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UK autumn budget breakdown: What to know

This budget was shaped less by the chancellor's policy choices, and more by the conflict in the Middle East. Higher energy prices and interest rates have worsened the fiscal outlook. The government has absorbed most of that in its headroom, rather than via macro-significant tax and spend changes. But there are plenty of specific policy measures to dig into.

Key Takeaways

- Healey kept a thin £14.5bn buffer against the fiscal rules, down from £23.6bn at the spring statement, rather than rebuilding the headroom the energy shock wiped out.
- Tax rises were limited to £7.5bn by 2031–32, mostly through raising compliance to close the tax gap, a higher bank surcharge, and higher taxes on property and savings income. But the tax burden will still reach a record 38.6% of GDP.
- Spending was focussed on cost-of-living measures that will provide 'breathing space' at the margin, especially to lower-income households. But they take only about 8bps off inflation, so we still expect the Bank of England to raise rates next week and in February.
- Gilt yields moved slightly lower because the budget largely 'did no harm', even though planned gilt issuance of £251bn was a bit above expectations.
- Harder decisions on defence spending, welfare reform and backloaded spending cuts were pushed to the 2027 spending review, which adds to fiscal risk and may raise prospects of an early election.

More breathing space for households, less against the fiscal rules

Chancellor John Healey delivered a 'breathing space' budget, featuring few macro-significant measures.

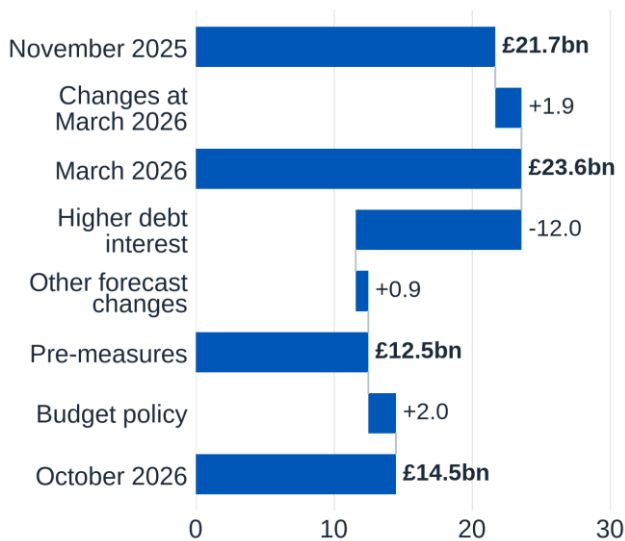
Healey cited the unfavourable global backdrop as the rationale behind this decision. Higher borrowing costs brought about in large part by the global energy shock eroded the government's fiscal headroom from £23.6bn at the spring statement to £12.5bn pre-measures. But Healey stated that the challenging backdrop justifies not rebuilding this headroom, instead moving forward with a smaller buffer of £14.5bn post-measures (see Figure 1).

The pressure on finances might have been even more acute had the economy not proved more resilient than expected to higher rates and energy costs in 2026. The Office for Budget Responsibility (OBR) upgraded its forecast for this year from 1.1% to 1.2%. Still, that's a surprisingly conservative upgrade – we recently upgraded our own forecast to 1.5%.



Figure 1: The chancellor's fiscal headroom was reduced, and he chose not to rebuild much of it

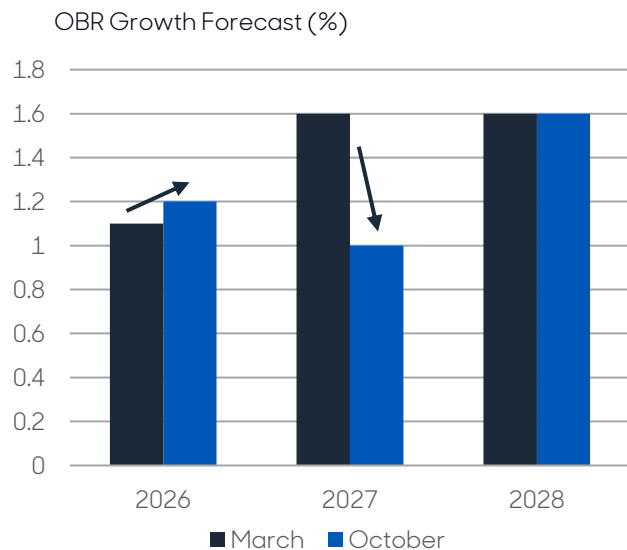
Headroom against the stability rule in 2029-30, £bn



Source: Aberdeen, OBR, October 2026

And this small increase was more than offset by a significant downgrade to its 2027 expectations from 1.6% to 1.0% (see Figure 2).

Figure 2: The OBR expects slower growth in 2027



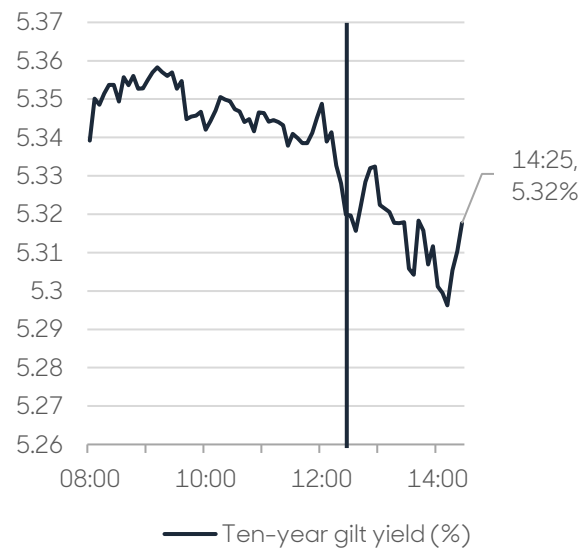
Source: Aberdeen, OBR, October 2026

A sign of relief in markets

Nevertheless, the 'breathing space' budget prompted markets to breathe a sigh of relief. Though the Debt Management Office (DMO) estimates that today's announcements will result in slightly more debt issuance – £251bn in FY 2026-27 – than consensus had

expected, gilt markets received them well (see Figure 3). Sterling and the FTSE100 are modestly up on the day.

Figure 3: Gilt yields moved slightly lower on the release of the budget



Source: Aberdeen, Haver, October 2026

That's because Healey largely followed the markets' exhortation to 'do no harm' – taking a downside risk off the table, at least for now.

Unfavourable debt dynamics make consolidation tricky

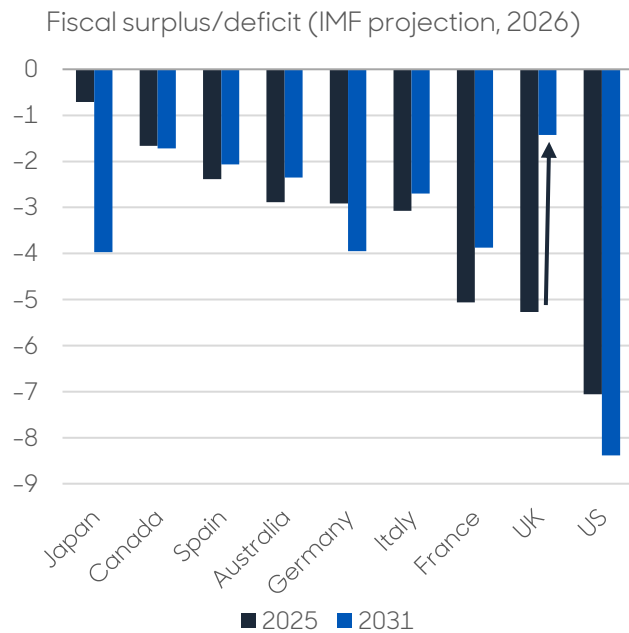
Healey made much of the International Monetary Fund's (IMF) identification of the UK's deficit reduction path as an outlier among its peers. Indeed, the UK's deficit will fall faster than any other G7 nation over the IMF's forecast horizon (see Figure 4).

But this flatters the UK's fiscal outlook.

Firstly, the OBR and IMF's forecasts for government spending are conditioned on real-terms departmental budget cuts that might not prove credible.

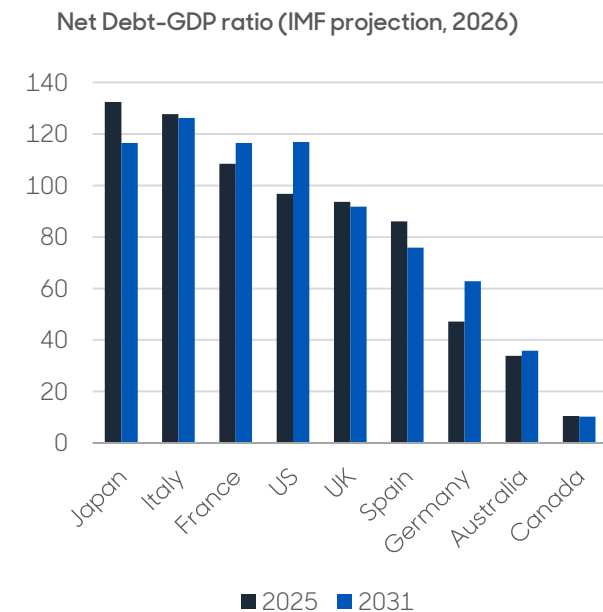
Second, if the UK is expected to borrow less than its peers in the future, it's only because it must offset previous fiscal extravagance. High debt service costs and relatively low growth mean the UK's debt-GDP ratio will remain high even if-and-when the budget has been consolidated. This contrasts the UK unfavourably with Germany, Australia and Canada, which have stronger net debt positions, and Japan, which is expected to reduce its large debt pile, on which the interest is low (see Figure 5).

Figure 4: The IMF thinks the UK will consolidate faster than any peer economy...



Source: Aberdeen, IMF, Haver, October 2026

Figure 5: ...but its debt reduction plan looks pretty ordinary



Source: Aberdeen, IMF, Haver, October 2026

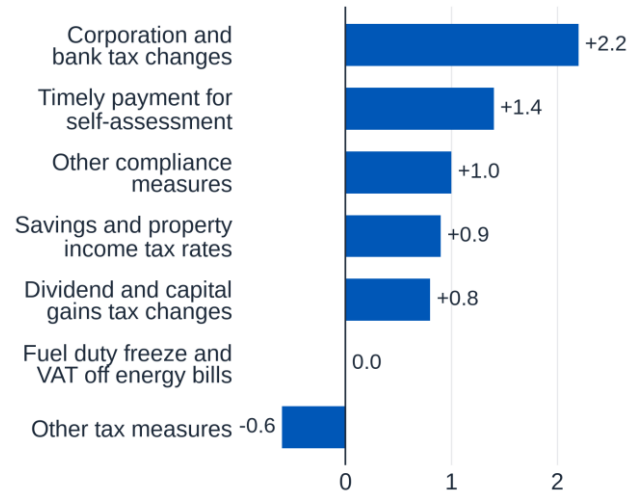
Limited tax increases, with an emphasis on tax avoidance

Healey announced tax increases worth £7.5 billion by 2031-32 (see Figure 6), nearly half of which is through a series of measures designed to close the tax gap (the difference between the tax that should in theory be paid and the tax HMRC actually collects), currently estimated

to be £59 billion. The OBR forecasts these measures will raise an additional £3.6 billion by 2031-32.

Figure 6: Modest tax increases at this budget

Revenue raised by main Budget tax measures in 2029-30, £bn



Source: Aberdeen, OBR, October 2026

Though significantly smaller in scope than previous budgets, the tax burden is still forecast to increase to a record 38.6% of GDP by the end of the forecast period, in part due to backloaded tax increases from previous budgets.

The bank surcharge rose, although by less than expected, temporarily doubling to 6% for 15 months. Income on property and savings will be subject to an extra 2p tax from April 2027, taking the increase to 4p when accounting for previous measures announced by Rachel Reeves. Healey also announced restrictions on sovereign wealth and overseas public pension funds' immunity from direct taxes on UK income and gains from 2029-30.

Other measures include an increase to Machine Games Duty, rising to 25% from 20% (also less than expected), as well as a series of changes to the taxation framework for distributions from companies to individuals from April 2028. The lifetime limit for business asset disposal relief will be reduced from £1 million to £500,000.

Modest cost of living support in the short term

Spending measures were focussed on a £4.1 billion cost-of-living package that will provide support at the margin, especially to lower-income households.

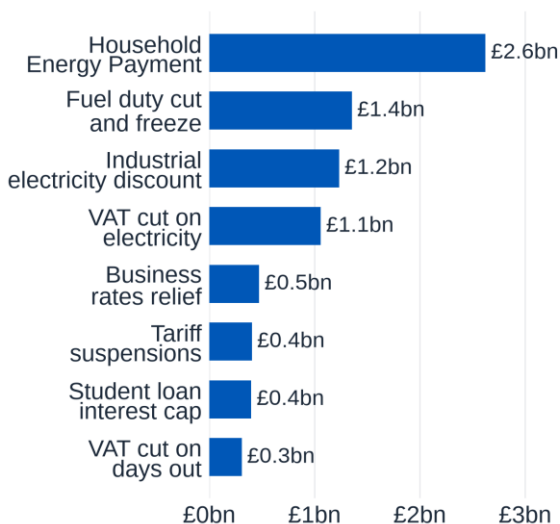
The most eye-catching of these is a £100 payment to households in the A-D council tax bands – 80% of all households in England.



This is billed as an 'energy payment' but will function in practice as a progressive council tax rebate. The payment will be made in January, when pressure on household energy bills will be most acute. Its cost of £2.6bn (0.1% of GDP) makes it the single most expensive measure today (see Figure 7).

Figure 7: Cost of living support measures make up the biggest line items in the budget

Cost of main support measures,
2026-27 and 2027-28, £bn



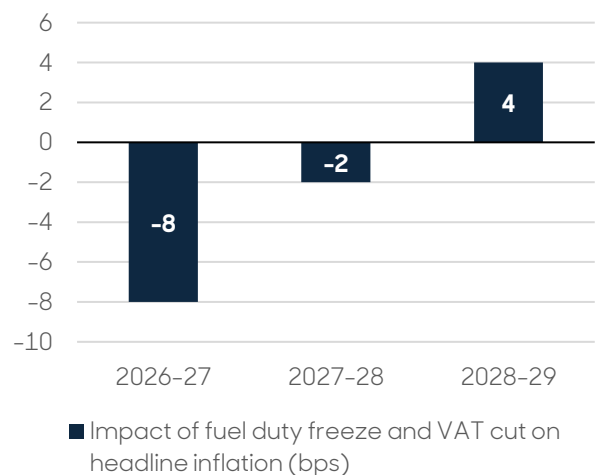
Source: Aberdeen, OBR, October 2026

As is now traditional in UK budgets, Healey announced a further freeze to fuel duty. The zero rating of VAT on domestic electricity was also extended for three months to July 2027.

Tariffs on 100 food imports, as well as kerosene, fertiliser and heating oil, will be suspended. And pensioners with income not exceeding the value of the state pension will continue to be exempt from income tax.

But these cost-of-living measures do almost nothing to contain inflation. Taken together, the OBR estimates that the freeze on fuel duty and the VAT cut on domestic electricity will take only 8bps off headline inflation in the 2026-27 fiscal year (see Figure 8).

Figure 8: The impact on inflation will be negligible



Source: Aberdeen, OBR, October 2026

A more substantial energy reform package in the medium term

Several announcements at this budget aim to reduce the UK's vulnerability to international energy prices, particularly in gas.

The government will consult on reform of wholesale Contracts for Difference, fixing the price paid to some renewable projects to reduce the influence of gas prices on energy costs. Gas standing charges will be abolished by 2028, and a framework for reform of electricity standing charges will be published next year. And the gas shipper obligation due to be introduced next year will be abolished, meaning the cost of hydrogen energy projects will not be covered through energy bills.

The government will publish a 'cost control framework' for energy bills in 2027. The OBR documents include an assumption that the government has given its approval to the Rosebank oil field, with tax revenue from energy production forecast to be 25% higher in 2026-27 than the previous year due to higher production volumes and higher oil prices.

Government backing to support investment

Debt-funded recapitalisation of the National Wealth Fund and British Business Bank was also unveiled, with additional funding of £20.4bn and £5bn respectively.

This follows from the announced intention to reduce the social discount rate in the Treasury's Green Book from 3.5% to 3%. That would make infrastructure projects with backloaded payoffs look more attractive when scored by the Treasury, reflecting the government's ambitions to further increase public investment as a share of GDP.



The UK has lagged G7 counterparts in this respect, averaging 2.5% over the last 30 years, compared to their 3.5%.

There were also cuts made to the administrative burden on business, which are expected to save £640m per annum and free up working hours.

Public procurement is set to be used to drive innovation and provide funding for growing companies. £80m has been announced for British AI companies to work across the health and defence services, with £138m towards backing quantum technologies.

Notably, Healey announced the government would prioritise “strategically important” data centres for grid connections. A new data centre covenant will grant additional government support to developers who meet a series of social and environmental standards, prioritising grid connections and permitting on-site energy generation until a grid connection is secured.

To support these measures, the government intends to reserve grid connections and reallocate capacity towards data centres. The success of this initiative will be dependent on whether the government can successfully utilise planning reforms to improve lead times, but, if achieved, the policy could improve the investment environment for UK data centre development.

Devolution policy starting to take shape

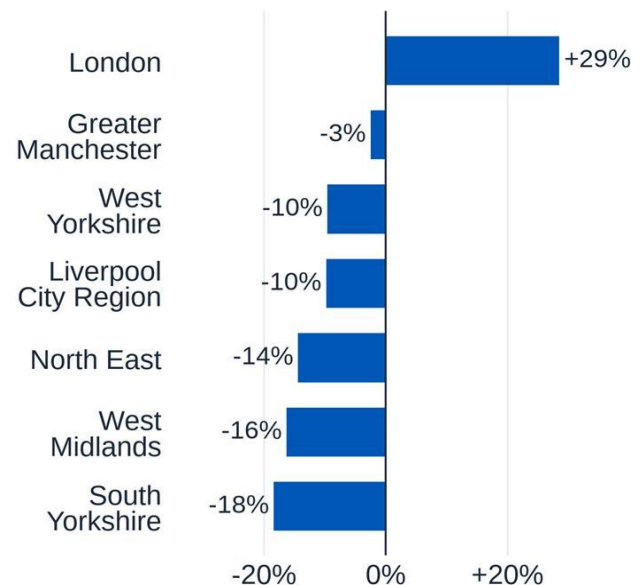
Healey announced the intention for fiscal devolution, handing more spending power to regional leaders.

This will see mayors and local authorities retain 20% of business rates from next year, rising to 100% by the end of the decade. From 2028, a share of income tax receipts will also be given to mayors. Powers will also be transferred to allow them to introduce a levy on overnight stays in their region from March 2028.

These measures are intended to fund investment in infrastructure and industrialisation in the regions. The government hopes this will shorten approval processes and allow local leaders to identify and prioritise local economic opportunities to address regional productivity gaps (see Figure 9).

Figure 9: Regional productivity growth has trailed that of London

Productivity relative to the UK average, 2023



Source: Aberdeen, HM Treasury, Office for National Statistics, October 2026

Still, the plans lack detail, and the OBR has not scored the impact of the proposed devolution measures as a result.

And as we have noted at previous budgets, the backloaded nature of the spending cuts will be politically challenging to implement. Indeed, the OBR now forecasts that government spending would have to be £11 billion higher in 2031–32 for unprotected spending not to fall in real terms from 2028–29.

The hard choices have been deferred to 2027

Healey repeatedly pushed reform and spending detail to the 2027 spending review. As a result, he has stored up a series of significant fiscal challenges for next year.

Meeting defence commitments will require major investment. Healey has warned “there will be choices” to be made, with the commitment to spending 3% of GDP by 2030 requiring an extra £17.3 billion in 2029–30. But prioritisation of defence spending at the expense of all else appears at odds with Burnham’s priorities.

Welfare adds further uncertainty to the outlook. The Milburn review of those not in education, employment or work and the Timms welfare review report in November 2026, with a policy response due in early 2027. Reform may cut costs in the long run, but it will almost certainly require upfront spending.



Deferred decisions, Burnham's repeated references to a ten-year policy plan and the constraints of Labour's 2024 manifesto will all fuel early-election speculation. Polling still points to a hung Parliament but has been improving for Labour. We see the odds of a snap election increasing given the policy constraints facing the government.

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