Buying Time: UK Autumn Budget 2026 Initial Reaction

29 October 2026

Foreword

The Chancellor has opted for a ‘buying time’ Budget, easing the immediate pressures facing households and businesses while deferring most of the harder tax and spending choices. The consequence is a package that is relatively modest in scale, closer to the past two Spring Statements than the last two Budgets. He has also chosen not to fully restore the fiscal headroom lost as the economic outlook has weakened, partly reflecting the conflict in the Middle East.

The Budget contained almost 100 policy measures, the highest number we have seen in at least fifteen years, but the average measure was also the smallest on record. The result is a large number of relatively small interventions, mainly targeted at the most visible pressures facing households and businesses, particularly energy costs. This includes £5bn of immediate cost-of-living support for households this financial year.

The additional tax burden is relatively concentrated, with the largest measures falling on banks, savings and property income, alongside further revenue from improved tax compliance. But the bigger picture is unchanged, with the rising tax burden still driven primarily by frozen personal tax thresholds.

There is a case for the Chancellor’s ‘do no harm’ approach. This is only the second time in five years that adverse changes in the economic outlook have materially reduced the Chancellor’s headroom, providing some justification for absorbing part of the hit. And with the economy proving more resilient than expected so far this year, a larger fiscal tightening risked weighing on that momentum.

The consequence is that harder choices remain. Unprotected departmental budgets are under pressure and the longer-term path to higher defence spending still needs to be funded. On our estimates, addressing those pressures in full could require a further £30bn. And with just £15bn of headroom, around half the average margin left by previous Chancellors since 2010, even a modest deterioration in the outlook could force further tax and spending decisions.

This means this Budget has not settled the bigger questions facing the Government, but there is more clarity on when some will come to a head. The Timms and Milburn reviews will conclude shortly, with a White Paper to follow early next year, while the bigger fiscal decisions will come with the 2027 Spending Review. For now, the Chancellor has bought some breathing space but with bigger tax and spending choices are still to come.

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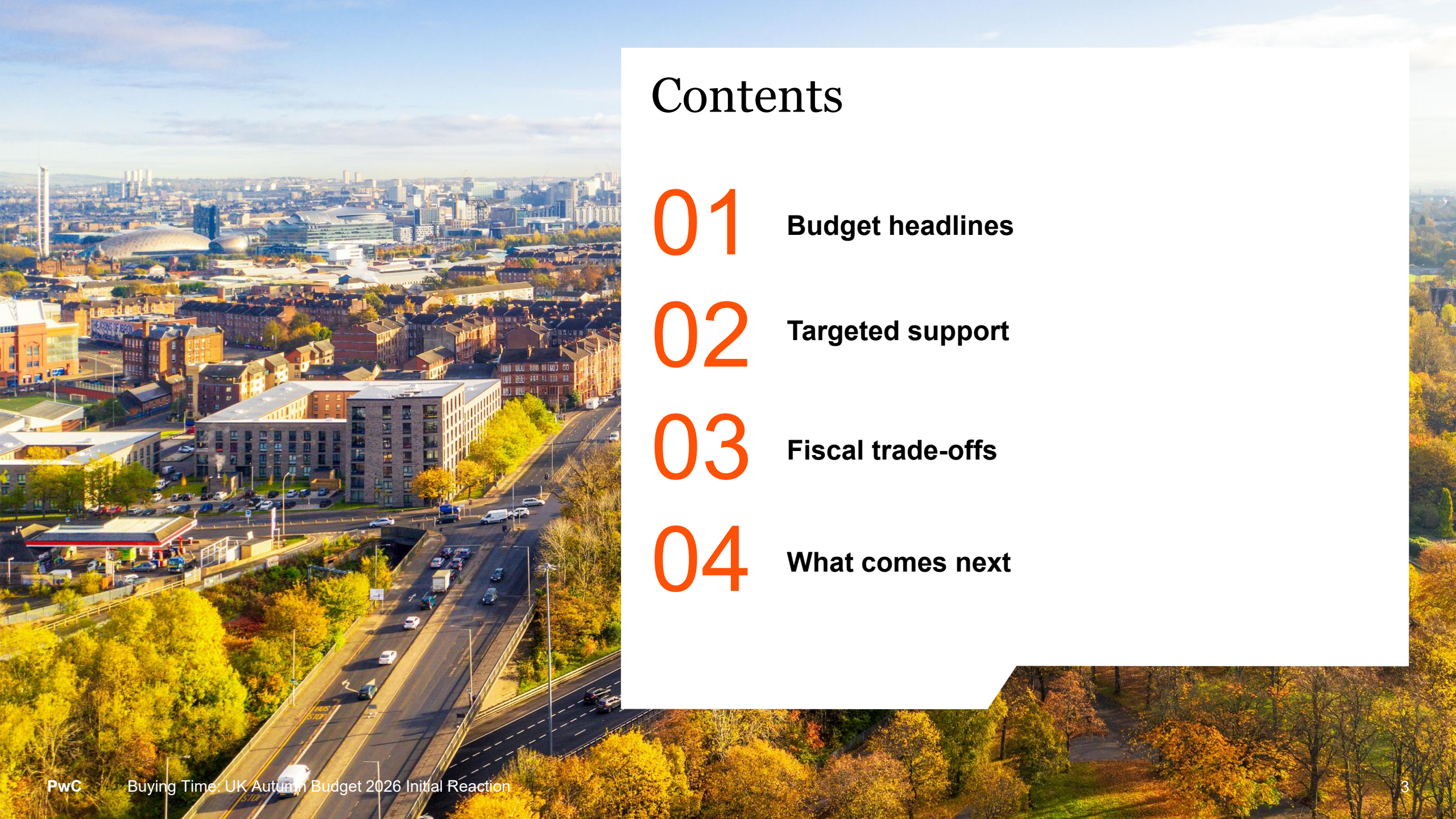

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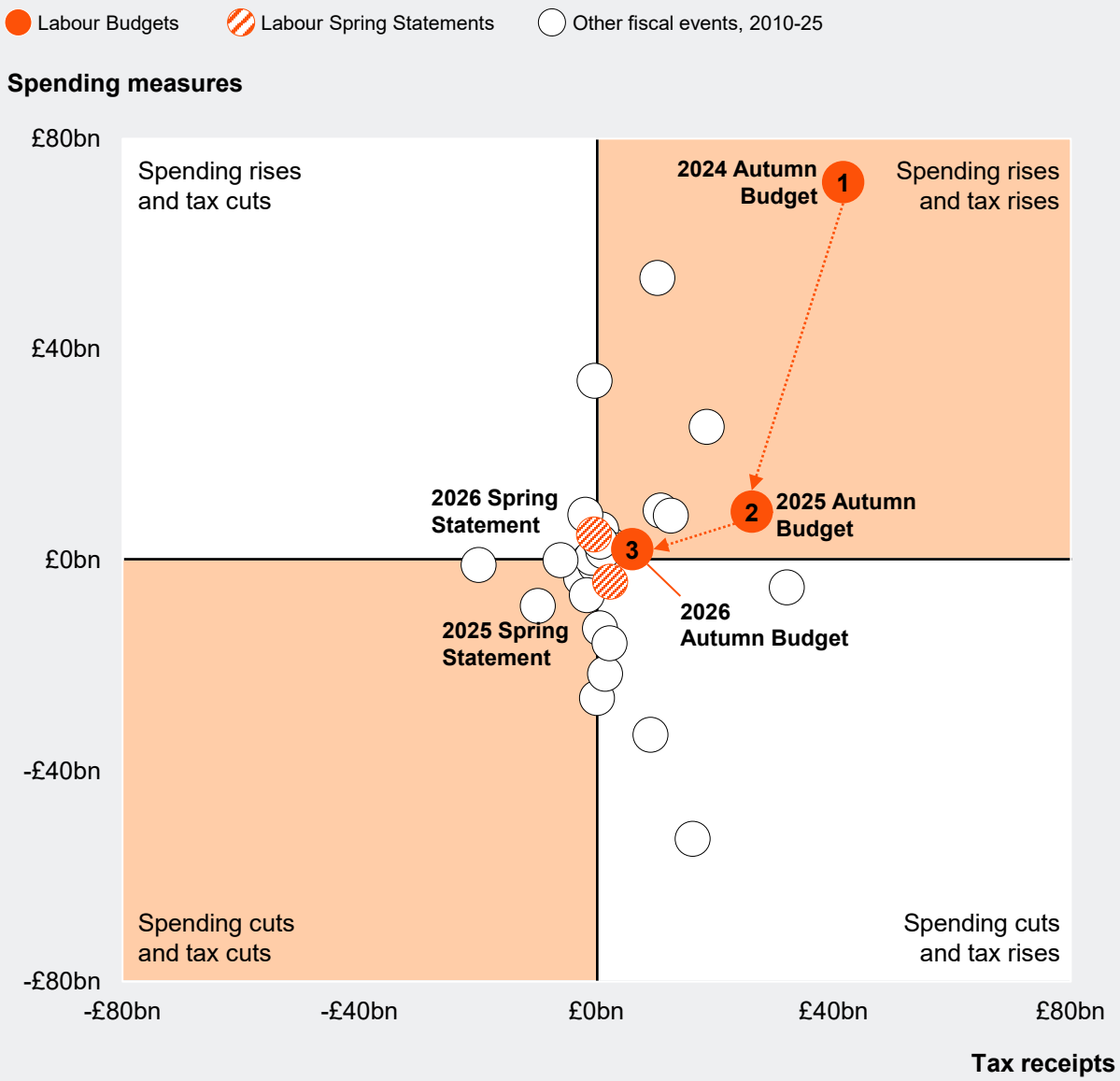
Budget headlines

Tax and spending policy changes at UK fiscal events, 2010-26



The Chancellor opted to 'buy time', with a package closer in scale to a Spring Statement than recent Budgets

1 **2024 Autumn Budget**
Major tax rises and higher borrowing funded a significant increase in day-to-day spending, alongside changes to the fiscal rules to support capital investment.

2 **2025 Autumn Budget**
A tax-raising Budget focused on rebuilding fiscal headroom, with relatively limited emphasis on new measures to support growth.

3 **2026 Autumn Budget**
Targeted near-term support, funded by modest tax rises later in the decade, leaves the overall fiscal stance broadly unchanged.

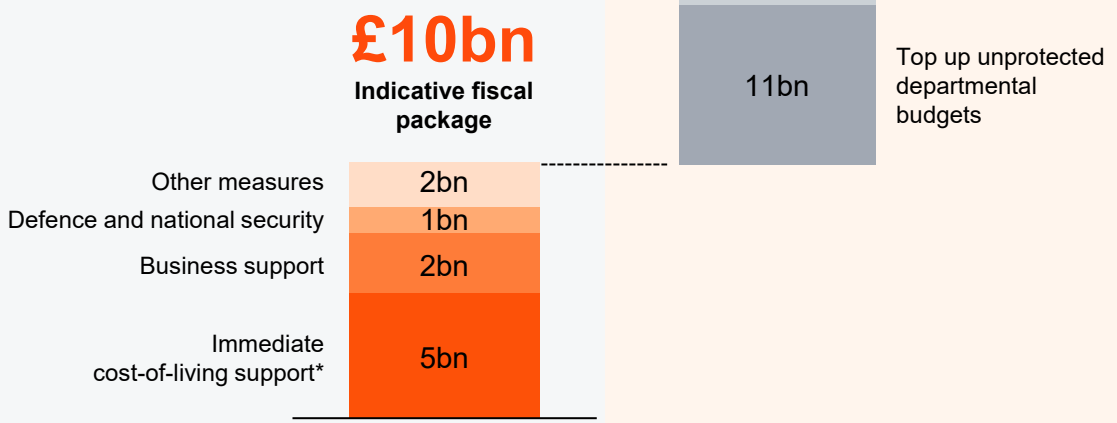
Sources: PwC analysis, OBR. | **Notes:** Total tax receipts policy and spend policy measures for 2029-30 shown by fiscal event. We reverse the Treasury scorecard convention in the case of policies relating to spending, so that both tax receipts policy increases and spending policy increases are shown as positive values.

The Budget addresses some immediate pressures facing households and businesses, but leaves the larger fiscal choices for later

The Government have addressed some of the immediate pressures facing businesses and households, but around £30bn of wider fiscal pressures remain unresolved.

£10bn
Policies announced

1. Near-term cost-of-living support for households
2. Measures on energy costs and business investment
3. Funding for the Defence Investment Plan



£30bn
Further pressures not addressed

1. Avoid real-terms cuts to unprotected departments
2. Fund the path to 3% of GDP on defence
3. Restore the Spring Statement fiscal buffer

Sources: PwC analysis, OBR. | **Notes:** 1) Cost-of-living support is shown for 2026–27, as most measures are temporary responses to current pressures on household energy costs. 2) The indicative £10bn package is the sum of measures with a fiscal cost in 2029–30, including higher spending and tax reductions before offsetting savings or revenue-raising measures. 3) The £11bn is OBR's estimate of the additional spending required in 2031-32 for unprotected spending not to fall in real terms from 2028-29

For business, the Budget is more about targeted changes than a broad reset

01

Where does the tax burden land?

- No broad-based increase in business taxation
- Targeted revenue raising focused on banks, gambling and online marketplace VAT liability
- Business rates support expanded for retail, hospitality and leisure

The overall direction is one of stability, but with a more differentiated tax landscape across sectors. Businesses will need to assess where targeted measures create material changes in effective tax burdens or incentives.

02

Can the UK close its energy cost gap?

- 20–25% electricity discount for 10,000+ energy-intensive businesses
- Carbon Price Support rates removed from April 2028
- No new policy costs added to bills until the Cost Control Framework takes effect in 2027

The Budget places greater emphasis on reducing industrial energy costs. Near-term relief should help energy-intensive firms, but the longer-term outlook still depends on the Cost Control Framework and the 10 Year Plan.

03

Could the Budget raise the cost of capital?

- Investment tax incentives broadly preserved, with full expensing maintained and upfront allowances enhanced
- Lower fiscal headroom and a ‘do-no-harm’ Budget have kept gilt yields and interest-rate expectations broadly stable

The Budget does little to materially shift financing conditions. The more important drivers remain the path of interest rates, geopolitical developments and the inflation outlook.

04

Will location matter more?

- A roadmap for fiscal devolution, with full business-rate retention planned by the end of the decade
- £285m for Good Growth Funds and a £1.5bn devolved borrowing facility from April 2028, increasing local investment capacity

Greater fiscal devolution will make regional priorities increasingly important to business investment decisions. Early engagement with local growth plans could help firms secure support and identify new opportunities.

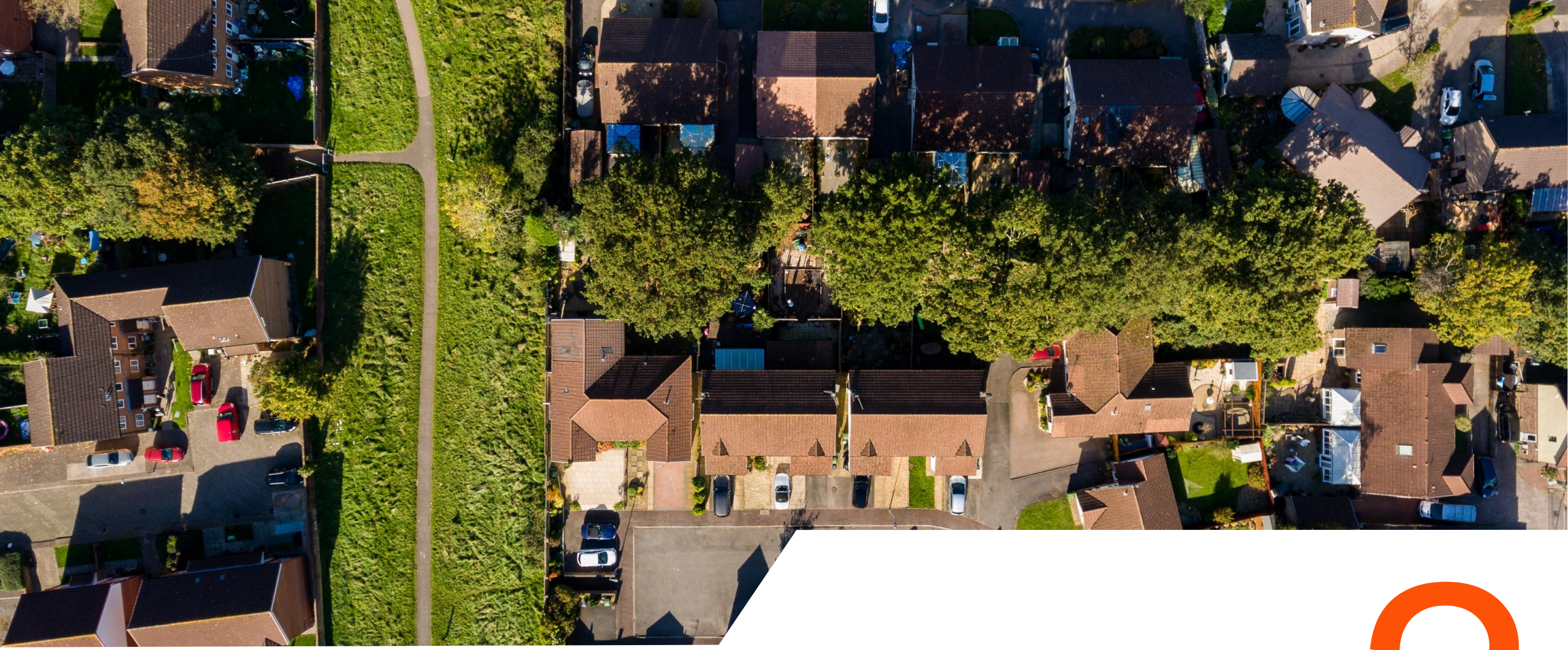
05

Will the cost of hiring change?

- National Living Wage rises 3.9% to £13.21 an hour from April 2027, with minimum wages increasing by the same rate
- £100m over two years to extend mayoral apprenticeship support

Higher minimum wages will raise labour costs, particularly for labour-intensive businesses. Strong inflation could also reinforce wage pressures, although a softer labour market should limit the degree of pass-through into pay growth.

Sources: PwC analysis, OBR, HMT. | **Notes:** BICS = The British Industrial Competitiveness Scheme



Targeted support

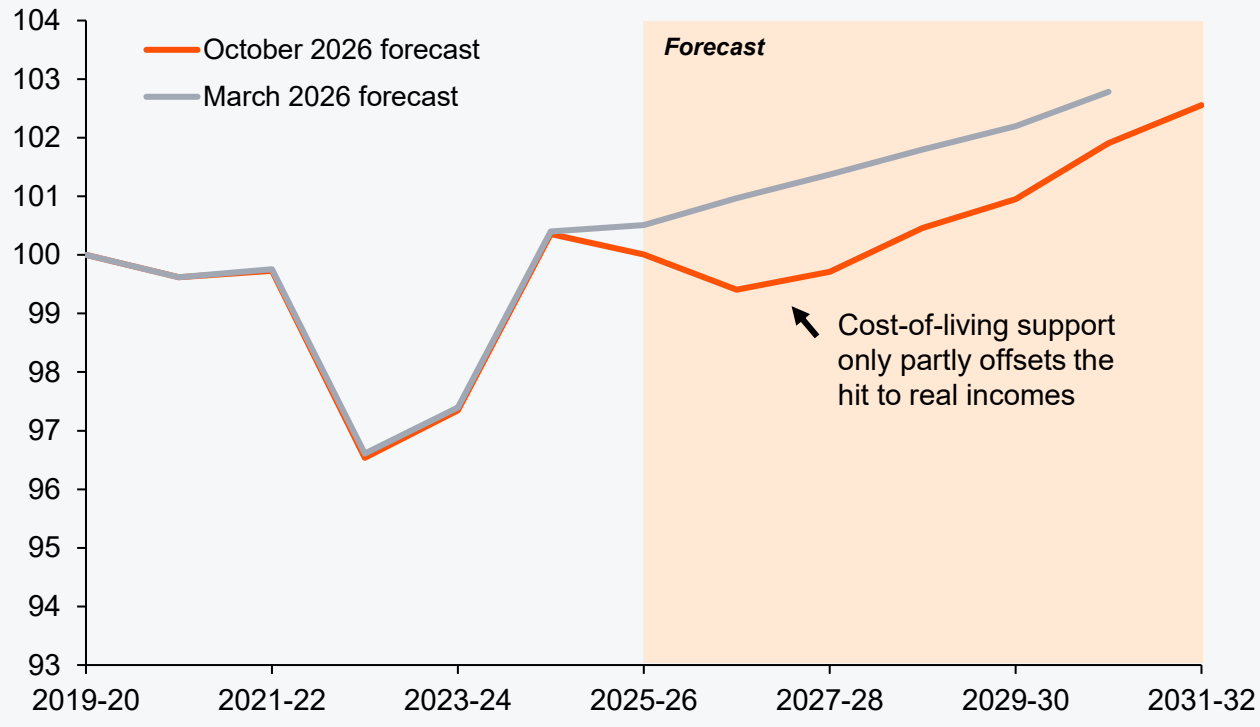
2

A major focus of the Budget was near-term cost-of-living support for households, though not enough to prevent a continued squeeze on consumers

Measures on energy bills, food and transport costs soften the impact of the Middle East shock, but real household incomes remain below the Spring forecast.

Main cost of living measures	Estimated cost
Energy bills relief £100 council tax rebate for up to 20m households, extending 0% VAT on domestic electricity to July 2027	**£3.7bn**
Fuel duty relief Extend the 5p/litre fuel-duty cut and defer the planned RPI increase to 1 July 2027, reaching c. 35m motorists	**£1.4bn**
Lower commuting / work travel costs Maintain the £2 bus fare cap outside London for 2027, raise tax-free mileage rates to 55p for the first 10k miles	**£1.2bn**
Remove import tariffs Suspension of import tariffs on 101 food products, kerosene, and fertiliser from November 2026	**£180m**
Higher minimum wages National Living Wage and National Minimum Wage increased by 3.9% from April 2027	**n/a**

Higher inflation has materially weakened the outlook for income growth
Real Household Disposable Income (RHDI) index, OBR forecast, 2019-20 = 100

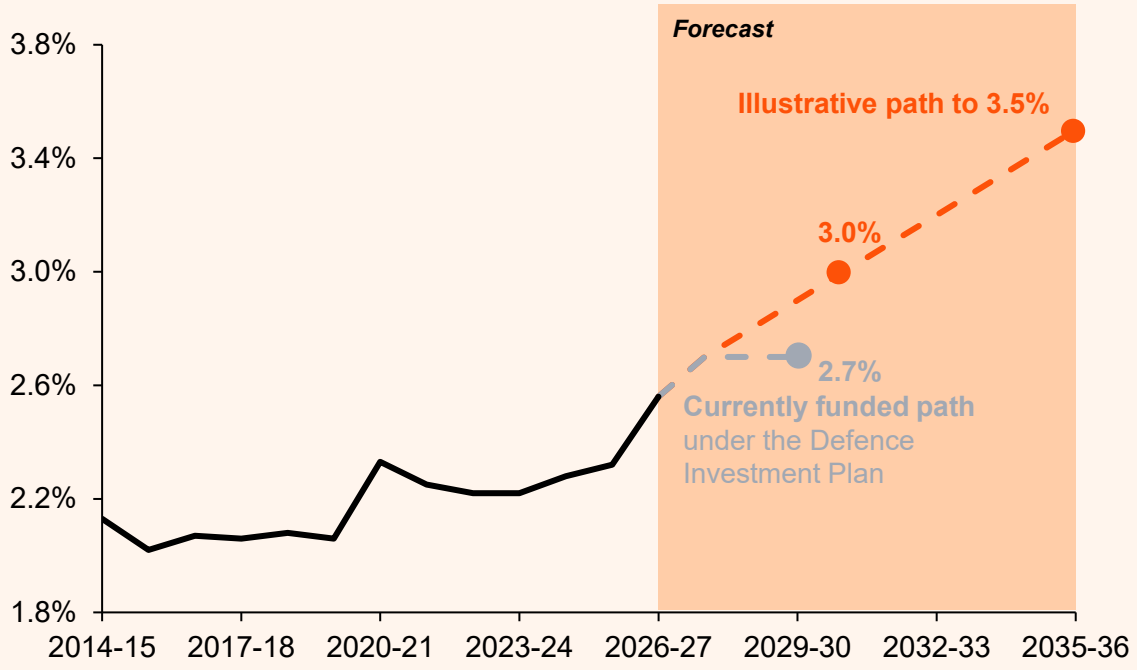


Sources: PwC analysis, OBR, HMT. | **Notes:** Estimated annual costs are based on HMT's Budget 2026 policy costings.

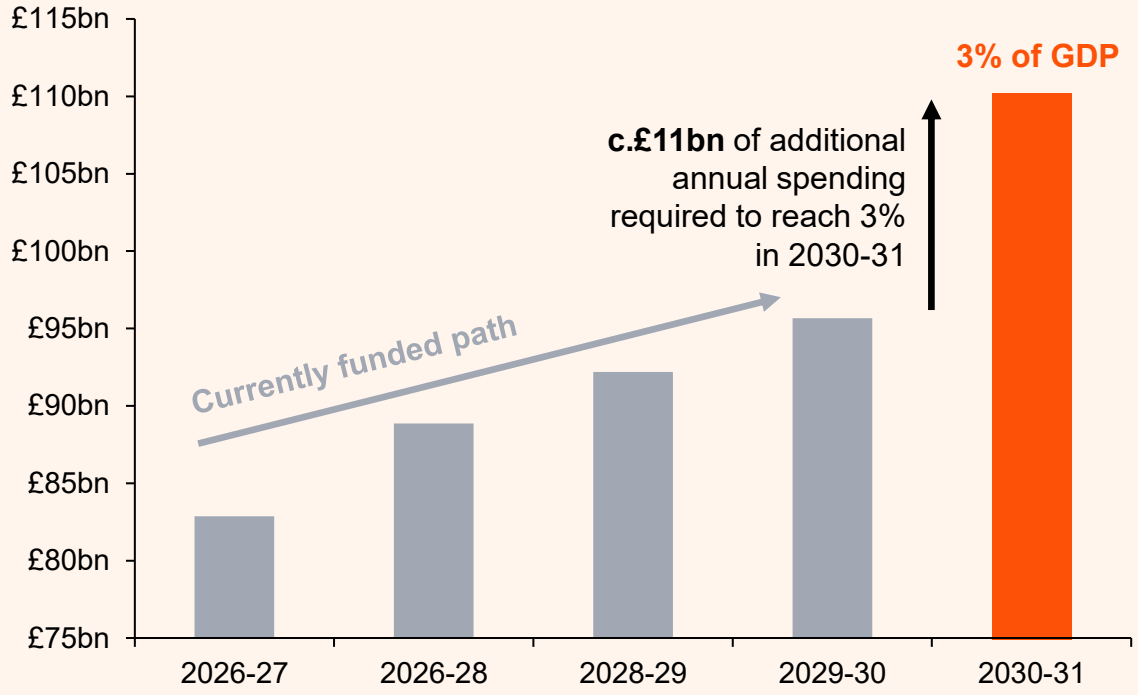
The Budget meets the near-term defence pressures, but reaching 3% of GDP will require further funding

The Defence Investment Plan is fully funded, but achieving the 3% of GDP target by 2030-31 would require spending to rise further beyond current plans.

Defence spending is set to rise towards NATO commitments
NATO-qualifying defence spending, % of GDP, 2014-15 to 2035-36



Reaching 3% would require a further step-up in spending
NATO-qualifying defence spending, £bn, 2026-27 to 2030-31

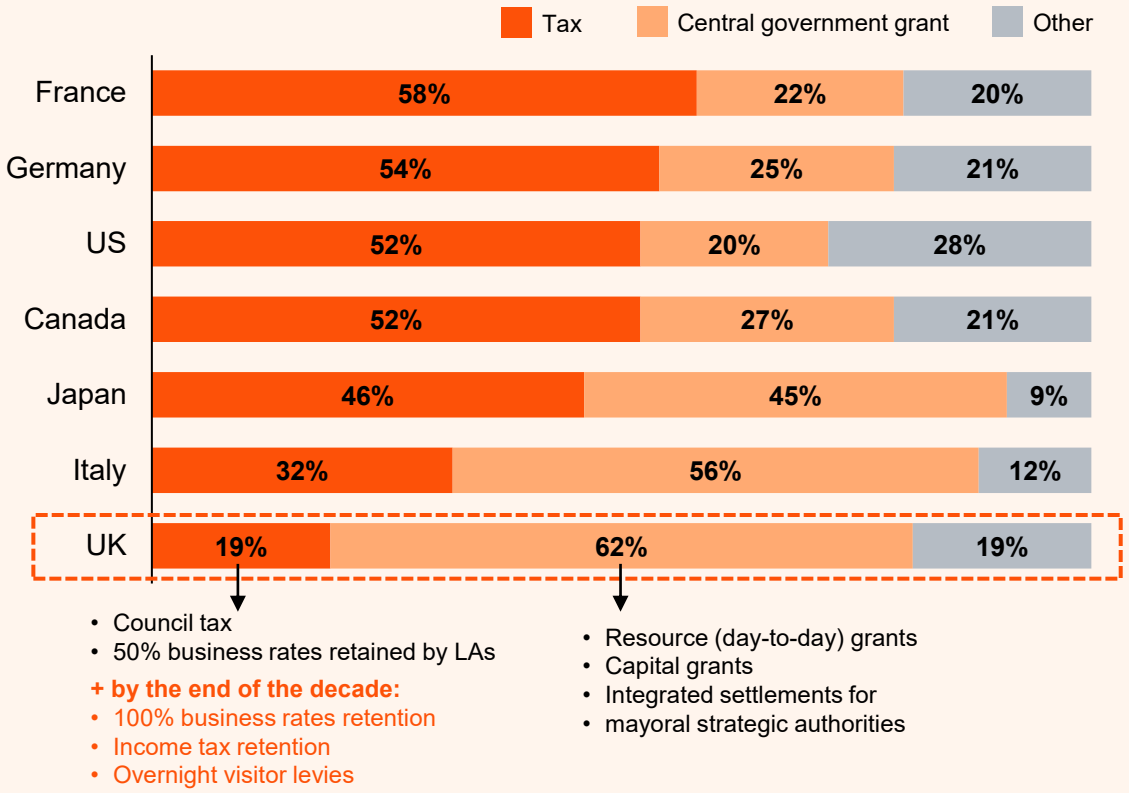


Sources: PwC analysis, NATO, HMT, MoD, OBR. **| Notes:** The path beyond 2030-31 assumes linear growth to the 3.5% NATO core commitment by 2035. NATO-qualifying defence spending in £ terms is calculated using the June 2026 DIP % of GDP path and OBR nominal GDP forecasts.

Fiscal devolution is the Budget's most structural reform, shifting more funding and incentives from Whitehall to local leaders

Income-tax assignment and greater business-rates retention will reduce reliance on central grants and give mayors a stronger financial stake in local growth.

The UK starts from the most grant-dependent local funding model in the G7
Subnational government revenue by source, 2023



The Budget shifts mayoral funding from grants towards retained local revenues
Proposed reforms in the Autumn Budget

2027

First step on business rates
Mayors receive a 20% share of business rates.

→ *Replaces mayoral Investment Funds, Mayoral Capacity Funding and Local Growth Funds*

2028

Income tax retention
Income-tax assignment becomes the main mayoral funding source

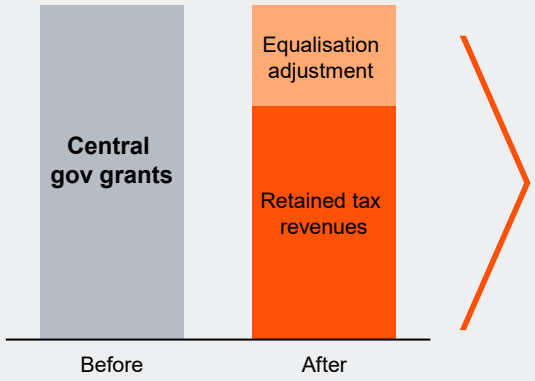
→ *Replaces wider grants for mayoral strategic authorities*

By end of decade

Full business rates retention
100% retention across local and regional government, with local authorities retaining at least 70%.

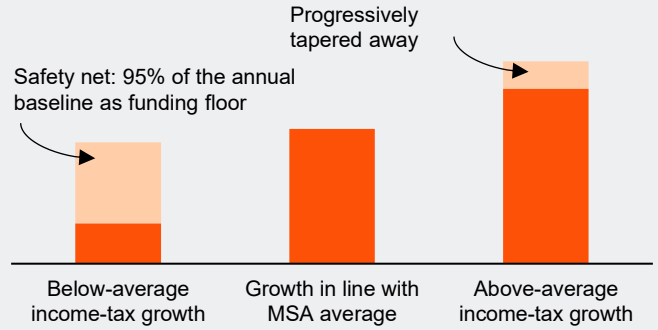
→ *Local authority grants swapped for a higher share of business rates*

Day 1: Same funding, different source



Over time: local funding depends on performance

A funding floor limits downside risk, while stronger local tax retention increases the reward from faster economic growth.



Sources: PwC analysis, OECD, OBR, HMT.

3

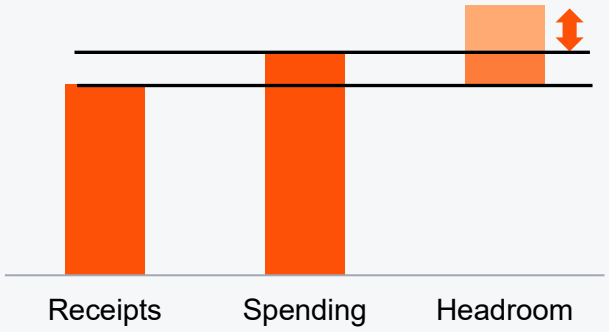
Fiscal trade-offs

Behind the measures sit three fiscal choices: lower headroom, limited spending top-ups and back-loaded fiscal tightening

The Chancellor absorbed part of the deterioration in the outlook through the fiscal buffer, largely maintained existing spending plans, and pushed more of the adjustment into later years.

Thick or thin headroom?

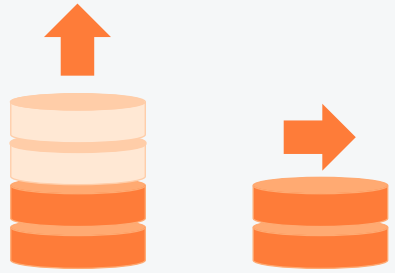
Balancing fiscal resilience against near-term pressures



- Headroom against the stability rule fell from £24bn in March to £15bn, reflecting higher debt-interest costs following the Middle East conflict.
- This leaves a thinner buffer against further deterioration. While the current £15bn margin remains meaningful, the risk of additional pressure before the next Budget has increased.

Top up or hold the line?

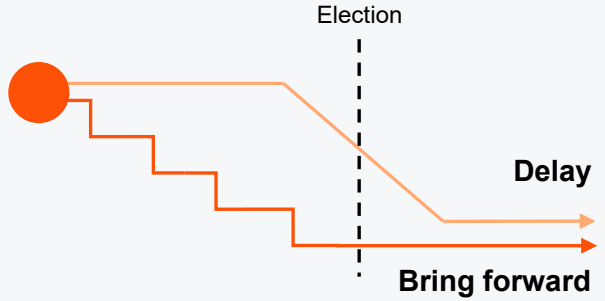
Choosing whether to protect departmental spending from the inflation squeeze



- The Chancellor largely held existing departmental envelopes rather than providing a broad inflation top-up. Additional funding was selective and partly funded through reprioritisation and capital spending.
- That pushes harder choices into future spending rounds, with unprotected departments still exposed to real-terms pressure.

Tighten now or tighten later?

Choosing when to deliver the fiscal adjustment



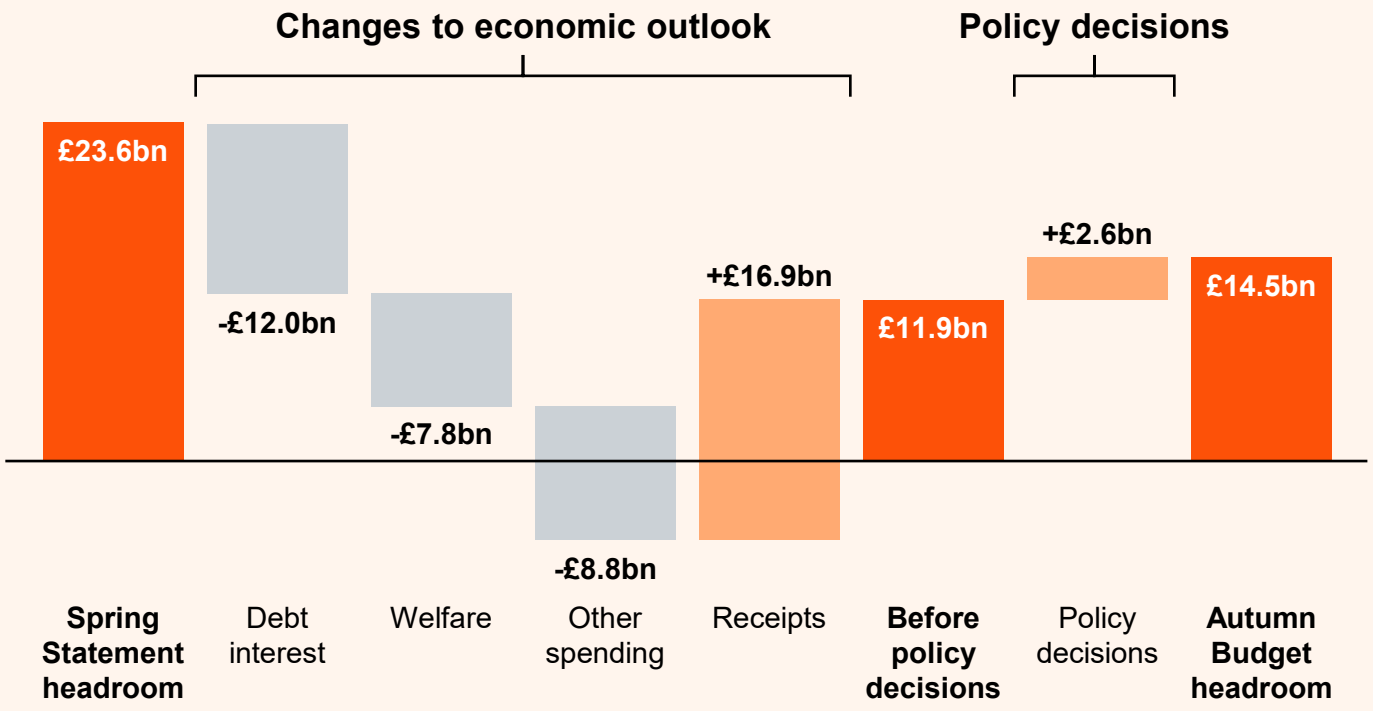
- The deficit falls across the forecast, but the Budget shifts more of the adjustment into later years. New measures raise borrowing through 2028-29 before reducing it from 2029-30 onwards.
- Delivery therefore becomes more dependent on future tax rises and spending restraint being sustained, increasing exposure to political and economic pressures.

Sources: PwC analysis, OBR. | **Notes:** Graphics are illustrative and do not represent PwC projections or policy recommendations.

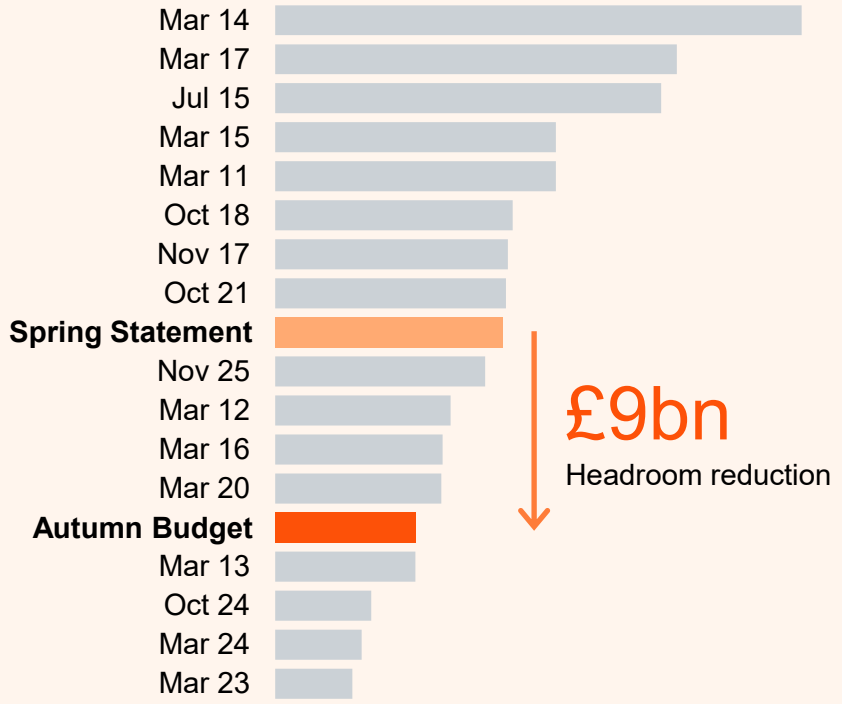
First, the Chancellor accepted a thinner fiscal buffer rather than rebuilding the headroom in full

Headroom fell from £23.6bn at the Spring Statement to £14.5bn, around half the average margin maintained by Chancellors since 2010.

Higher spending pressures more than offset stronger receipts
Change in headroom against the stability rule, 2029-30, £bn



Headroom is at the lower end of recent fiscal events

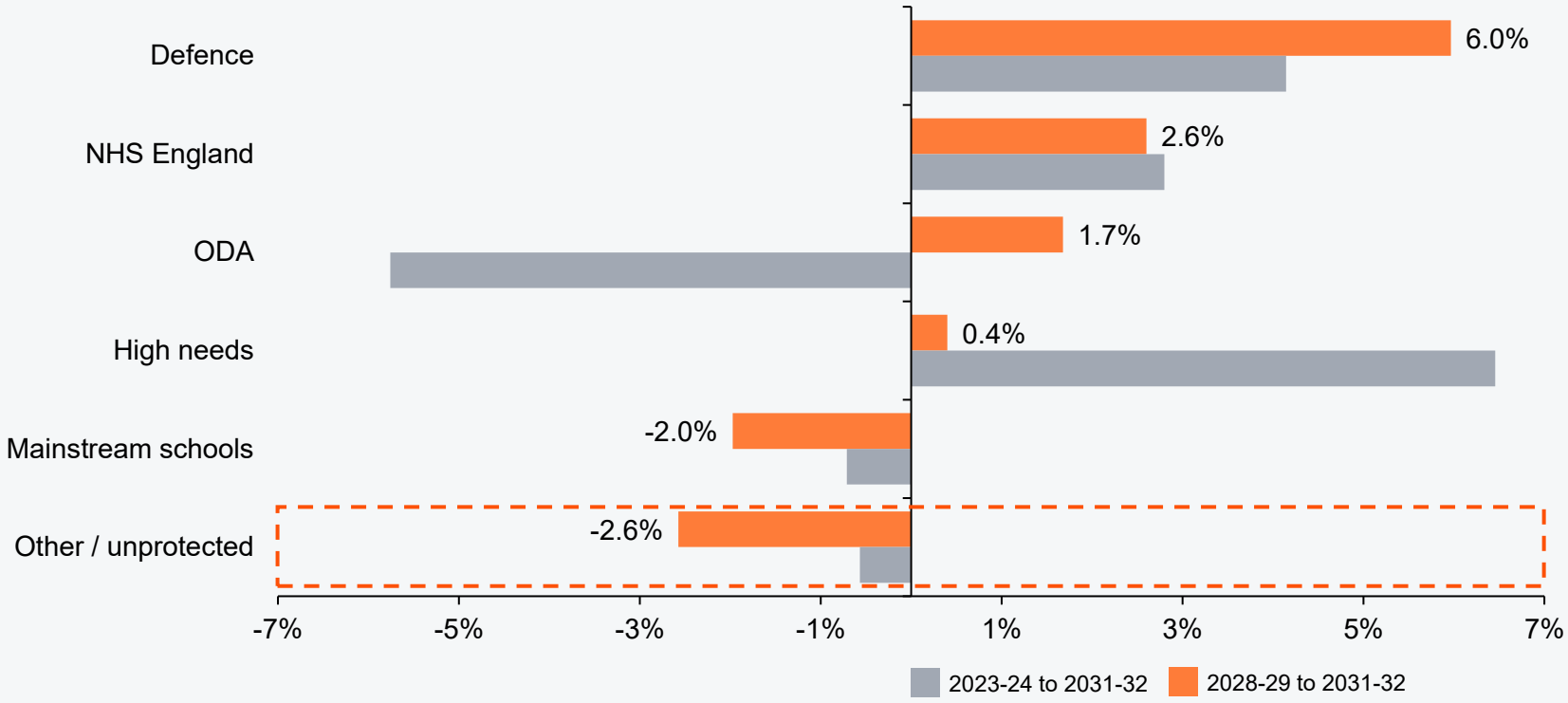


Sources: PwC analysis, OBR, HMT. | **Notes:** Headroom is the current budget surplus in 2029-30, the target year for the stability rule. Starting headroom is the Spring Statement 2026 forecast. 'Other spending' includes other current spending, capital spending and adjustments needed to move from borrowing to the current budget. Policy decisions show the direct and indirect effects on borrowing. Headroom before policy decisions therefore differs from the OBR's published pre-measures figure of £12.5bn, because Table 6.2 does not separate all policy effects on capital spending and depreciation. Previous events show headroom against the fiscal target in place at each event.

Second, he largely held the line on departmental spending, leaving a squeeze on unprotected budgets

Protected areas absorb most of the growth in day-to-day spending, while avoiding real-terms cuts elsewhere would require around £11bn by 2031-32.

The squeeze on unprotected departments intensifies later in the forecast
Implied average annual real RDEL growth, 2023-24 / 2028-29 to 2031-32, %



£11bn

Additional spending required in 2031-32 for unprotected spending not to fall in real terms from 2028-29

Current plans based on strong growth in Defence and NHS England spending imply a continued squeeze on unprotected departments.

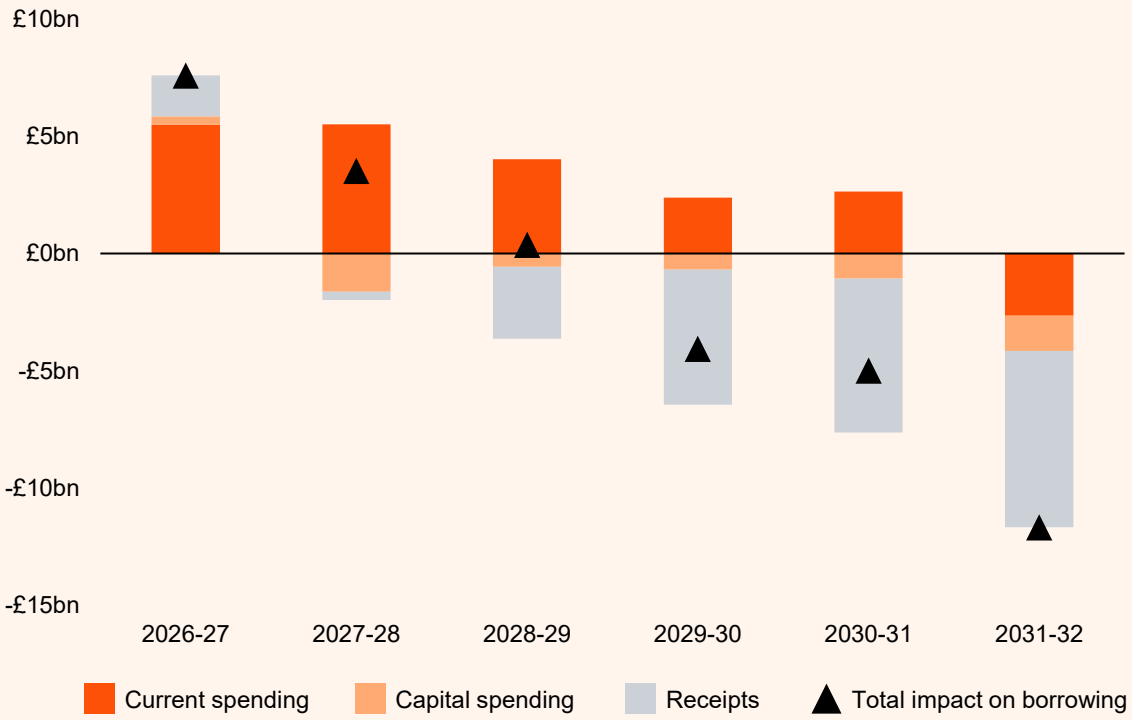
Sources: PwC analysis, HMT, OBR. | **Notes**: High needs covers specialist education and additional needs provision; ODA = Official Development Assistance. 'Other' refers to all remaining unprotected departmental spending.

Third, the fiscal consolidation remains back-loaded

Borrowing is still forecast to fall sharply, and by more than in most G7 economies, but much of the remaining adjustment is deferred until later in the Parliament.

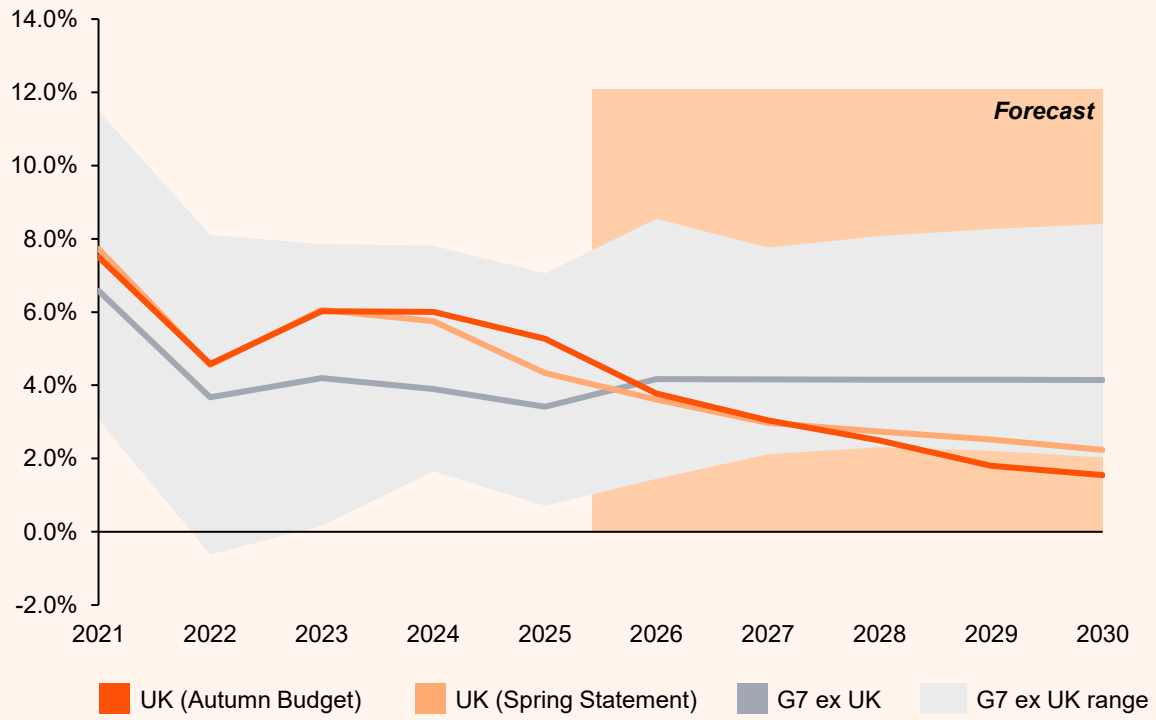
Budget decisions loosen policy in the near term, then tighten later

Direct impact of Budget decisions on borrowing, £bn, 2026-27 to 2031-32

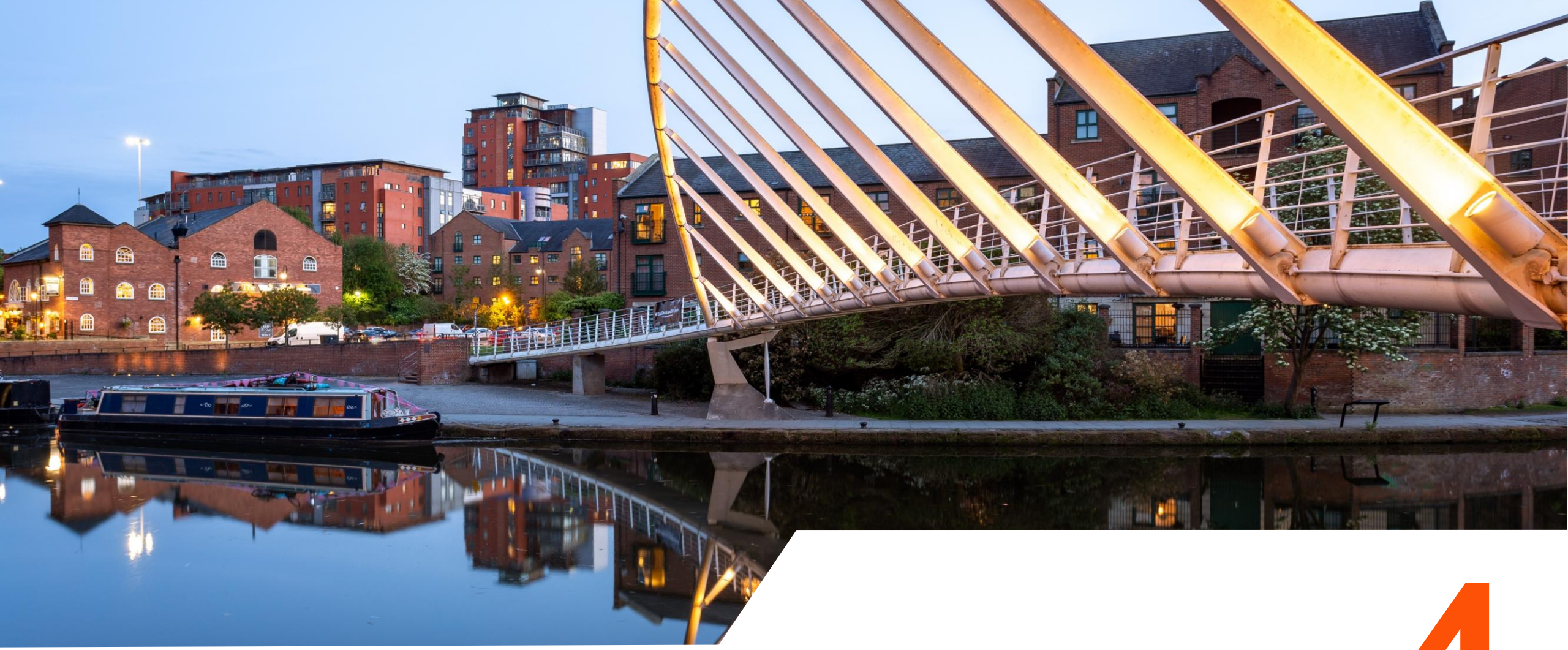


By 2030, UK borrowing falls towards the lower end of the G7 range

General government borrowing, UK and G7, % of GDP, 2021-2030



Sources: PwC analysis, OBR, IMF. | **Notes:** 1) A positive value means higher borrowing, and the chart excludes indirect effects. 2) UK data are the OBR's projections, converted by the OBR from financial to calendar years, with forecasts from 2026.



What comes next

4

The Budget buys time, but the next phase depends on turning reviews into policy

The immediate pressures have been addressed within the fiscal rules, while the bigger choices on welfare, social care and departmental spending now move to the reviews and the 2027 Spending Review.

Illustrative sequencing of the Government's wider reform programme

We are here

1 2024–2026

Reset the policy framework

- Fiscal framework changed to support higher public investment
- Planning reforms aimed at accelerating housing and infrastructure
- Employment rights reforms legislated, with implementation underway
- State role in energy and industrial policy expanded

2 Autumn budget 2026

Buy time?

- Stay within the existing fiscal rules
- Target immediate pressures through a series of relatively small interventions
- Fund near-term cost-of-living support and existing commitments
- Accept thinner headroom rather than fully rebuilding the fiscal buffer
- Set out the roadmap for fiscal devolution

3 Late 2026-next election

Turn reviews into policy

- Use reviews to develop detailed, costed policy for the next Parliament
- Fonagy reported Oct 2026; Timms and Milburn due late 2026; Casey due summer 2027
- 20 Nov UK–EU summit advances practical deals; longer-term relationship to be settled before the election
- 2027 Spending Review allocates departmental budgets

4 Next parliament (2030 onwards)

Structural reform agenda

- National Care Service and new social care settlement
- Welfare and employment-support reform
- Adjusted State Pension triple lock from April 2030
- Scale up council housebuilding
- Further devolution and public-sector reform

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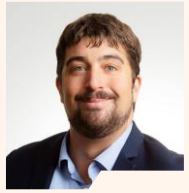

Regulatory Strategy
"We help turn regulatory complexity into long-term value"
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