hit is material: applying the net fiscal contribution of migrants set out in Box 4.5 of its March 2024 forecast points to a receipts shortfall of around £6.7 billion in 2029-30, or around 60 per cent of the pre-measures fall in headroom. Working in the other direction, a smaller population means that fixed departmental spending plans stretch a little further in per-person terms, but because those plans are fixed in cash, this does not reduce borrowing unless the Treasury actively decides to cut spending totals.

The upshot is a forecast in which the economy recovers but households and the public finances do not: forecast GDP in 2030 is unchanged since March, but real incomes are on course for their weakest decade on record, and a worsening economic environment has pushed up pre-measures borrowing by £11 billion a year on average.

A £3.7 billion package of household support will take the edge off energy price rises this winter

This was the sixth Budget in five years delivered against a backdrop of elevated energy prices. Since the Chancellor took office in July, UK wholesale gas prices have increased by more than 60 per cent to sit at their highest level since December 2022; spot prices rose by a quarter in October alone; and key futures contracts are following suit.[8] These developments make a substantial rise in January's energy price cap a near certainty.[9] The latest predictions suggest it will jump by more than a quarter (27 per cent) from its Q4 2026 value to reach £2,192 in Q1 2027, £608 (38 per cent) higher than a year earlier.[10] Added to this, the impact of the price cap on household bills is always disproportionately large in the first quarter of the year given this is when energy demand hits its seasonal peak.[11]

8 Source: RF analysis of Intercontinental Exchange data. UK NBP Natural Gas Futures data available at https://www.ice.com/products/910/UK-NBP-Natural-Gas-Futures, accessed 28 October 2026.

9 Higher prices further along the futures curve have also pushed up price cap forecasts throughout 2027, now expected to top £2,000 in each quarter. For further details, see: EDF, Energy Price Cap Predictions (accessed 28 October 2026).

10 E Gosden, Energy bill forecast to hit almost £2,200 as gas prices surge, The Times, October 2026; RF analysis of EDF, Energy Price Cap Predictions, accessed October 28 2026; Ofgem Price Cap Methodology. Figures shown are based on typical Domestic Consumption Values of 9,500 kWh of gas per year and 2,500 kWh of electricity, in line with changes implemented by Ofgem in July 2026.

11 EDF, Energy Price Cap Predictions (accessed 28 October 2026); M Brewer et al., A chilling crisis: Policy options to deal with soaring energy prices, Resolution Foundation, August 2022.

A Household Energy Payment and a three-month extension of the VAT cut will help families with higher energy costs

The Government announced two major funded policies in the Budget in a bid to reduce the energy crunch facing households. First, a £100 Household Energy Payment for families living in homes in England with an A-D Council Tax band, and second, a three-month extension to the VAT cut on electricity bills announced in the summer and previously set to expire at the end of Q1 2027, worth £12 to a household with typical levels of electricity consumption and taking the total nine-month benefit of the cut to £40.[12]

Together, these measures cost £3.4 billion in 2026-27 – more than two-fifths (45 per cent) of the total £7.6 billion cost of Budget decisions this year – and a further £0.3 billion in 2027-28.

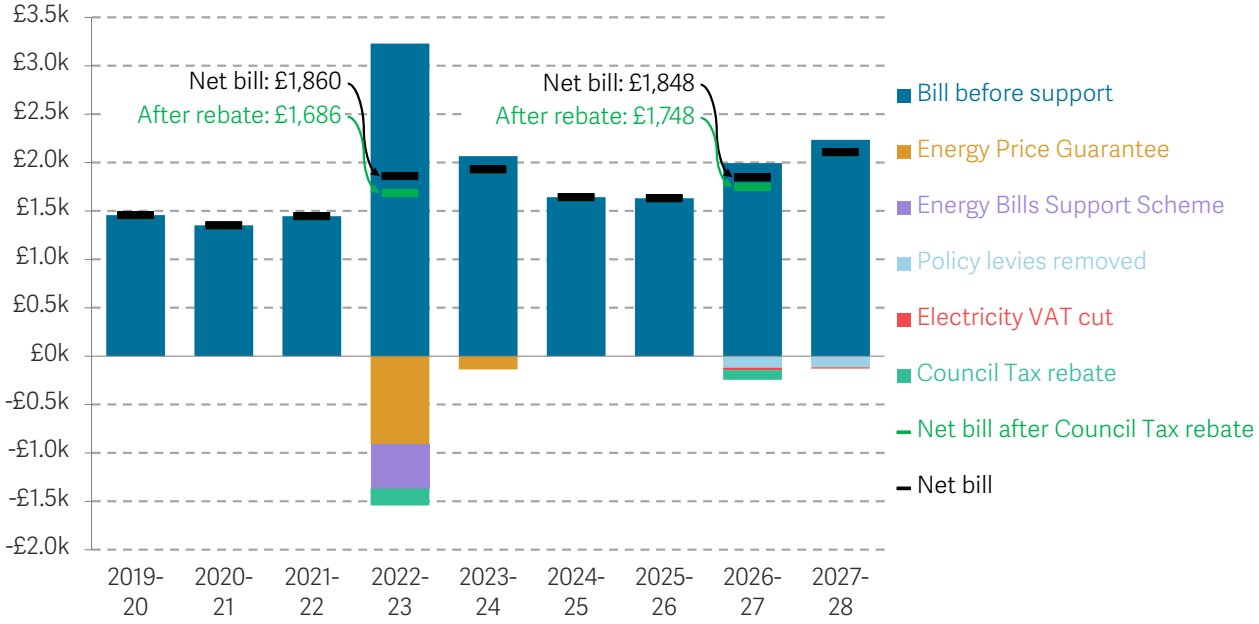
Figure 7 puts the scale of this Budget's energy support package into context. It shows that:

- Before any support, the typical household's real-terms spending on energy is forecast to rise by £363 this year.[13]
- Support announced before this Budget, which removed some policy costs from bills and cut VAT on electricity for six months, brings that increase down to £217, leaving households that only receive this support paying virtually the same as they did at the height of the energy crisis in 2022-23 (£1,848 compared with £1,860).
- The Household Energy Payment cuts bills by a further £100 for households in Council Tax bands A to D in England.[14] But even with all this support, these households will typically still pay £62 more for energy this year than in 2022-23 when the Council Tax rebate was £150 (in cash terms).
- Typical energy bills are then set to rise by a further £358 (20 per cent) in 2027-28 (for those set to receive the £100 rebate), strongly suggesting that further support is likely to be needed before then.

12 It also announced that the Gas Supplier Levy would be funded through general taxation rather than via a levy on energy bills, but this will only save the typical household £7 in 2027-28.
13 All figures are in 2026-27 prices.
14 In the wake of the Budget, the Welsh Government said it will make the same payment, and Scotland will "seek to replicate the English Scheme". See: BBC, Wales to make £100 energy payments but Plaid ministers say Budget leaves them with cuts, accessed 28 October 2026; BBC, Scottish government aiming to replicate chancellor's £100 energy payment scheme, accessed 28 October 2026. The Northern Irish government will be unable to make a comparable payment until it agrees its budget.

FIGURE 7: **The typical household will pay almost as much for energy this year as in 2022-23**

Typical household's real annual dual fuel energy bill and value of government support, by component: GB, 2019-20 to 2027-28



NOTES: Annual bills are for a household on the Energy Price Cap paying by Direct Debit, at Ofgem's current Typical Domestic Consumption Values (2,500 kWh of electricity per year and 9,500 kWh of gas), scaled by the change in DESNZ's temperature-adjusted annual consumption values to reflect changes in historical demand. Financial year figures are constructed from Price Cap prices, weighted by quarterly shares of annual consumption. General cost of living payments and the Warm Home Discount are not shown. Deflated to 2026-27 prices by CPI using outturn data to September 2026 and the OBR's October forecast thereafter.
SOURCE: RF analysis of Ofgem Price Cap methodology and policy cost allowance models; DESNZ Energy Trends; DESNZ Quarterly Energy Prices; EDF Energy Price Cap Predictions; HM Treasury, Budget 2026; ONS, Consumer Prices; OBR, Economic and Fiscal Outlook, October 2026.

Moving the gas standing charge to unit prices will penalise bigger families

Alongside these funded measures, the Government also announced that it will scrap the gas standing charge, moving the £108 a year paid by the typical household onto unit rates by the end of 2027 or soon after.[15] This ends a charge often perceived as unfair as it is paid even by households that use very little gas; improves the running cost case for low-carbon heating; and costs the Exchequer nothing. But it will also raise gas unit rates by around one-tenth at a point when they are already historically high. As a result, 57 per cent of gas-connected households (13.3 million) would be better off, by £46 a year on average, and 43 per cent (9.9 million) worse off, by an average of £61.[16]

The effect is only very modestly progressive because the benefit is widely spread. We estimate that half (50 per cent) of all households in the poorer half of the income distribution will be better off, compared with 46 per cent in the richer half. But families

15 Figure based on the Q4 2026 price cap.
16 Source: RF analysis of ONS, Living Costs and Food Survey, DESNZ National Energy Efficiency Data-Framework (NEED), Ofgem Energy Price Cap, EDF Energy Price cap predictions, October 2026.

with children are less likely to gain than those without: just 38 per cent of households with two children, and 31 per cent of those with three or more, will be better off, compared with 50 per cent of households without children.[17] The 'targeted mitigation' the Government has promised needs to reach larger, lower-income families.

Poorly targeted cost of living support is unforgivable five years after the first energy shock

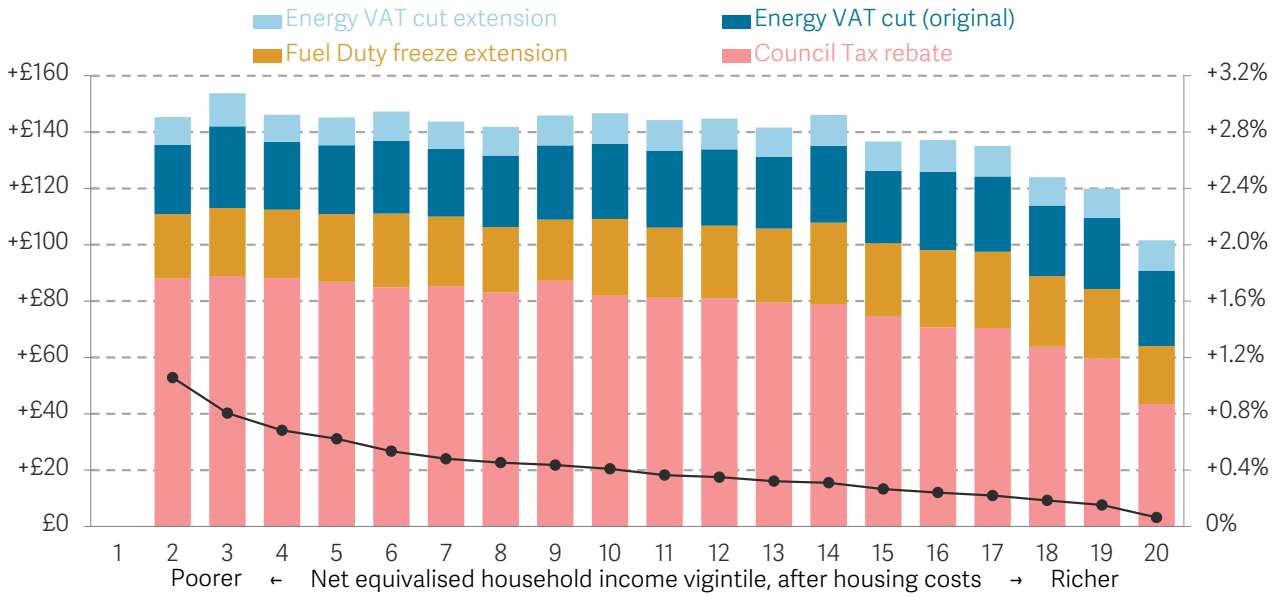
The Chancellor's cost of living intervention was not limited to energy bills, however. With diesel topping £2 a litre in October, he delayed the reversal of the 5p cut to Fuel Duty – due to begin with 3p in January and finish with 2p in March – and April's RPI uprating until July 2027, together costing just under £1.4 billion. Pump prices have risen by up to one-fifth since July but are less high by historical standards than energy: in real terms, petrol is 22 per cent and diesel 14 per cent below their 2022 peaks, whereas typical energy prices are back at their 2022-23 level.[18]

Taken altogether, the Government's £4.4 billion cost of living package for 2025-26 and 2026-27 is poorly targeted.[19] As Figure 8 makes clear, support is very widely spread. The Household Energy Payment goes to up to 20 million households in England, which are dispersed across the income distribution (87 per cent of the bottom half of the income distribution and 73 per cent of the top live in Council Tax bands A-D). The VAT cut and the Fuel Duty delay are not targeted at all. Taken together, we estimate that 52 per cent of the whole cost of living package will benefit the poorest half of the income distribution this year and next, with the other 48 per cent going to the top half (equivalent to under £145 on average for poorer households, compared to over £130 for richer households – a gap of less than £15).

17 Source: RF analysis of ONS, Living Costs and Food Survey, DESNZ National Energy Efficiency Data-Framework (NEED), Ofgem Energy Price Cap, EDF Energy Price cap predictions, October 2026.
18 RF analysis of DESNZ, Weekly road fuel prices; ONS, Consumer Prices; Ofgem, Price Cap methodology; EDF, Price Cap forecasts.
19 This costing is based on the share of Fuel Duty policy changes accrued directly by households.

FIGURE 8: **In cash terms, richer families benefit almost as much as poorer families from the cost of living package**

Change in annual income in cash terms (left axis) and as a proportion of income (right axis) as a result of temporary policies announced at Autumn Budget 2026, by income vigintile: UK/GB, 2026-27 and 2027-28



NOTES: Shows total cash impact of each measure. Council Tax and VAT cuts are modelled for Great Britain only; Fuel Duty is modelled for UK.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR Tax-Benefit Model; ONS, Living Costs and Food Survey.

The UK is now five years into an energy-driven cost of living squeeze, and it has been clear since at least March that this winter would be difficult for many. Yet the Budget's support is too widely spread, and badly targeted at that. Delivering support with energy bills via a £100 rebate for those living in Council Tax bands A-D is anything but well targeted with around four-in-five properties in England eligible for support. And yet despite this, around one-in-eight households in the bottom half of the income distribution live in higher band properties and will miss out. Rather than give large numbers of richer households support, it would have been better to help half as many poorer households twice as much. That the Government still has no mechanism available to reach more households than the welfare system can, without spreading money so thinly that few notice, is a damning failure of state capacity today.

The Chancellor ducked the decision to unfreeze LHA, holding out the hope of private renters moving to other tenures in the future

In contrast to the energy package and Fuel Duty delay, the Budget provided nothing in the way of immediate relief for the other major cost of living pressure that so many households contend with today: high and rising housing costs. This is especially true for

private tenants, who have seen their rents rise faster than CPI over the last three years (since June 2023). Critically, the Chancellor offered no respite for the over 900,000 low-income private renting families in Britain today who pay more in rent than the support they receive with their housing costs, determined by the Local Housing Allowance (LHA), which has been frozen since April 2024 (pegged to rents measured in the 12 months to September 2023). Since that point, the average private rent in Britain has increased by 23 per cent, producing a now record-breaking gap between LHA levels and prevailing rents. And this is a situation that can only get worse over time: assuming rents realign with earnings growth, they will increase by another 3.6 per cent in 2027-28, meaning that solving this problem gets more expensive the longer it is delayed.[20]

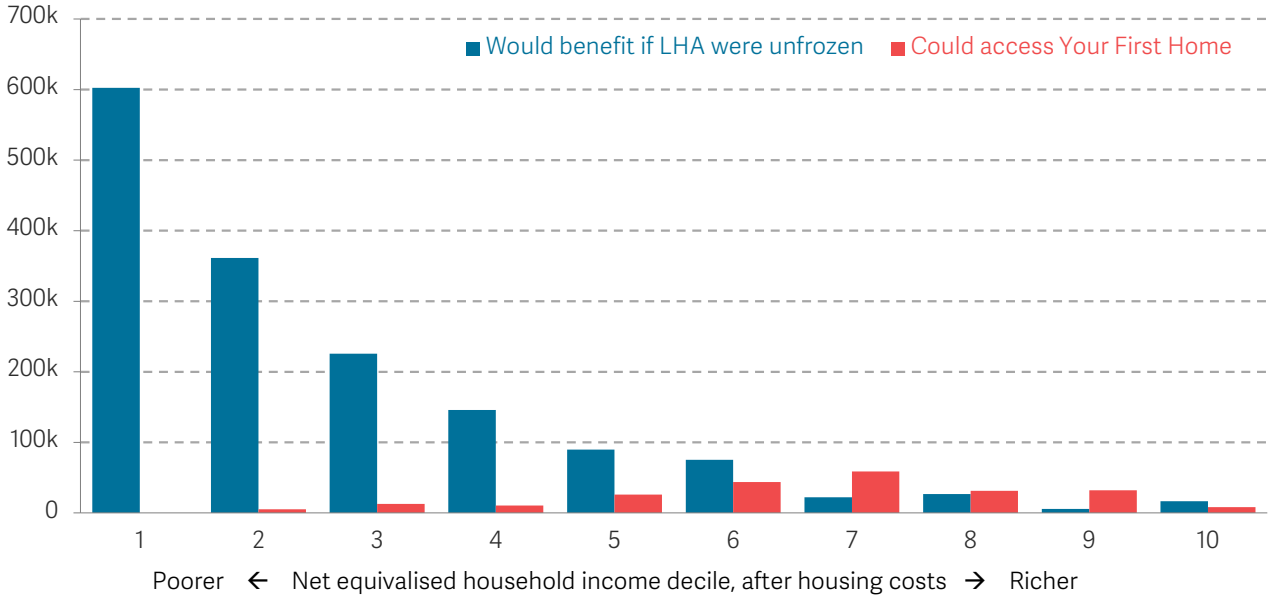
Instead, the Government's offer to reluctant private renters in this Budget was a number of measures to help them move to cheaper tenures in future.[21] First, the 'Your First Home' scheme is designed to support first-time buyers on modest incomes who already have a minimum 2.5 per cent deposit to purchase a new-build home with a 20 per cent equity loan from the state.[22] The scheme is expected to support up to 70,000 families, at a cost of £95 million in 2029-30. Second, the Government will provide a £1.5 billion top-up for the 2026-36 Social and Affordable Homes Programme (SAHP) to be allocated over the next four years, designed to facilitate the delivery of an extra 10,000 affordable homes.

But overall, these measures are small in scale and most of the gains miss those facing the greatest housing cost pressures. We estimate that three-quarters (76 per cent) of the private renter households with the resources to access Your First Home are in the top half of the income distribution (see Figure 9). By contrast, even if the most optimistic scenarios for affordable housing supply were to manifest, large numbers of lower-income households will continue to live in the private rented sector.[23] Prolonging the LHA freeze into 2027-28 means over a million families lose out, 91 per cent of them in the bottom half of the income distribution.

20 For further details, see: H Aldridge et al., Saving private renters: Why the Government should unfreeze Local Housing Allowance, Resolution Foundation, September 2026 https://doi.org/10.63492/xjbc2944; H Aldridge, Housing Outlook Q4 2025, Resolution Foundation, October 2025, https://doi.org/10.63492/vbh1305.
21 See, for example: H Aldridge, Housing Outlook Q2 2026, Resolution Foundation, May 2026, https://doi.org/10.63492/bqz3130.
22 Families can only buy via Your First Home if they have a gross income below £110,000 a year (or £140,000 a year in London).
23 H Aldridge, Housing Outlook Q3 2026, Resolution Foundation, July 2026, https://doi.org/10.63492/oydz652.

FIGURE 9: **The Budget will help a handful of renters to buy via Your First Home, while support for tenants on the lowest income remains frozen**

Number of private renting families who would benefit if the LHA were unfrozen and who could access Your First Home, by income decile: England, 2027-28



NOTES: We estimate the number of families in the private rented sector who could afford to buy via Your First Home by considering if their income falls below the cap set by the scheme and above the amount needed to borrow 77.5 per cent of the median house price in their region and have enough saved for a 2.5 per cent deposit.
SOURCE: RF analysis of ONS, Median house prices for administrative geographies; DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model.

On tax it is giveaways today, increases tomorrow, and serious reform left for who knows when

Taxes as a proportion of GDP are set to hit record highs, surpassing their previous peak (in 1948, when they reached 37.2 per cent) in 2027-28, and rising to 38.6 per cent by 2031-32.[24] Since 1993-94, taxes have been on a generally upward trajectory, but the pace is picking up. Taxes increased by 4.6 percentage points in the 26 years to 2019-20, and are set to rise by another 5.7 percentage points in the 12 years from 2019-20.

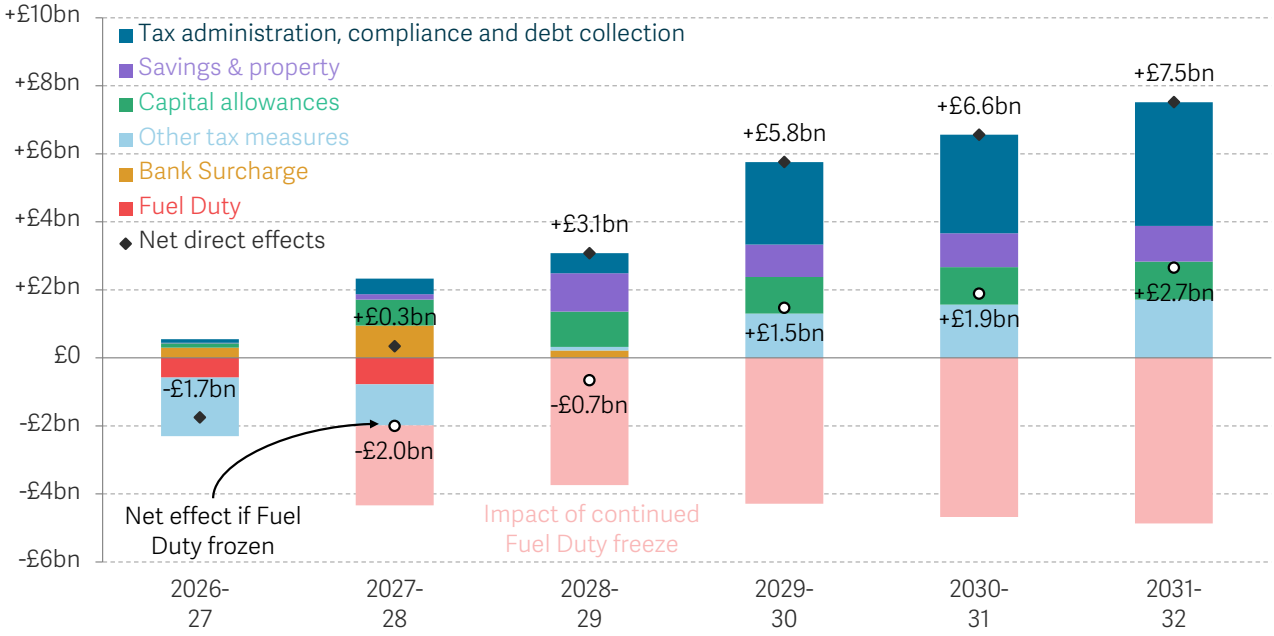
This is a much smaller package of tax rises than those announced by Rachel Reeves, which were the largest on record of any new Government's first two major fiscal events.[25] A major permanent move – to increase the rate of tax on savings and property – was a positive one. Beyond that, it was a combination of the technical and the (supposedly) temporary. In Figure 10, we show the impact of tax decisions made since

24 This is a measure of National Accounts taxes, which are included in the wider measure of public sector current receipts. Public sector current receipts exceeded National Accounts taxes by an average of 6.3 per cent of GDP between 1948-49 and the end of the 1970s; from the start of the 1990s to 2025-26 they have averaged an additional 3.5 per cent.
25 H Aldridge et al., Stairway to headroom: Putting the Autumn Budget 2025 decisions on tax, spending and borrowing into context, Resolution Foundation, November 2025, https://doi.org/10.63492/gad912.

March, raising an average of about £5 billion annually from next year, of which over £3 billion is a range of technical measures such as tax compliance and debt collection.

FIGURE 10: **Measures announced raise revenues, but there will be a hit if Fuel Duty remains at current levels**

Effect in cash terms of Government tax decisions taken since March 2026 and the impact of not increasing Fuel Duty: UK



NOTES: Net direct effects show the OBR's direct effect of tax measures. The dark red shows the impact of Fuel Duty changes announced in May and October. The light red shows the additional impact if Fuel Duty rates were to remain at current levels. The net effect if Fuel Duty frozen shows the total impact had such a measure been announced as part of the package at Budget 2026.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, October 2026; HMT, Policy Decisions, October 2026.

The Chancellor has nudged up bank taxes...

The Bank Surcharge is to be increased from 3 per cent to 6 per cent, but only for 15 months. Combined with the 25 per cent main rate of Corporation Tax, this takes the overall headline rate on bank profits to 31 per cent and raises around £1.5 billion. Higher interest rates have increased the margin between rates received on the assets of banks and those paid out on their liabilities, boosting profits.[26] With limited room for manoeuvre on taxes, and with the banking sector's profits elevated, raising revenues here is reasonable.

For domestic banking, one possible risk is that the tax is shifted onto UK households and firms, through cuts to the rates paid to savers or hikes to those charged to borrowers. With investment banking, the dynamics are different. International groups engaged in investment banking will already have their affairs arranged to maximise post-tax returns

26 The Bank of England reports an aggregate underlying return on tangible equity of 15.3 per cent for the first quarter of 2026, see: Bank of England, Financial Stability Report, July 2026.

across jurisdictions. The risk is that real activity of investment banks moves abroad, resulting in a hit to tax revenues. This risk will be higher if banks expect a notionally temporary tax to become permanent.

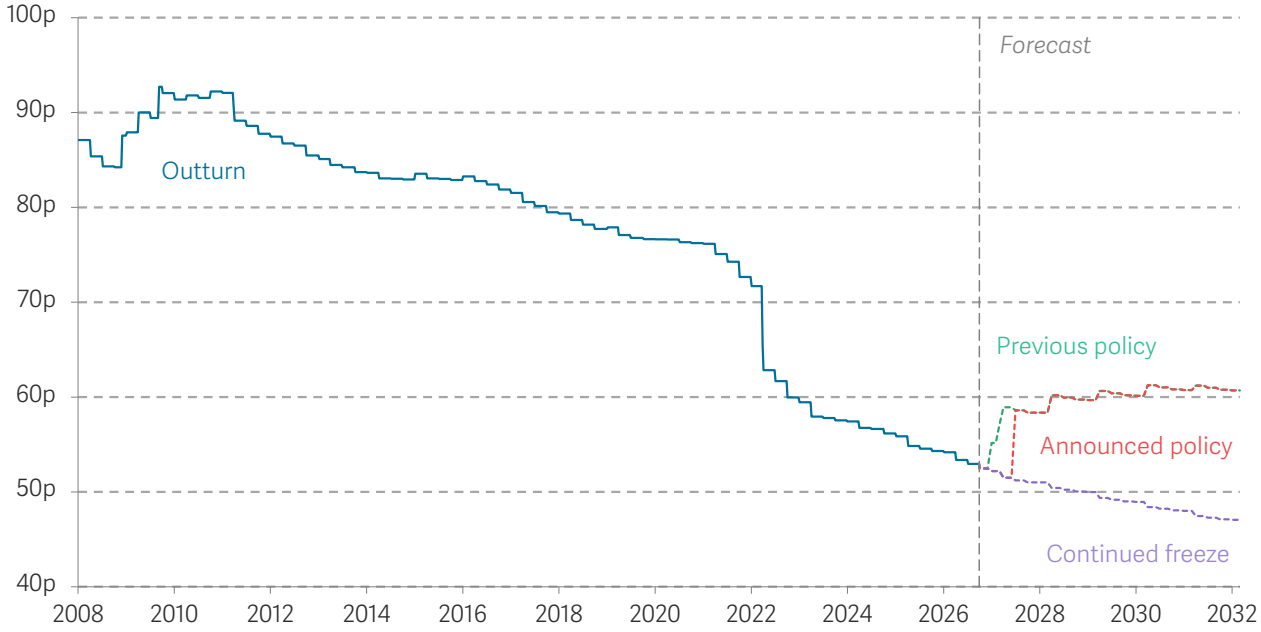
...and pushed back Fuel Duty rises

Since Fuel Duty was last increased in January 2011, its real value has fallen by over 40 per cent (Figure 11). Duty rates today are now lower in real terms than any point since the early 1990s. If duty rates had risen in line with RPI, receipts would be around £20 billion higher this year, enough to cut employee National Insurance by 2p.

The historical record suggests future Fuel Duty increases are highly unlikely. If there is any chance of these rates ever rising, then 'little and often' seems the most realistic route. Unfortunately, the policy announced by Healey is the complete opposite: Fuel Duty is scheduled to rise from 52.95 pence per litre to 60.59 pence per litre, a rise of over 14 per cent, in July 2027. If Fuel Duty instead remained frozen, the cost in 2029-30 would be £4.3 billion (Figure 10).[27] Fuel Duty revenues are in decline, but there is no need to policy to accelerate this.[28]

FIGURE 11: **The dereliction of duty**

Real Fuel Duty rate per litre of petrol or diesel, outturn and projections under three policies: UK



NOTES: The previous policy is consistent with the May 2026 announcement, the announced policy is consistent with the October 2026 plan, and the continued freeze shows the value if rates remain at current levels. Duty rates are adjusted to 2026-27 prices using CPI.
SOURCE: RF analysis of HMRC, Historical hydrocarbon oils duty rates; OBR, Economic and fiscal outlook, October 2026.

27 The OBR published a forecast for Fuel Duty revenues and an alternative that assumes a constant duty rate. Office for Budget Responsibility, Economic and fiscal outlook, October 2026.
28 Office for Budget Responsibility, Fiscal risks and sustainability, July 2026.

A new temporary tax cut for pensioners might also prove hard to take away

There is no principled reason why pensioners should be taxed less than non-pensioners while receiving the same levels of income, so the new Pension Tax Allowance (intended to ensure that those receiving only the New State Pension do not have to pay Income Tax) is hard to justify. In 2027-28, a typical part-time worker on the adult minimum wage will earn £12,739 and pay £34 in Income Tax and £10 in employee NICs, while a pensioner receiving the same income will pay nothing.[29]

The measure will only be effective until April 2030, so the Exchequer costs are supposedly small: only reaching £150 million in 2029-30. But, with the Personal Allowance frozen and the value of the state pension set to rise at least in line with earnings, the costs of any extension may well be much higher. And because the New State Pension will be shielded from tax just as it tips over the Personal Allowance, ending the measure in 2030 will hit pensioners with a tax bill all at once that would otherwise have built up gradually, making the new allowance harder to take away. On the other hand, the OBR has not scored any savings from the reforms to the Triple Lock from 2030-31.

Welcome tax changes on unearned income were marred by a badly targeted expansion of the cash ISA allowance

Income Tax rates on savings and property income are set to rise by a further 2 percentage points, building on similar changes announced by Rachel Reeves last year. This is a positive step: tax rates on savings and property income are much lower than the rates on the wages of employed workers. Closing this gap is a worthwhile reform, and continues a positive trend this Parliament, as shown in Figure 12. However, as that chart shows, the rates of tax paid by pensioners and the self-employed remain substantially below those of employees.

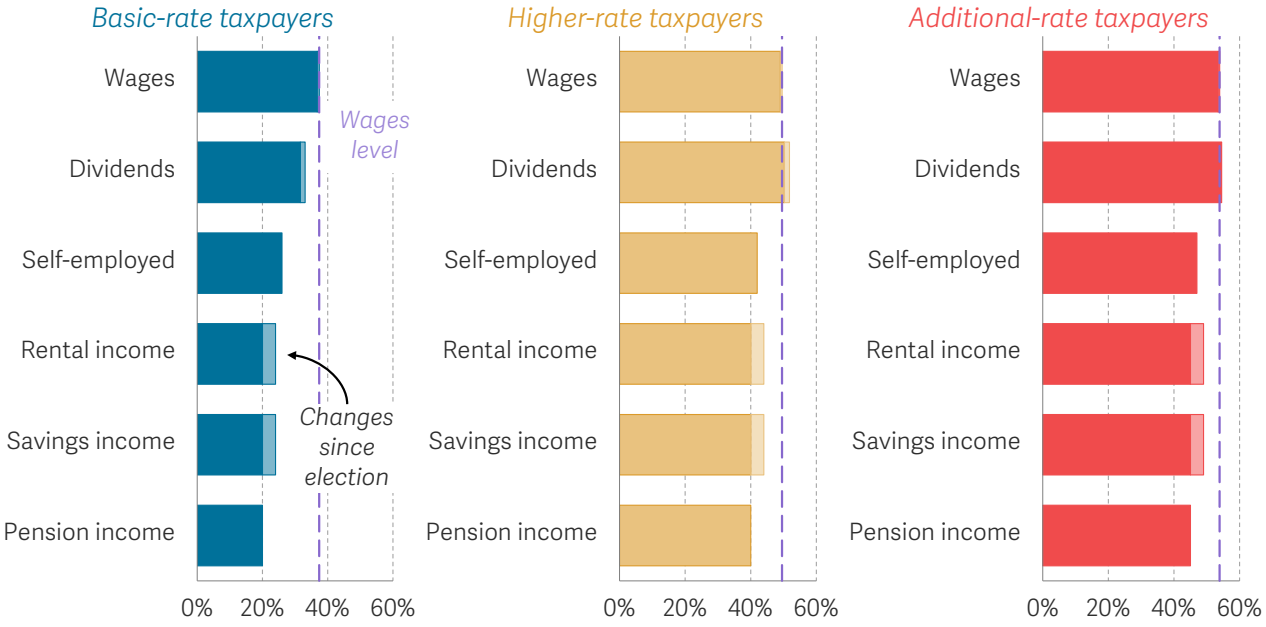
The changes to ISA allowances – in this case reversing Reeves' work last year – will have limited impact on tax revenues. The impact of this change on the level of investment in UK stocks and shares was always likely to be small, but changing the split of the allowance between cash and stocks and shares misses the bigger issue: the ISA limits are too generous. The relief afforded by ISAs is expensive for the Government, poorly targeted, and ineffective at raising long-term saving.[30]

29 Annual earnings are the National Living Wage from April 2027 (£13.21 an hour) multiplied by 2026 median total hours worked by part-time employees (18.5 hours in 2026), multiplied by 52.14 weeks a year. Sources: Low Pay Commission, Minimum wage rates for 2027, October 2026; Office for National Statistics, Annual Survey of Hours and Earnings: 2026 provisional results, Table 1.9a, October 2026.

30 M Broome, Ineffective Savings Accounts, Resolution Foundation, April 2024, https://doi.org/10.63492/evpq723.

FIGURE 12: **Marginal improvements**

Marginal tax rates, including employer NI and Corporation Tax where appropriate, showing policy prior to election and changes announced since: UK excluding Scotland, 2027-28



NOTES: For employee earnings, we include the impact of employer NI. For dividends, we assume Corporation Tax has been paid at the main UK rate of 25 per cent. For pension income, the chart shows pension income from employer contributions. The changes announced since the election included in the chart are: the October 2024 increase to employer NI, the November 2025 increase to dividend tax rates, and the November 2025 and October 2026 increases to Income Tax rates for savings and property income.
SOURCE: RF analysis of HMT, Policy costings, various.

Further revenue (around £145 million per year) has been raised through Gambling Duties; this change is well-targeted at machine gaming, which sees higher levels of problem gambling than the gambling industry more generally.[31]

Short-term fixes mean another opportunity to reform taxes was missed

Taxes on existing investments go up and are brought forward with the cut in the Writing Down Allowance for capital allowances, while the effect on new investment is offset with an increase in first-year allowance. The requirement for some Self Assessment taxpayers to make payments closer to when their income is earned also brings payments forward, in this case to 2029-30, which happens to be the year in which the fiscal rules are currently assessed.

Temporary changes to the Business Rates regime will no doubt be a welcome relief to pubs and venues.[32] But that relief will be short-lived because it will be landlords who, to a large extent, stand to gain, as it is highly likely that rents will eventually adjust to offset

31 G Salutin & R Hyde, Addressing the harm: The many arguments for raising Machine Games Duty on Category B machines, Social Market Foundation, June 2026.
32 These measures are: increased reliefs for pubs, social clubs and live music venues; increases to the thresholds for the Small Business Rate Relief; and a transitional support package.

the tax reduction.[33] With Business Rates, more emphasis was again put on the manifesto commitments to not raise rates, with rather less on those commitments for reform.[34] On the residential side, there remain no plans to launch a full valuation of residential property in England, a necessary first step in moving away from Council Tax and Stamp Duty.[35]

The story is similar on Capital Gains Tax. A tax reform agenda would focus on the necessary structural changes: raising rates, dealing with exit and introducing an allowance for the cost of investment.[36] Instead, the Budget limited the generosity of Business Asset Disposal Relief but brought in a new relief – Founders' Relief – implemented, at an estimated cost of £300 million a year by 2031-32.

The big picture is that the level of taxation relative to GDP is still on course to hit record highs. This makes it more important than ever to get the tax system right. Healey delivered a small Budget but missed a big opportunity for reform. Meanwhile, he introduced or prolonged a set of measures which, while temporary on paper, may prove hard to undo.

Decisions on spending were largely deferred

The Autumn Budget 2024 provided huge top-ups to Jeremy Hunt's spending plans for the second half of this decade. This Budget has further added to nominal day-to-day departmental spending (Resource Departmental Expenditure Limits, or RDEL) totals. Excluding the Household Energy Payment (which is really cash for households delivered through MHCLG, and worth £2.6 billion in 2026-27), decisions in this Budget have increased RDEL by an average of £3 billion a year during the current Spending Review period, the period for which totals are supposed to be fixed.[37] The biggest-ticket item was an addition to pay for the Defence Investment Plan (DIP), amounting to a total of £6.7 billion between 2026-27 and 2031-32.[38] The DIP has been presented as being funded

33 B Lockwood, M Simmler & E Tam, Tax and occupancy of business properties: Evidence from UK business rate reliefs, American Economic Journal: Economic Policy 18 (3), August 2026, https://doi.org/10.1257/pol.20240302; S Adam, Submission to Treasury Committee inquiry: The impact of business rates on business, Institute for Fiscal Studies, April 2019.

34 The Labour Party's 2024 manifesto included a commitment to replace the Business Rates system: Labour Party, Change: Labour Party Manifesto 2024, June 2024. RF's proposal for reform, exempting new structures and improvements from Business Rates and gradually moving to a tax charged on the value of non-domestic land, is set out in: M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.

35 This follows the disappointing news that Wales have shelved their plans to revalue properties. Welsh Government, Council tax revaluation paused in difficult budget context, October 2026. For RF's proposals, see: H Aldridge, M Brewer & M Cavanagh, Home economics: How to put England's broken housing taxes on firmer foundations, Resolution Foundation, September 2026, https://doi.org/10.63492/kpyf844.

36 M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.

37 Underspend, forecast and classification changes and the impact of the pensions valuation change are all stripped out from these figures. The Council Tax rebate is England-only, but the cost of £2.6 billion includes additional funds for devolved Governments to implement a similar policy. Pension revaluation has reduced the estimated cost of servicing pension obligations (which are paid through AME) and correspondingly the cost to public sector employers of employer contributions (which are paid through RDEL). There is a small residual impact of around £1 billion on AME spending as not all public sector pensions are funded through schemes within the RDEL envelope. RF analysis of OBR, Economic and Fiscal Outlook, October 2026.

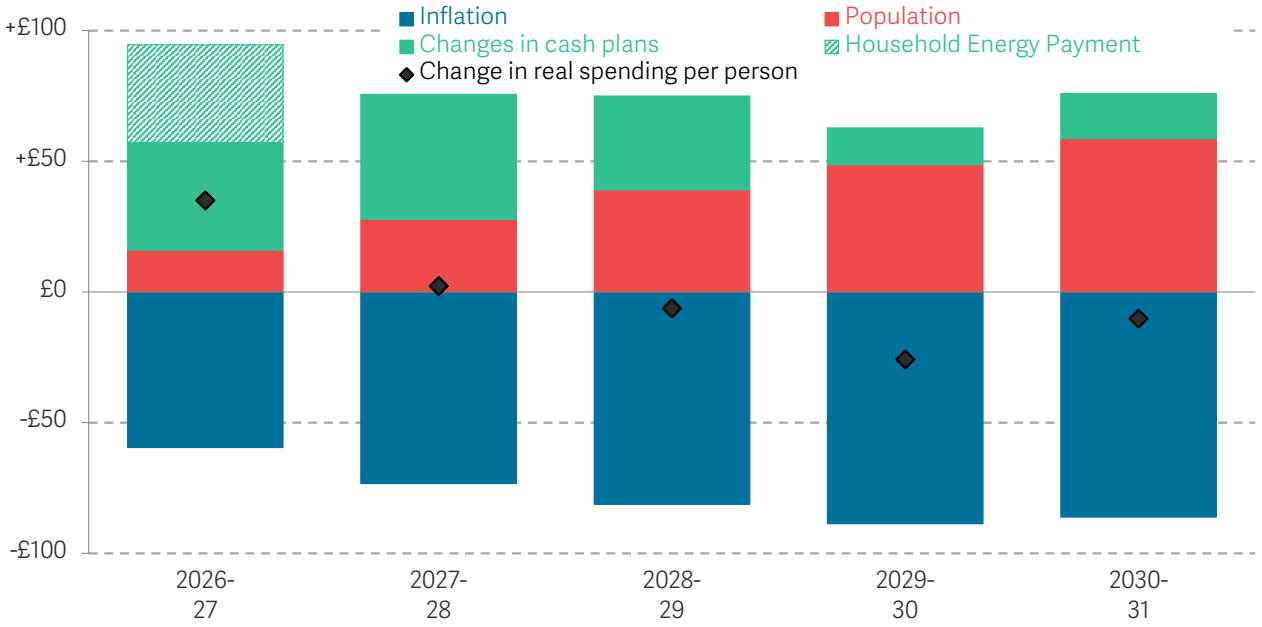
38 HM Treasury, Budget 2026.

by capital cuts to other departments, but in practice the DIP involves additional day-to-day spending that has been 'paid for' through higher taxes and higher borrowing. In the meantime, the Government has again chipped away at ambitious plans for permanently higher capital spending: public sector net investment is now forecast to dip below the 2023-24 levels seen under the previous Conservative Government.

But the cash top-ups to headline RDEL are only part of the story: changes to the economic forecast have altered the way in which public services are funded and experienced. Higher-than-expected inflation will erode the real value of departmental budgets, but a smaller-than-expected population, driven by lower migration and birth rate projections, will help offset this, because each department's budget is shared among fewer people. In Figure 13 we break down the change since March in real-terms per-person day-to-day departmental spending – a measure of how departmental spending is experienced –into three parts: changes in cash plans, higher inflation, and a lower population forecast. These effects broadly net out: a smaller population and extra cash announced in this Budget (if we leave aside the one-off Household Energy Payment in 2026-27) roughly offset the hit from higher inflation, leaving real-terms per-person RDEL comparable to that in the March 2026 forecast, or around £100 higher than anticipated when the Treasury initially did the Spending Review.

FIGURE 13: **Higher inflation since March has eroded the real value of day-to-day spending plans**

Change in real-terms day-to-day departmental spending on public services (or RDEL) per person since the March 2026 forecast, by source: UK



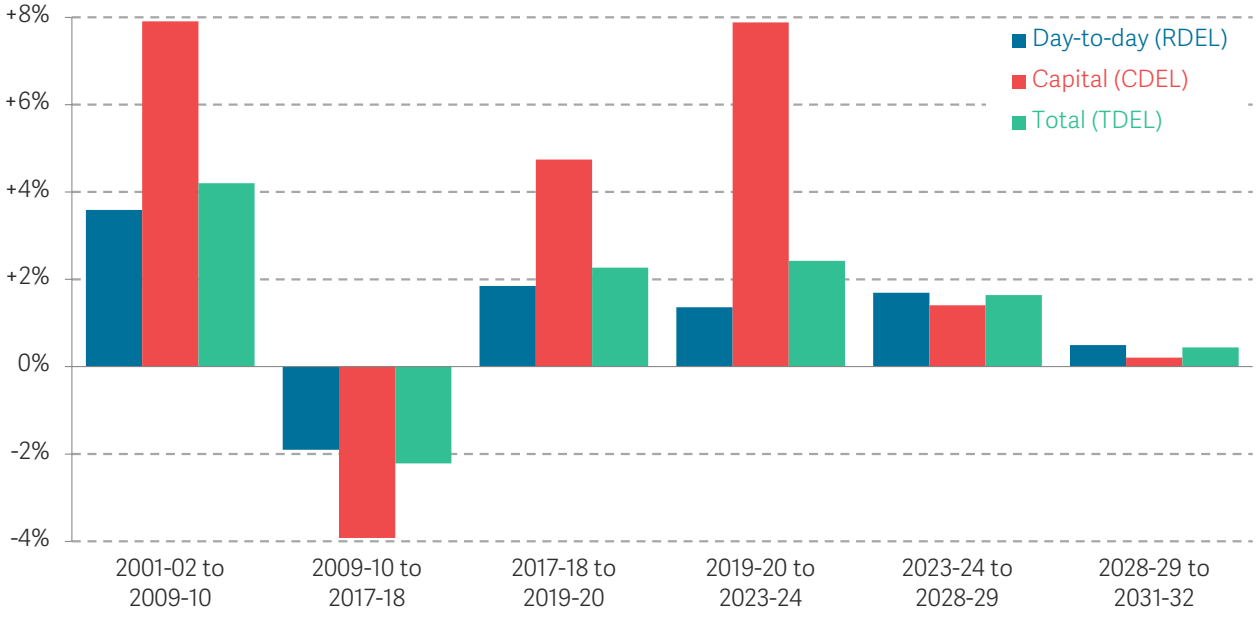
NOTES: 'Inflation' is March's cash plans valued at October's prices rather than March's. 'Population' is March's real plans spread over October's population rather than March's. 'Change in cash plans' is the change in cash plans between March and October. 'Household Energy Payment' is a component of the changes in cash plan and refers to the £100 Council Tax rebate for bands A-D from January 2027 which counts as spending in 2026-27. The diamond represents the total change in real spending per person. Adjusted to 2026-27 prices using the GDP deflator.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2026 and October 2026; HM Treasury, Budget 2026.

Taking a step back, spending over this Parliament has grown roughly in line with recent history. As Figure 14 shows, day-to-day spending on public services is set to grow by an average of 1.7 per cent a year in real per-person terms between 2023-24 and 2028-29. This is similar to the two most recent periods under Conservative governments (1.8 per cent between 2017-18 and 2019-20, and 1.4 per cent between 2019-20 and 2023-24). Yes, this growth is a far cry from the 3.6 per cent growth seen under Labour between 2001-02 and 2009-10. But nor has it been a return to austerity.

This Government's capital spending plans, where real annual growth averages 1.4 per cent, are weaker than in recent parliaments. Public sector net investment tells us a similar story: it's forecast to drift to 2.3 per cent of GDP in 2031-32, below 2023-24 levels.

FIGURE 14: **Day-to-day spending is growing moderately in this Parliament**

Average annual change in real-terms day-to-day (RDEL), capital (CDEL) and total (TDEL) departmental spending per person, by selected periods: UK



NOTES: Adjusted to 2026-27 prices using the GDP deflator. Population estimates derived from the OBR and, before 2007-08, derived from ONS mid-year estimates. Real day-to-day departmental spending includes public sector pension valuation between 2026-27 and 2031-32.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Public Expenditure Statistical Analyses, various; HM Treasury, Budget 2026; ONS, Population estimates.

This Parliament's (2023-24 to 2028-29) average hides an unusual profile of rapid rises in spending at the beginning of this Parliament followed by (planned) stingier settlements towards the end. Beyond this Parliament, real RDEL per person totals are expected to grow by just 0.5 per cent between 2028-29 and 2031-32.

The Government has made clear that defence spending is its priority: it restated Keir Starmer's commitment to raise it to 3 per cent of GDP by 2030 and 3.5 per cent by 2035. The day-to-day spending elements of the Defence Investment Plan are funded by a larger RDEL envelope, compensated for slightly by a smaller civil service headcount.[39] The Plan will still take defence spending to only 2.7 per cent of GDP by 2029-30, leaving an additional £10 billion requirement by 2030-31, of which £6 billion will be day-to-day spending. The Chancellor is hoping that the new Innovative Defence Financing Taskforce, along with a healthy dose of public private partnerships and the Multilateral Defence Mechanism, can help him close the gap.

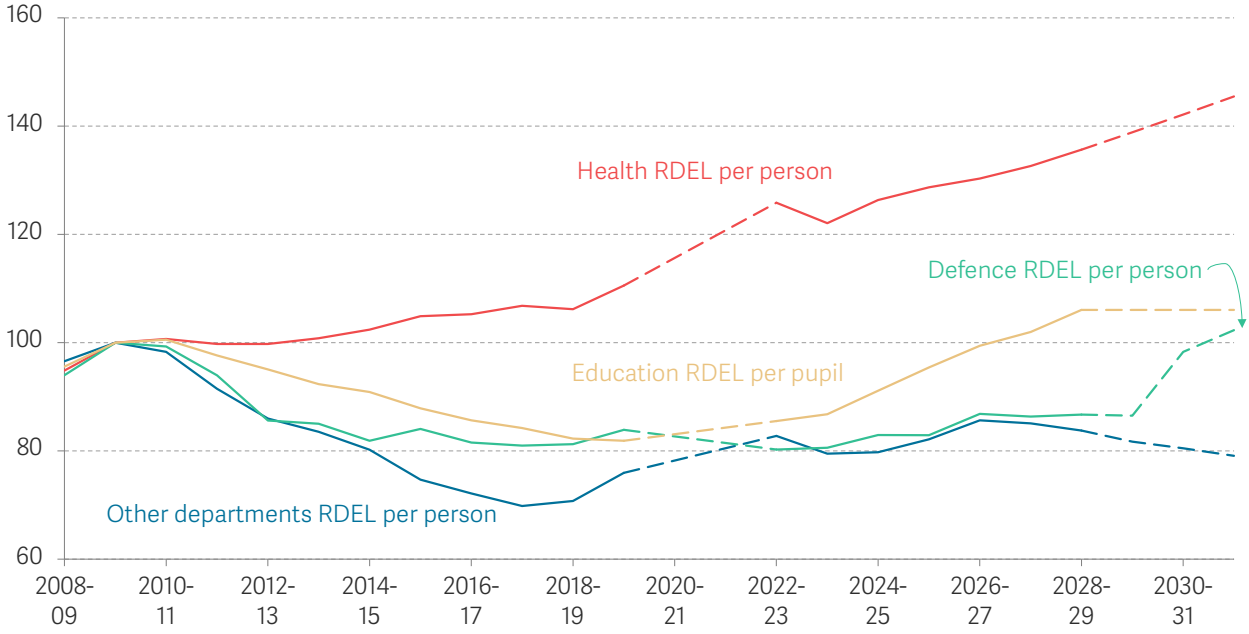
If this final 0.3 percentage point gap were found within existing spending totals, and if the Government stuck to the historical precedent of shielding the health and education budgets from cuts, then this would pile pain onto departments not enjoying such

39 The Government has claimed that the Defence Investment Plan has been funded by reallocations of the capital budget, which is true for the CDEL elements of the budget. But cuts to capital spend cannot be used to fund day-to-day spending within the fiscal rules.

protections. The Spring Forecast pencilled in cuts to real funding per person of these 'unprotected' departments of 2 per cent in 2030-31 from their peak in this Parliament. Higher inflation and decisions to fold spending pressures into existing budgets increased that cut to 3 per cent, and filling the defence spending gap within current spending totals would raise them to 6 per cent (see Figure 15). That would set funding for these departments back to 2023-24 levels.

FIGURE 15: **Funding defence commitments within existing budgets would squeeze funding for unprotected departments**

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



NOTES: Assumes defence spending follows the Defence Investment Plan to 2029-30 and rises to 3 per cent of GDP (core NATO-qualifying) in 2030-31, health spending rises annually by 2.6 per cent in real terms and education is held flat in real per-pupil terms after the 2028-29 uplift to special educational needs and disabilities (SEND). Other departments exclude defence, health and education. Figures include the impact of Barnett consequentials. Dashed lines show series breaks during Covid-19 and forecast values beyond the Spending Review.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various; DfE, National pupil projections.

It is reasonable that, when higher interest rates and oil prices make the country poorer, public services should share the burden along with households' living standards. But this means that, unless there is an increase in efficiency, levels of spending on unprotected departments risk failing to meet public expectations of service levels. The cuts implied above would take spending on unprotected departments from 5.4 per cent of GDP today to 4.7 per cent in 2031-32, just above the historic low of 4.6 per cent of GDP in the post-austerity nadir of 2018-19. That's a far cry from the 7 per cent of GDP these departments represented in 2009-10.

The Chancellor has reallocated capital expenditure from other departments to fund the Defence Investment Plan. However, he has punted the far harder and bigger choice to the next Spending Review: whether to fund defence to 3.5 per cent of GDP by 2035 within existing budgets, and accept a significant deterioration in public service delivery, or whether to increase the overall RDEL envelope to pay for the increase. Decisions on how to pay for the Prime Minister's ambitious long-term commitments, such as reforms to adult social care and delivering the biggest council house building programme since the post-war period, also lie ahead, and will only add to that pressure.[40]

Several (non-fiscal) growth measures were announced

The Chancellor announced several measures designed to help boost growth. None of these was large enough to meet the OBR's 'significance' threshold of increasing potential output by at least 0.1 per cent by the fifth year of the forecast. But, although relatively small, the measures are targeted at many of the priorities for boosting UK growth: energy costs, investment, AI adoption and regional growth.

Energy was at the centre of the Budget, and the Chancellor set out a number of regulatory, market design and legislative measures to bring down costs and speed up investment. And this matters for firms now: 15 per cent of businesses expect energy prices to be their main concern in November 2026, up 10 percentage points from March 2026.[41] The announcements include a new Cost Control Framework which, due at the 2027 Spending Review, will set budgets for each component of bills, with no new policy costs added in the meantime unless they lower costs. A consultation on wholesale Contracts for Difference proposes offering up to 33 gigawatts (GW) of existing low-carbon generation fixed-price contracts from 2028, to further weaken the link between the price of electricity and gas. The Government confirmed it will use new planning powers to reserve and reallocate grid capacity for strategic projects such as data centres, where connections after 2030 will be tied to regional targets; this builds on reforms that have already removed up to 300GW of excess projects from the connections queue. Finally, an updated Infrastructure Pipeline will set out over £750 billion of planned investment across all sectors over the next decade.

The Chancellor has used the flexibility gained from the 2024 post-election change to the fiscal rules to expand support for private sector investment. Because the debt rule now targets public sector net financial liabilities (PSNFL), the Government has more scope to borrow to make loans or buy stakes in companies at fair value (because doing so does not increase PSNFL). The Chancellor announced he would boost the capacity

40 Free personal care in England could cost as much as £7.5 billion. See: H Alderwick & L Allen, Social care funding: options for reform, The Health Foundation, July 2026.
41 ONS, Business Insights and Conditions Survey data, Wave 166 & Wave 150.

of the National Wealth Fund (NWF) by £15.4 billion and the British Business Bank (BBB) by £5 billion by 2031-32 – a combined £20.4 billion. This is welcome news. This announced expansion will raise the NWF and BBB's combined average annual investment commitments to 0.27 per cent of GDP, nearly matching what the European Investment Bank Group used to invest in the UK before Brexit (0.29 per cent between 2012 and 2016).[42] However, the Chancellor ringfenced £5 billion in NWF and BBB investment into defence, dual-use and other sectors that support our national security, sovereign capability and resilience – around a quarter of the overall boost. This continues a trend of shifting capital spending towards defence; this may well be necessary, but it does less to support growth than investment in areas such as transport and energy.

The Budget's AI package is worth over £700 million, with most of it going to security and sovereign capability, including £165 million for biosecurity, £120 million for the AI Security Institute and a further £140 million for the Sovereign AI Unit. For growth, the hard task is ensuring deep adoption and diffusion – that is, whether firms reorganise to use AI in a way that generates substantial productivity gains and whether it spreads beyond frontier firms to the long tail of smaller, less productive businesses. Yet, the measures aimed at smaller firms (£30 million for local partnerships with mayoral authorities and a £15 million 'challenge prize') represent a small share of the total. Meanwhile, the additional funding for the AI Economics Institute and for monitoring the labour market suggests the Government wants to understand the problem before acting on it. That is a reasonable place to start, but it means any pro-growth effect will materialise slowly and will not show up in this Parliament's forecast. And, to put the scale in context, the entire £700 million package is just 1.5 per cent of the $65 billion (around £48 billion) that a single AI company, Anthropic, raised from investors in one funding round in May 2026.[43]

For local areas, the Budget included £285 million in 2027-28 Good Growth Funds for local leaders to invest in their priorities across areas such as housing, high streets and transport. And regional mayors will have access to a £1.5 billion borrowing facility from April 2028 to fund locally determined projects. But the Government's main hope for boosting growth across regions is greater fiscal devolution. Rather than being a giveaway to local areas, devolution aims to boost growth by giving local leaders more decision-making autonomy and a larger stake in their area's growth. A devolution 'roadmap' set out high-level plans to shift regional funding towards retained tax receipts and away from centrally administered grants, which we discuss in Box 3, with more details coming over the next year. Crucially for the Government's growth agenda, it will need to set out how it plans to balance the growth-incentivising impacts of greater retention of local tax receipts against the loss of the Treasury's fiscal flexibility and the potential for funding divergence between areas.

42 E Christensen et al., Much ado about PuFins: How the UK's public financial institutions can unlock billions for investment, Resolution Foundation, July 2026, https://doi.org/10.63492/seu4444.
43 Anthropic, Anthropic raises $65B in Series H funding at $965B post-money valuation, May 2026.

BOX 3: Tax devolution plans

Alongside the Budget, the Government has published a Fiscal Devolution Roadmap, setting out its vision for the future of local government funding in England.[44] It intends for Mayoral Strategic Authorities (MSAs) to be mostly funded by local and assigned taxes, replacing the current model where they are mostly reliant on grants from central government. This will include MSAs being assigned a share of local Income Tax revenue, increased retention of Business Rates revenue (for both MSAs and local authorities), and providing local leaders with the power to introduce an Overnight Visitor Levy.

From 2027-28, every mayor will be offered the option of keeping 20 per cent of locally retained Business Rates revenue plus a share of future growth in return for forgoing certain grants. The swap of Business Rates for reduced grant funding is approximately revenue neutral; but letting authorities keep some the growth in revenues is forecast to cost the Treasury £10 million in 2027-28, rising to £140 million in the final year of the forecast (2031-32). The intention is for 100 per cent of Business Rates to be retained locally by the end of the decade, boosting the share going to local authorities from 50 per cent to at least 70 per cent.[45]

The roadmap also states the Government's intention for Income Tax revenue assignment to make up the majority of MSA revenue in future. This potentially represents a significant share of national revenues being retained by local areas rather than flowing to the Treasury. In 2026-27, the total revenue of 16 mayoral areas amounted to £26 billion, equivalent to 7 per cent of national Income Tax revenue.[46] If current plans remain on track, there will be at least 28 MSAs by 2028 (when revenue assignment is meant to begin), further increasing the amount of revenue that would be retained locally. Initially, swapping grants for retained tax receipts is broadly neutral for the Treasury, as the amount retained will replace grant funding. But having a higher share of receipts retained locally reduces the Treasury's flexibility to choose how to spend the proceeds of receipts growth.

By devolving tax receipts in this way, the Government hopes to give local leaders a greater stake in local economic growth and allow them to make

44 HM Treasury, Fiscal Devolution Roadmap, October 2026.
45 There are six areas (Greater Manchester, West Midlands, West of England, Liverpool City Region, Cornwall, and Greater London) that already have bespoke arrangements for Business Rates retention. These areas will be able to choose whether to keep these arrangements until their current expiry date, or move to the new model earlier.
46 The 16 mayoral areas are the 14 existing MSAs, and Cheshire and Warrington and Cumbria Combined Authorities, who will hold mayoral elections in May 2027. Total revenue estimated from RF analysis of MHCLG, Revenue account budget data; MHCLG, Specific and special revenue grants budget data; MHCLG, Capital estimates return. Income Tax revenue in 2026-27 taken from OBR, Economic and fiscal outlook, October 2026.

effective decisions without continued recourse to central government for funding; in doing so, it hopes this will boost growth. But there are inherent trade-offs: linking funding to local tax receipts opens the door to greater funding divergence between places, and having local government retain a larger overall share of national receipts reduces the Treasury's fiscal flexibility. The roadmap acknowledges both trade-offs, but how it will balance them depends on details that have not yet been set out.

Overall, this is a small package of growth measures, aligned to a guiding narrative that now is not the time for big spending decisions. If the new Chancellor and Prime Minister are to have a big impact on longer-term growth, then it will depend more on what comes next: the detail of the Government's devolution plans in its 'Rewiring the State' report, how it intends to meet its ambition of 1.5 million new homes, and whether it has the appetite for bolder reforms to tax and planning, none of which was tackled in this Budget. But the biggest question of all is the direction of the UK's future relationship with the EU. The Prime Minister has signalled ambitions for much closer ties with the EU; if the far-reaching changes reportedly under consideration go ahead, their effect on growth would dwarf that of anything announced in this Budget.

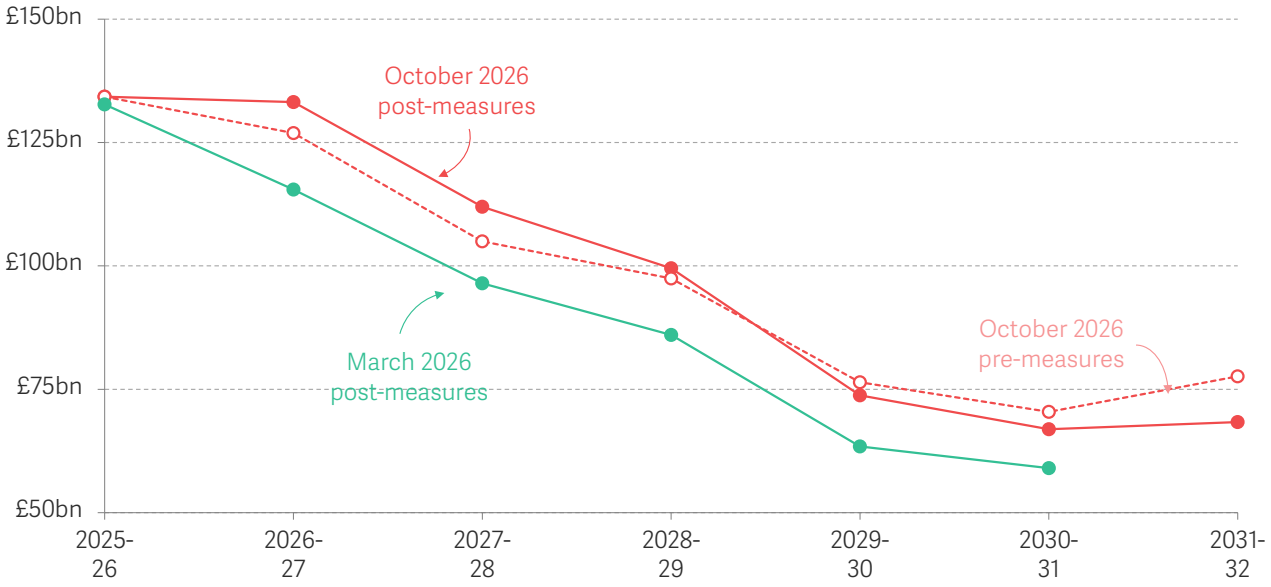
Tax and spending measures back-loaded the Government's fiscal repair job

The Budget's tax and spending measures repair some of the fiscal hit from the Iran war, but they do not reduce borrowing overall. Relative to March, the OBR's latest 'post-measures' forecast for borrowing is higher in every year of the forecast and £13 billion higher on average over the next five years – £2 billion more than the £11 billion deterioration due to economic and fiscal news (see Figure 16).[47] Borrowing just about remains on a downward path relative to the size of the economy – falling from 4.4 per cent of GDP in 2025-26 to 4.2 per cent of GDP in 2026-27 and 3.4 per cent in 2027-28 – but the Government has once again pushed back plans for fiscal consolidation. Borrowing has not been below 3 per cent of GDP since before the pandemic, but when Labour took office it was forecast to fall below that level in 2025-26; it is now not expected to do so until 2028-29.

47 Averaging over the full October forecast window – which includes 2031-32, a year for which there is no March comparison – the OBR estimates that policies announced in the Budget have no overall impact on borrowing.

FIGURE 16: **The Budget's tax and spending measures have made the Government's future borrowing forecast more front-loaded**

Forecasts for public sector net borrowing: UK

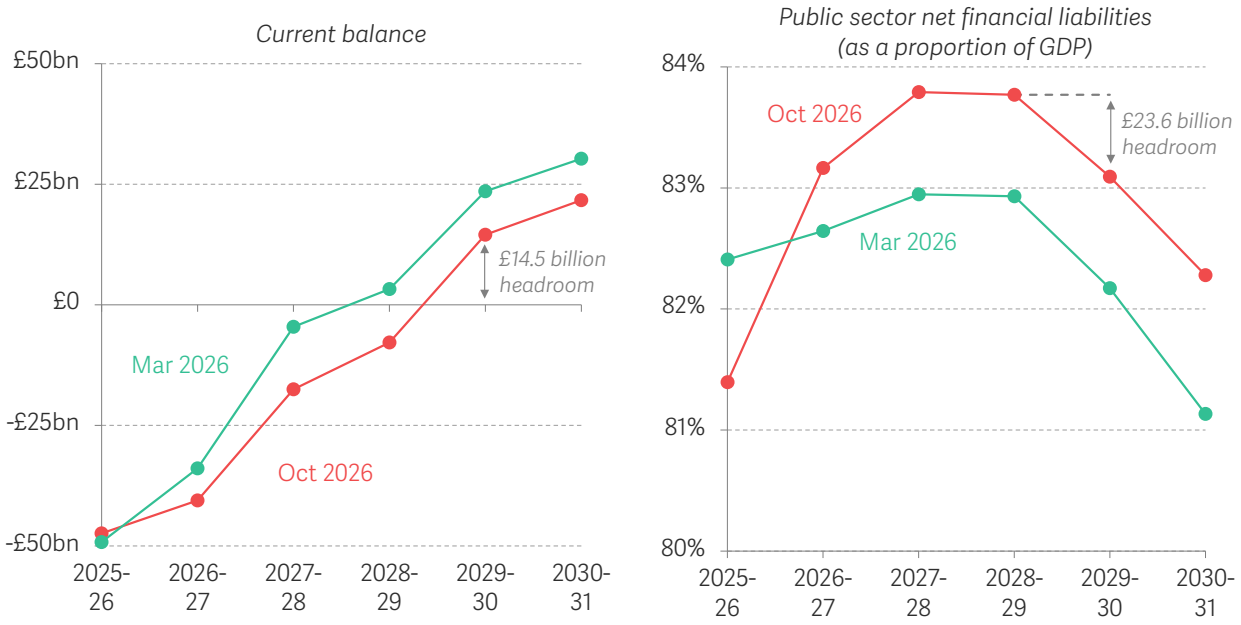


SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026 and October 2026.

Ultimately it is the amount of borrowing that adds to the stock of public debt and determines the Government's future interest bill, but the Government's own fiscal rules are based on the current balance and public sector net financial liabilities (PSNFL). The Government's buffer – or 'headroom' – against its rules is an important indicator of how large a future shock the Government could absorb without having to adjust its fiscal plans. After March's Spring Forecast, the Government held £23.6 billion of headroom against its current balance rule, under which all day-to-day spending must be funded by tax receipts in 2029-30. About half of that buffer was wiped out by the OBR's pre-measures changes, with the Government's decisions at the Budget restoring it to £14.5 billion, about three-fifths (62 per cent) of its March level (see Figure 17).

FIGURE 17: **The Government has left itself £14.5 billion of headroom against its fiscal rules – around three-fifths of its March level**

Current balance (left panel) and public sector net financial liabilities (PSNFL) as a proportion of GDP (right panel): UK



NOTES: Headroom against the PSNFL rule is the amount by which PSNFL could rise in 2029-30 while still falling relative to 2028-29 as a proportion of GDP.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026 and October 2026.

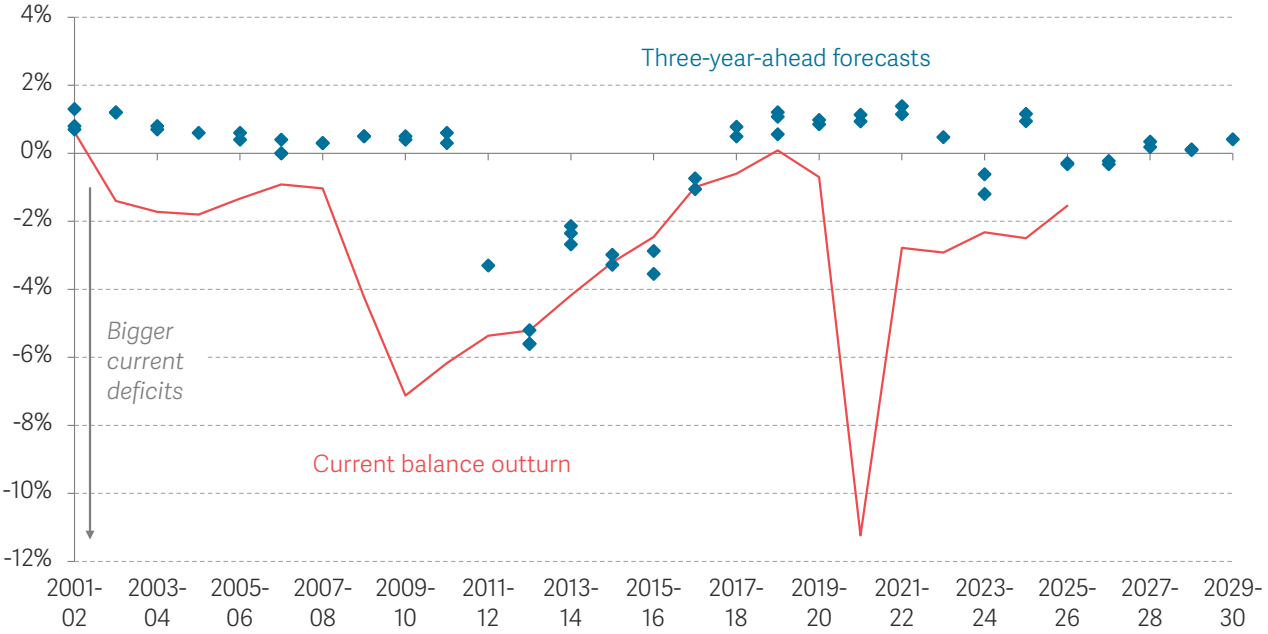
Given the risks lurking in the fiscal outlook, allowing headroom to fall to £14.5 billion looks unwise. Some reduction in headroom from March would be justifiable, as the Government's fiscal rules now apply in year three of the forecast instead of year four. Bringing the target forward means less uncertainty about the forecast, so less headroom is needed to insure against a given range of shocks: past forecast errors suggest that £24 billion in year four (the amount left in March) is roughly equivalent to £18 billion of headroom in year three.[48] But right now, there is good reason to aim for headroom above that level.[49] Concerns about debt sustainability are on the rise globally and Britain's future prospects of fiscal prudence rest on unrealistic plans to raise Fuel Duty and unspecified spending restraint beyond the current Spending Review period. The Chancellor is right that headroom is there to be used when it is needed – but only if there are credible plans to rebuild it in future. If not, running down headroom to a small current surplus in three years' time (see Figure 18) is a risky move, especially when history shows that forecasted surpluses are rarely delivered. Even excluding major shocks like the financial crisis, the outbreak of Covid-19, and Russia's invasion of Ukraine, the current balance tends to

48 H Aldridge et al., Hitting the buffers: Previewing the key decisions for Autumn Budget 2026 in the context of another rise in the cost of living, Resolution Foundation, October 2026, https://doi.org/10.63492/pcm6693.
49 We have previously argued for headroom of at least £20 billion. H Aldridge et al., Hitting the buffers: Previewing the key decisions for Autumn Budget 2026 in the context of another rise in the cost of living, Resolution Foundation, October 2026, https://doi.org/10.63492/pcm6693.

underperform forecasts by around 1 per cent of GDP three years ahead.[50] Another miss of that magnitude would turn the Government's proposed current surplus in 2029-30 into a deficit of £26 billion.

FIGURE 18: **Given historic forecast errors, the small surplus planned for 2029-30 could end up as a deficit**

Current balance outturns and three-year-ahead forecasts in the relevant forecast year, as a proportion of GDP: UK



NOTES: Diamonds are three-year-ahead forecasts from June 1998 to October 2026, plotted to align forecasts with outturns. There are multiple diamonds per outturn year where there have been multiple forecasts in a given financial year. Forecasts before June 2010 are taken from HM Treasury publications and rounded to one decimal place; forecasts since then are taken from the OBR's historical forecast database and are unrounded.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, October 2026; HM Treasury, Budget Report, various; HM Treasury, Pre-Budget Report, various.

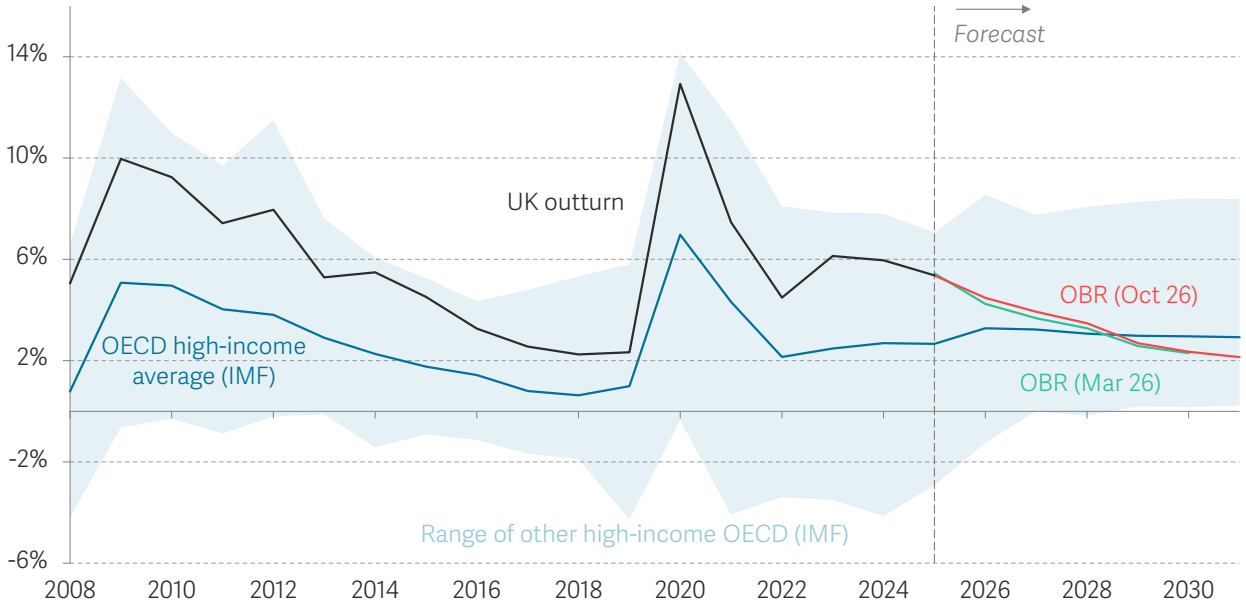
However, despite scaled-back plans for fiscal consolidation, the UK's declining path for borrowing still stands out among the G7 – something the Government has been keen to highlight recently.[51] Widening the comparison to a broader group of high-income OECD countries tells a similar story: the OBR's latest forecast has the UK set to reduce government borrowing by 3 percentage points of GDP between 2025 and 2030, while the IMF expects our peers' borrowing to rise by 0.3 percentage points on average.[52] By

50 From the forecasts shown in Figure 7, this calculation excludes those whose three-year horizon spans the collapse of Lehman Brothers (15 September 2008), the first UK lockdown (23 March 2020) and Russia's full-scale invasion of Ukraine (24 February 2022). This excludes forecasts made between December 2005 and March 2008, and between November 2017 and October 2021.
51 HM Treasury, Chancellor says 'It is my job to protect resilience of the UK economy and the budget will do that' in the face of international headwinds, October 2026.
52 To enable international comparisons, this is based on the OBR's forecast for general government net borrowing by calendar years. It therefore differs from the headline UK borrowing numbers presented elsewhere in this document, which are for public sector net borrowing in financial years. In the UK, general government borrowing has been higher than public sector net borrowing in recent years, mainly due to the accounting of valuation losses on gilts held in the Asset Purchase Facility.

2029, we are projected to borrow slightly less as a share of GDP than our peer average for the first time in more than two decades.

FIGURE 19: **The UK is forecast to tighten borrowing by more than our peers**

General government net borrowing as a proportion of GDP: UK and high-income OECD countries



NOTES: High-income OECD countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Spain, Sweden, Switzerland and the US. Ireland and Norway are excluded as outliers.
SOURCE: RF analysis of IMF, World Economic Outlook database, October 2026; OBR, Economic and Fiscal Outlook, March 2026 and October 2026; ONS, National accounts; ONS, Public Sector Finance data.

Stepping back, this internationally remarkable consolidation is entirely due to a rising tax take during the current Parliament. The UK's primary balance – the gap between receipts and non-interest spending (the bits of spending in some sense within government control) – is forecast to be £12 billion in surplus by the end of the Parliament (2028-29), versus a £64 billion deficit if it had not changed as a share of GDP under Labour (since 2023-24). That £76 billion improvement is more than fully accounted for by £107 billion of higher tax revenues.[53] Although spending plans are tight in the long term, taxes are driving consolidation in the 2020s.

Policies announced this Parliament have hit incomes for all but the poorest families

This Budget announced relatively few changes to personal tax and benefit policy compared with Autumn Budget 2025. Widespread reforms to working-age health and

53 Calculated as the forecasted change in public sector current receipts as a proportion of GDP between 2023-24 and 2029-30, multiplied by forecasted GDP in 2029-30.

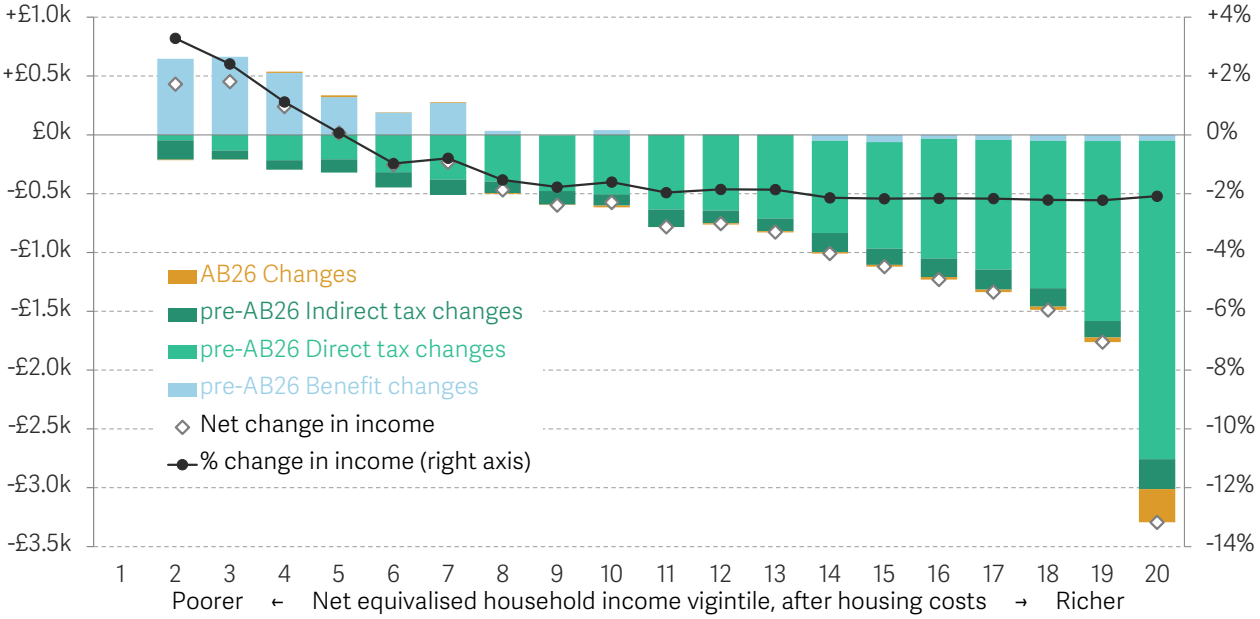
disability benefits have been held back until after the Milburn Review and the Timms Review publish their final reports later in the year, and the Chancellor chose not to rebuild fiscal headroom by raising either direct or indirect taxes on households. Instead, action was mainly focused on providing temporary support to help households cope with the rising cost of living in the near term (as shown in Figure 8).

Figure 20 takes a longer view, assessing the impact of all permanent personal tax (both direct and indirect) and benefit changes announced in the Parliament to date on household incomes across the distribution. To begin, the cumulative impact of all these measures (relative to the baseline inherited from Chancellor Hunt) has so far been progressive (when assessed at the end of the Parliament).[54] We estimate that annual incomes will, on average, be £320 higher for households in the bottom quintile in 2029-30, compared to £2,000 lower for those in the top quintile as a result of the Starmer and Burnham governments' measures. This is largely the result of policies announced before this Budget: the repeal of the two-child limit and the commitment to uprate the Universal Credit standard allowance at a higher rate than inflation for four years, both introduced from April 2026. Additional permanent policies announced in this Budget (i.e. the Pension Tax Allowance, removal of the gas standing charge and the Machine Games Levy) have also increased the progressivity of the measures since the 2024 election, but only slightly. (For details on the change to Carer's Allowance, which takes place from 2030-31, see Box 4.)

54 We define income growth 'this Parliament' as that occurring between the financial years 2023-24 and 2028-29. We include financial years in this Parliament if they mostly fall within it (i.e. assuming this Parliament ends in the summer of 2029, then most of the 2029-30 financial year will fall outside of this Parliament). Growth rates are taken from the financial year before this Parliament began (i.e. 2023-24) so that all changes made within this Parliament (including those in the 2024-25 financial year) are taken into consideration.

FIGURE 20: **The combined impact of this Parliament's tax and benefit changes has been progressive**

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



NOTES: 2026-27 prices, deflated by CPI. 'AB26 Changes' includes the Pension Tax Allowance, removal of standing charges on gas bills, and the Machine Games Levy. For policies included in pre-AB26 Benefit changes, Direct tax changes and Indirect Tax changes, see Figure 20 in Aldridge et al, Stairway to headroom: Putting the Autumn Budget 2025 decisions on tax, spending and borrowing into context, Resolution Foundation, November 2025.
SOURCE: RF analysis of DWP, Households Below Average Income using the IPPR Tax-Benefit Model; ISER, Understanding Society; ONS, Living Costs and Food Survey.

But it is important not to overstate the positive here. It is only the poorest fifth of households that will receive a net benefit from this Government's permanent personal tax and benefit measures by the end of the Parliament. Household incomes from the second quintile all the way to the very richest will be between 0.9 per cent and 2.2 per cent lower on average in 2029-30 than they would be absent of these policy changes. This is mostly a result of Autumn Budget 2024's employer NICs rises passing through to lower earnings; increases in Income Tax rates on property, dividend and savings income announced at Autumn Budget 2025 and Autumn Budget 2026; and a net increase in consumption taxes. Revenue from these tax rises has largely gone to fund public services, which disproportionately benefit poorer households. However, this widespread tax hit suggests that the Government may find it politically difficult to enact further tax rises across the rest of the Parliament, and should it need to raise revenues could turn to public spending restraint instead.

BOX 4: An 'everyday fix' for Carer's Allowance

The Government announced five 'everyday fixes' ahead of the Budget, one of which was to end the Carer's Allowance cliff edge from 2030-31 at a cost of £80 million in a full year.[55] Currently, unpaid carers lose all of their Carer's Allowance (currently worth £86.45 a week) as soon as their earnings exceed £204 a week, equivalent to 16 hours on the National Living Wage (NLW). This means that a carer on the NLW faces a sharp drop in their net income – from £280 to £216 a week – when they work a 17th hour.[56] In addition, the onus is on carers to monitor their own earnings and report changes to DWP, and those who do not realise they have gone over the limit risk ending up in overpayment debt as a result.[57]

Under the new policy, Carer's Allowance will instead be withdrawn at a rate of £1 for every £1 earned above the limit. This means that carers' incomes will stay flat as they work more hours, rather than dropping sharply at the limit, until their Carer's Allowance has been fully tapered away.[58] This is expected to benefit 48,000 carers in England and Wales. However, they will have to wait until 2030-31 for the fix, held up by the need for a new IT system that can handle the taper.

Living standards are set to fall for the rest of this Parliament

Earlier in this briefing note, we showed income growth each decade as measured by Real Household Disposable Income (RHDI) per person, the OBR's preferred measure of living standards (see Figure 5). In this section, we unpack living standards in greater detail, using a concept of income that is consistent with DWP's Households Below Average Income (HBAI) data series.[59] This is a conceptually different measure of household income from RHDI, which is based on National Accounts data.[60] In preparing our forecast, we take the latest HBAI outturn data (for 2024-25) and cast this data forward to future years, using microsimulation modelling based on current government policy and the OBR's latest

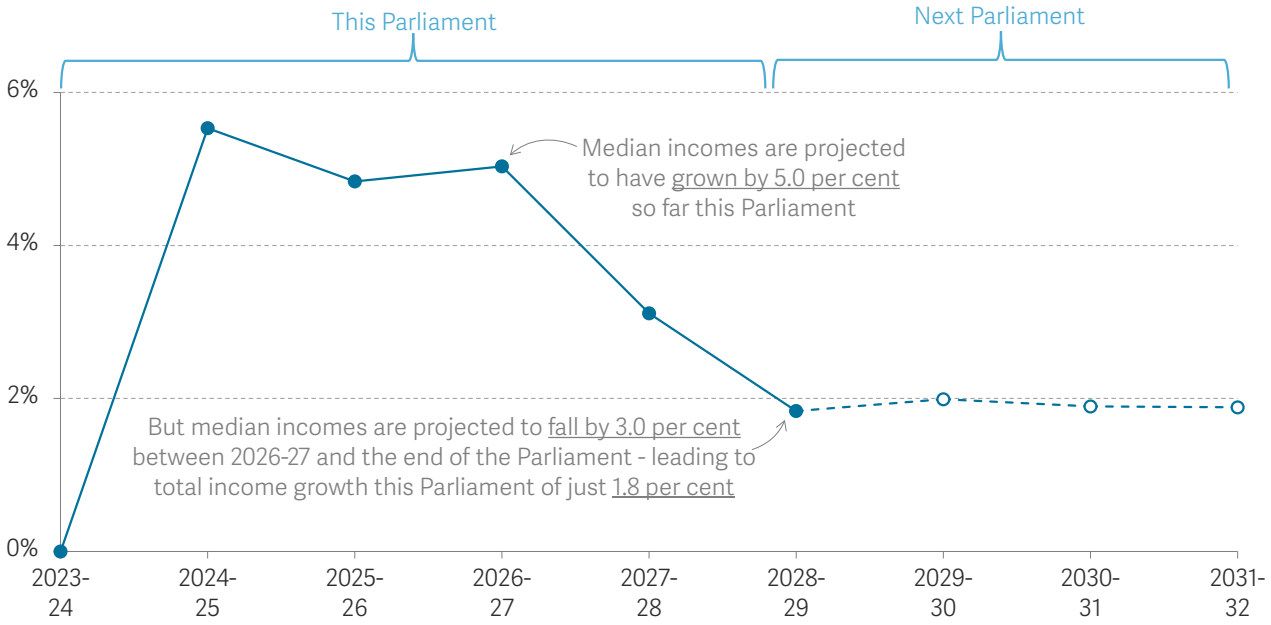
55 HM Government, Everyday fixes to make life easier for millions of Britons, October 2026.
56 These figures are net of tax (Carer's Allowance is taxable) and apply only to carers who are not on UC. For carers on UC, Carer's Allowance is deduced pound for pound from their UC award, and they then receive the UC Carer's Element, which is subject to UC's standard 55 per cent taper.
57 Department for Work & Pensions, Independent Review of Carer's Allowance Overpayments, November 2025.
58 Incomes rise very slightly while Carer's Allowance is tapered away, rather than staying exactly flat, because Carer's Allowance is subject to Income Tax (though not to National Insurance contributions). This means that as it is tapered away (and because total earnings in this scenario are above the personal allowance), the tax paid on it falls.
59 Department for Work and Pensions, Households below average income (HBAI) statistics, accessed 27 October 2026.
60 For more information on the differences between these two measures of household income, see: A Younis-Wood, Measuring household income: Explaining the differences between RHDI and HBAI, Resolution Foundation, July 2026, https://doi.org/10.63492/dsdg156.

economic forecasts.[61] This means we can examine household incomes at different points of the income distribution, something the RHDI measure does not allow us to do.[62]

We begin with Figure 21, which shows that median non-pensioner real incomes are projected to grow by just 1.8 per cent across this Parliament (between 2023-24 and 2028-29), equivalent to a cumulative increase of £600 (in 2026-27 prices). But as Figure 21 also makes clear, all the living standards growth expected across the Parliament has already occurred, and the outlook from this point on is dire. We project that the typical non-pensioner household will have experienced real income growth of 5.0 per cent between 2023-24 and 2026-27. But their incomes are expected to fall by 3.0 per cent between 2026-27 and 2028-29, equivalent to a drop in annual household disposable income of £1,050 (in 2026-27 prices) during this period. This poor outlook reflects falling real wages, a rising tax burden and housing costs rising faster than inflation: between 2026-27 and 2028-29, the OBR projects that average real weekly wages are set to fall slightly (by 0.1 per cent), while rents and mortgage payments will rise more quickly than general inflation.

FIGURE 21: **Living standards for non-pensioner families are set to fall for the rest of this Parliament**

Change in median real equivalised household disposable income since 2023-24, for non-pensioners, after housing costs: UK



NOTES: All values beyond 2024-25 are projections.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

61 For a detailed explanation of the methodology behind our living standards projections, see Annex 1 in: A Clegg, L Murphy & J Smith, Living Standards Outlook 2026, Resolution Foundation, February 2026. https://doi.org/10.63492/ykrz151.

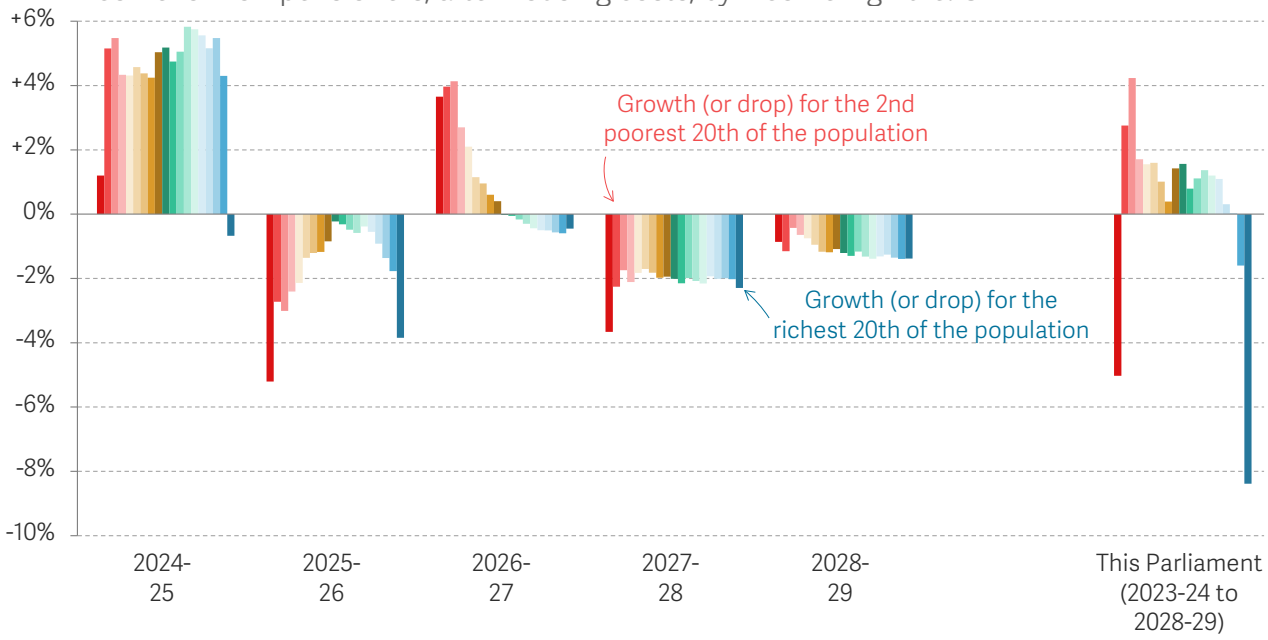
62 It is also important to note that we model non-pensioner incomes only in this section: partly because our primary focus is on the living standards of the non-pensioner population, and partly because it is difficult to project how unearned income (which makes up a larger share of the incomes of pensioners than non-pensioners) will change in the future.

In Figure 22 we go one step further and look at the experiences of non-pensioner families across the income distribution over the Parliament. We find that:

- Between 2023-24 and 2024-25, income growth was strong across the board. Working-age benefits were uprated by 6.7 per cent (in line with high inflation the previous September) when inflation over the year stood at around 2.4 per cent, the National Living Wage and average earnings both grew faster than prices, the cut to employee National Insurance (to 8 per cent, from 12 per cent at the start of 2023-24) boosted take-home pay for workers, and re-pegging the Local Housing Allowance to 30th percentile rents boosted incomes for low-income private renters.
- Between 2024-25 and 2025-26, incomes fell for lower-income non-pensioner families. This is because working-age benefits rose by just 1.7 per cent in April 2025, less than half that month's 3.5 per cent inflation rate, while the frozen Local Housing Allowance left low-income private renters exposed to rising rents. At the other end of the distribution, falling savings and investment incomes plus stalling real wage growth pushed down on incomes for the richest non-pensioner households.
- Between 2025-26 and 2026-27, income growth is projected to be strongly progressive: the Universal Credit standard allowance rose by 6.2 per cent this April, well above inflation which stood at 2.8 per cent, and the removal of the two-child limit boosted the incomes of around half a million low-income families. On the other hand, for higher-income families, the near-zero real wage growth and frozen tax thresholds led to real incomes falling.
- Income growth for all non-pensioner families is set to be poor for the rest of the Parliament, with non-pensioner incomes falling between 2026-27 and 2028-29, for richer and poorer families alike. This is because the key factors pushing down on incomes mentioned earlier in this section (poor real wage growth, frozen tax thresholds, rising Council Tax and housing costs) continue to affect households across the income distribution.

FIGURE 22: **This Parliament's income growth is expected to be progressive, with lower-income families benefiting most**

Annual and whole-Parliament real growth in average equivalised household disposable income for non-pensioners, after housing costs, by income vigintile: UK



NOTES: We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group. All values beyond 2024-25 are projections. We mostly show annual changes (e.g. the change in income between 2023-24 and 2024-25) and the total change for this Parliament (the cumulative change between 2023-24 and 2028-29).
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

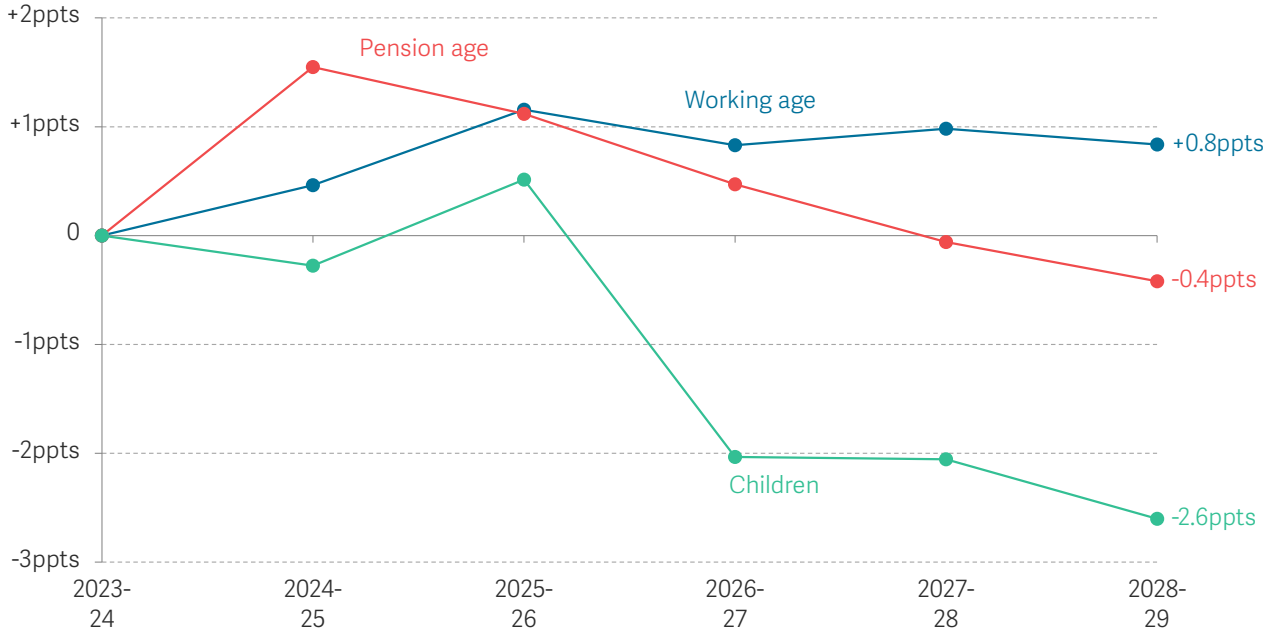
All in all, this Parliament is set to be one with weak, but progressive, real income growth. While the income of a typical non-pensioner household is set to grow by 1.8 per cent across the Parliament, income growth is expected to be stronger for lower-income families than for higher-income families. We project real income growth of 2.0 per cent for those at the 25th percentile of the non-pensioner income distribution and growth of 1.1 per cent for those at the 75th percentile. (As shown in Figure 22, those at the top and the bottom of the income distribution are expected to face a large real income loss: this reflects peculiarities with the make-up of the households at the extremes of the income distribution, for example, low-income families not receiving benefits who are hard-hit by rising inflation, and higher-income households who receive a much greater share of their income from self-employment and savings and investment income.)

Finally, what does this distributional picture of income growth mean for poverty? First, we should not lose sight of the fact that, as Figure 23 shows, child poverty is set to fall across this Parliament by 2.6 percentage points (from 27.7 per cent to 25.1 per cent), largely thanks to a big fall in child poverty between 2025-26 and 2026-27. This reflects measures in the Starmer Government's Child Poverty Strategy, most importantly the removal of the two-child limit from April 2026. But, as the chart also makes plain, poverty for adults as

well as children is also set to fall later this Parliament. This is more a reflection of poor income growth for families at the middle (median income is what determines the poverty line) than of strong income growth for poorer families: the falling poverty rates between 2026-27 and 2028-29 reflect that non-pensioner incomes at the bottom are not set to fall as much as incomes at the middle (this is also shown in Figure 22 above). As explored earlier in this section, this is because most working-age benefits will rise (at least) in line with inflation at a time real earnings are due to fall, and lower-income families receive a greater share of income from benefits than middle-income families do.

FIGURE 23: **Child poverty is set to fall this Parliament**

Change in the proportion of children, working-age adults and pension-age adults living in relative poverty after housing costs: UK



NOTES: All values beyond 2024-25 are projections.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Family Resources Survey; ONS, various; OBR, Economic and Fiscal Outlook, October 2026.

This Budget spread support for struggling households too thin, while storing up problems for the future

Stepping back, we can now evaluate how the Government met its two challenges with this Budget – first, to help with the cost of living, while, second, keeping the ongoing reduction of borrowing on track.

The first requirement was to target support with living costs to those who need it most: households with high energy costs and low incomes. As we have seen, the Budget fell short here, spreading its spending too thin and indiscriminately. And it helped

government departments more generously than households: the Budget included a £9 billion top up to departmental budgets over the current Spending Review period – twice as much as the £4.4 billion cost of living support package.

The second step was to make plans to keep borrowing and eventually debt on a downward trajectory that will actually stick. It was reasonable to use borrowing to pay for some of the rise in interest payments. But the Government went further and actually increased borrowing over the near term with its decisions. And many of the measures which balance the future books – such as future rises in Fuel Duty, tight control of spending and the removal of new tax cuts for pensioners – look easier on paper than in practice as we get closer to an election.

Meanwhile, the Government missed another opportunity to balance the books with more efficient and durable tax rises, rather than temporary and costly ones. Upcoming reviews of benefits and departmental spending will need to show greater courage and long-termism if the new Prime Minister's wider vision is to become a reality.

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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