

Cebr's 'On The Day' Reaction

LEADING ECONOMIC ANALYSIS, FORECASTS AND DATA

Autumn Budget Briefing, October 2026

New Chancellor offers modest handouts, but no escape from the UK's high-tax, low-growth predicament

After two Labour Budgets defined by tax rises, John Healey's first as Chancellor put fiscal discipline first, while still trying to offer broad-based support. The result is a Budget that offers something to everyone, but nothing outstanding to any particular group. **We judge that it does little to alter the UK's underlying growth trajectory.**

The reasons for emphasising fiscal discipline are clear enough. The picture has deteriorated relative to the last Budget, with higher yields and inflation having pushed borrowing up before the Chancellor even started planning his speech. Meanwhile, measures announced today add further to the load. The fiscal rules continue to be met, but with great fragility, and any further increase in borrowing costs will eat up remaining headroom. Key questions on spend are also outstanding, notably those on defence ambitions.

Prior to making policy announcements, the Chancellor's speech praised the UK economy's resilience. **Though the economy has grown at a stronger-than-expected rate this year, upward revisions to forecasts for 2026 mask downgrades for beyond.** Cebr expects growth to be slower in 2027, off the back of a higher-than-otherwise path for inflation and interest rates, a view supported by the OBR and consensus panels.

Addressing that inflation trajectory and its accompanying squeeze on finances was a key theme of the speech. **Several measures will have a direct effect on household wellbeing.** For instance, the extension of the VAT cut on energy bills, the removal of standing charges on gas bills, and the announcement of one-off £100 payments to millions of households. Though these measures offer some near-term relief, they are mostly temporary in nature and will do little to address the UK's structural dependence on global energy markets. **Until this dependence is reduced, the UK economy will remain more exposed to global shocks than many of its peers.**

Some longer-term, pro-growth measures were evident in today's speech, notably the roadmap for fiscal devolution. This is clearly a defining feature of the new administration, being led by a former mayor. With 100% of business rates to be retained locally by the end of the decade and a share of income tax going to mayors from 2028, these plans could prove transformational for local growth prospects.

Away from the devolution package, there were apparent inconsistencies in the pro-growth message, a feature shared by last year's Budget speech. The relief for new founders sits awkwardly alongside the halving of Business Asset Disposal Relief, undermining the pro-entrepreneurship message. Meanwhile, the reversal of last year's cap on cash ISAs, which we had welcomed as a spur to retail investment, before it has even taken effect, is a further example of policy churn. The praise heaped on banks and their support for consumers and enterprises was also positioned alongside a temporary increase to the bank surcharge

which, though milder than had been anticipated, still seems an arbitrary burden to be carried by a single sector.

Overall, we at Cebr see little in today's announcements to lift the UK out of its rut of subpar growth, with next year set to bring a return to slowdown – a view supported by the OBR release accompanying the speech. Under the current policy path, the UK remains a high-tax, middle-of-the-road growth economy, with its near-term prospects more dependent on events in the Middle East than on decisions in Westminster. No amount of devolution will change that.

- **Sam Miley, Head of Forecasting and Thought Leadership**

Key takeaways

Full steam ahead on devolution

- The Budget sets out the government's Fiscal Devolution Roadmap, a new funding model for regional and local government. From April 2027, mayors will keep a 20% share of business rates.
- By the end of the decade, the aim is for local and regional government to retain 100% of business rates, replacing grants from central government.
- The Budget also confirmed two previously announced measures. Mayors will get a share of income tax from 2028-29, and all Strategic Authorities will be able to introduce an overnight visitor levy, so areas can raise their own revenue. The levy has been strongly opposed by the hospitality sector, with UKHospitality warning it will make family holidays more expensive during a cost-of-living squeeze. Even so, it gives areas a new source of revenue to invest locally.
- Devolution coverage is set to widen. The government is in the final stages of agreeing 10 new devolution agreements and wants full devolution coverage across England by the end of 2028.
- Ongoing and planned devolution marks a radical departure for one of the most fiscally centralised countries in the developed world. Responsibility for growth moves from Whitehall to local and regional authorities, which gives places a direct financial stake in their own economies, on the assumption that they understand local needs better than central government.
- Success will depend on local capacity. With funding more closely tied to each area's tax base, places with weaker economies may also struggle to fund the investment they need.

Decisions deferred

- The Chancellor had limited room to act. Gilt yields are at, or near, multi-decade highs, and the energy price shock pushed inflation back up to 3.5% in September. Cebr expects it to peak at 4.1% in Q1 2027. With households and businesses already under strain, the government avoided anything that might unsettle markets or weaken fragile sentiment and put off several big decisions as a result.
- Defence is the clearest example. The government reaffirmed its NATO commitment to spend 3.5% of GDP on defence by 2035, with 3% by 2030, but left the route to get there to next year's spending review. The remaining £4.7 billion of the Defence Investment Plan will come from reprioritising capital budgets, mainly through a further 1% cut to departmental capital from 2027-28. The Treasury has also warned that not every department will get a real-terms increase at the spending review. Both point to reallocating existing spending rather than new money.
- On welfare, the government signalled reform but gave little detail. The main measure is a taper on Carer's Allowance, so carers no longer lose the whole benefit by earning over the Weekly Earnings Limit. This is a sensible change that makes it easier to combine work and caring, though it won't take effect until 2030-31.
- The Triple Lock will be adjusted from the next Parliament, so that the State Pension tracks earnings rather than rising relative to them. The government estimates savings of £15 billion a year by the late 2030s and £50 billion a year by the late 2040s. This is a meaningful step towards long-term fiscal sustainability, but the benefits will take years to come through.
- There was nothing new on benefits for young people. Decisions are on hold until a White Paper early next year, responding to Alan Milburn's final report and the Timms Review. In the meantime, the government's main levers remain the Jobs Guarantee for 18- to 24-year-

olds on Universal Credit and £100 million for local apprenticeship services. With nearly one million young people not in education, employment or training, this is arguably one of the biggest domestic challenges facing the government.

Energy reform and net zero

- In the short term, the government has focused on easing bills, most obviously by extending the VAT cut on household electricity to July 2027 and providing a one-off £100 payment to households in council tax bands A to D.
- The more significant measures are aimed at bringing costs down over the medium to long term. No new policy costs will be added to bills until a new framework for controlling them is in place at the 2027 spending review. Gas standing charges, currently around £108 a year for a typical household, will be abolished. A planned new tax on gas bills to fund hydrogen projects has been scrapped. From April 2027, 10,000 energy-intensive manufacturers will get a 20 to 25% discount on their electricity.
- The government is also trying to break the link between gas prices and electricity bills. It will consult on fixing the price paid to more renewable generators, shielding households and businesses from swings in global gas markets, and will only buy new power where it lowers bills overall. A new £2 billion Energy Wealth Fund, linked to future North Sea revenues, will invest in renewable and low-carbon infrastructure. In effect, oil and gas will help fund the transition away from them.
- The direction of travel has shifted. The government says oil and gas will remain part of the energy mix “for decades to come”. It has also cut £1 billion of capital funding from the Warm Homes Plan and scaled back support for hydrogen and carbon capture. Together with the recent decision on Jackdaw and the assumption that Rosebank will be approved, this shows a government putting cheaper energy ahead of the pace of decarbonisation, and willing to let net zero commitments slip to get there.

Business Rates Relief

- The government has increased the Small Business Rates Relief (SBRR) threshold from £12,000 to £18,000, meaning 70,000 more businesses do not have to pay business rates.
- The Chancellor also announced a two-year business rate bill freeze, in real terms, for most retail, hospitality and leisure (RHL) properties. Inclusive of the more lenient threshold, these reforms are set to cost the taxpayer a net £0.5 billion in 2028-29.
- The Federation of Small Businesses (FSB) forecasted small RHL business rate bills to increase by 52% over three years in January, citing the impact of the revaluation and reduced relief packages for the wider industry.
- The policies announced today will help mitigate some of these previously anticipated increases and support business activity as a result.

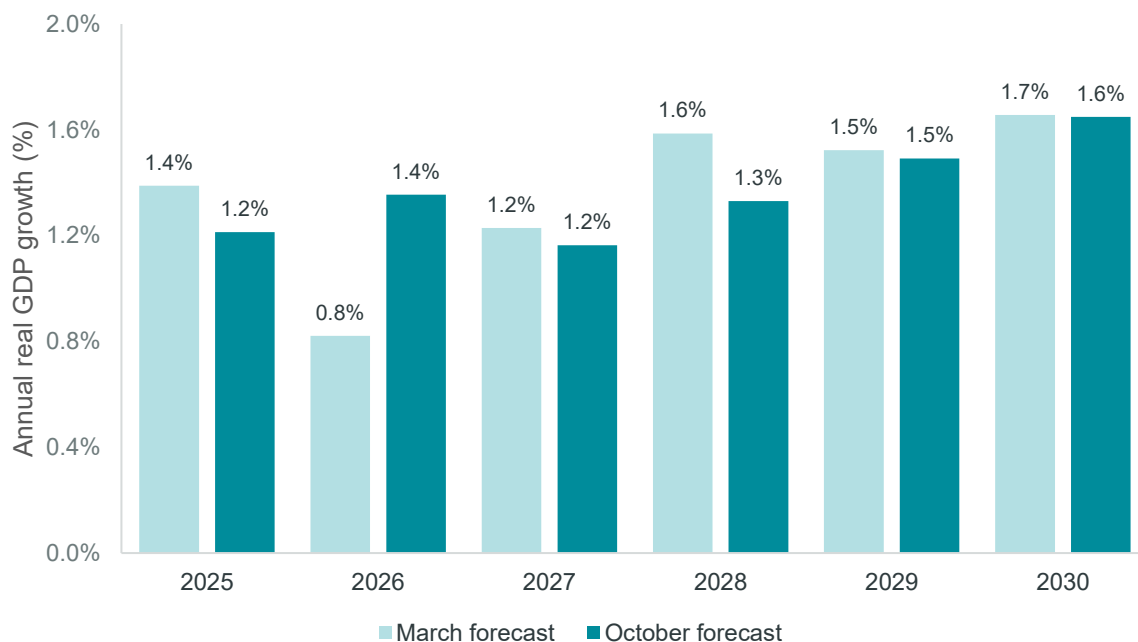
Tax hikes

- The Budget outlined several tax measures targeting banks, gambling and vape stores.
- The Chancellor raised the surcharge on banks by 3 percentage points to 6% for 15 months from January 2027, though this was not as strong a measure as expected.
- Machine Games Duty is set to rise to 25% from 20%, which is estimated to raise £0.1 billion a year in tax receipts.
- Vape shops will lose access to SBRR, which may push consumers towards illegal products.

Overall fiscal impact

- The Budget will add £7.6 billion to borrowing in 2026-27, and £3.5 billion in 2027-28 before the effects of the measures begin to subside in 2029-30, according to the OBR.
- Many of the near-term costs stem from the £100 council tax rebate and the range of measures designed to help households adapt to higher energy bills driven by the Iran conflict.
- Headroom against the fiscal mandate is thin at £15 billion, according to the OBR, roughly half the average headroom chancellors have left since 2010.
- Debt as a proportion of GDP will remain broadly at 96-97% from now up until 2031-32, according to the OBR. However, debt interest expenditure as a proportion of GDP is expected to rise to 4.2% by 2031-32 from 3.5% currently.

Real GDP: October forecast vs March forecast, Cebr



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