



Institute
and Faculty
of Actuaries

Briefing

UK Budget 2026

by Policy and Public Affairs Team

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October 2026

Budget 2026 - The 'Breathing Space' Budget?

Background

In the run-up to his first Budget as Chancellor, John Healey was careful to set the scene and call for confidence in the economy – despite challenging circumstances. Conflicts in Iran and Ukraine and their impact on global energy prices, as well as lower than forecast levels of net migration, continue to put pressure on the headroom the Chancellor has against his fiscal rules, with a reduction from £24 billion to £15 billion this year according to the Office for Budget Responsibility (OBR).

The Institute for Fiscal Studies (IFS) warned that to retain credibility with bond markets Healey must set overall spending envelopes “that he would be genuinely prepared to live within”, according to IFS Director Helen Lewis. She added, “simply pencilling in implicit cuts that he has no intention of delivering would make the Budget a work of fiction.” They called for tax rises or welfare cuts in order to avoid real-term cuts to some areas of public services, sustained growth in health funding and bringing defence spending to 3% of GDP.

Healey's position was boosted by praise from the International Monetary Fund (IMF), which welcomed his “credible plan” for reducing the deficit, upgrading its 2026 UK growth forecast to 1.3%. And this is reflected in consumer confidence, with Ipsos polling finding that people were less fearful about the prospects for their own financial situation, the economy, public services and British businesses going into this Budget than in 2025.

The majority view going into the Budget was that it would be a “steady-as-she-goes” statement, with limited headline announcements, despite pressure from some corners for more radical measures to help restore public finances, and to help demonstrate where some of the funding for Burnham's ambitions for government will come from.

As it transpired, most of the measures in today's Budget had already been announced, with few surprises and no real rabbits from hats, leading Opposition leader Kemi Badenoch to label the first Budget of Burnham's premiership “not good enough, not strong enough, not bold enough”. Many of the big decisions, around defence funding and welfare reform, have been pushed to next year's Spending Review. With the OBR's forecast for 1.2% growth set to slow to 1% in 2027, pressures on the public finances will remain.

Headline Measures

- VAT cut to electricity extended to July 2027, which is expected to take around £50 off the annual Ofgem price cap in April 2027. The Chancellor also announced that he would ask Ofgem to deliver removal of gas standing charges – which are £108 a year for the typical household on average – in 2027 or as soon as possible after.
- Launch of a £2.6 billion Household Energy Payment, which will provide a £100 payment directly into bank accounts from January 2027 for households in England in council tax bands A-D, supporting up to 20 million households.
- Import tariffs have been removed on more than 100 supermarket products, which together with tariff suspensions already introduced means that households could save up to £21 on their food shop each year.
- 5p fuel duty cut and freeze extended to 1 July 2027.
- The National Living Wage (NLW) and the National Minimum Wage (NMW) rates have been increased by 3.9%, expanding parental pay, (including to self-employed fathers and partners for the first time), and permanently increasing the tax-free mileage rates for those who rely on their own vehicle for work.

Fiscal Position and Tax Measures

- The government continues to meet its two fiscal rules:
 - Stability rule: current budget in surplus by the third year of the forecast, with £15 billion headroom in 2029-30.
 - Investment rule: public sector net financial liabilities falling as a share of GDP, with £24 billion headroom in 2029-30
- Public sector net borrowing is forecast to fall from 4.2% of GDP in 2026-27 to 1.8% by 2031-32.
- The government expects to incur around £14 billion per year of additional debt interest costs compared with the March forecast, largely due to higher global borrowing costs following the Middle East conflict.
- No increase in the headline rates of Income Tax, VAT or National Insurance. Income tax thresholds continue to be frozen until April 2031.
- Bank Corporation Tax Surcharge temporarily increased from 3% to 6% for 15 months (1 January 2027 to 31 March 2028) to help fund household energy support measures. This is a smaller increase than had been trailed in the weeks leading up to Budget.
- Taxes on savings and property income to increase by two percentage points.
- The decision to reduce the Cash ISA allowance for under 65s has been reversed.
- From April 2027, qualifying business founders will be eligible for a 10% Capital Gains Tax rate on up to £10 million of lifetime gains when selling their business, replacing some of the support previously available through Business Asset Disposal Relief.
- Business Asset Disposal Relief (BADR) lifetime limit reduced from £1m to £500,000 from April 2027.
- Online marketplaces will become responsible for collecting VAT on sales by UK businesses making more than £90,000 of sales through those platforms from October 2027.

Pensions

- The new Pension Tax Allowance: pensioners with income up to the value of the full new state pension (£13,036.40 a year, an increase of 3.9%) will not pay income tax "in this Parliament".
- The Treasury will work with the private sector to create a new starter ISA to reward first time investors.
- Additional funding of £20.4 billion for the National Wealth Fund and British Business Bank to crowd in investment.
- Adjust the Triple Lock, so from April 2030, both the basic state pension and the new state pension will rise each year by whichever is the highest of the following factors: inflation (the rise in the consumer price index), 2.5% or the amount required to return or maintain the value of the state pension relative to earnings. The adjusted Triple Lock will see the state pension rise in line with average earnings over time, rather than consistently growing faster than wages.

Infrastructure and Housing

- Green Book discount rate cut from 3.5% to 3.0% to strengthen the case for transformational projects that drive growth.
- Published the government's [response to the independent discount rate review](#) and [Green Book supplementary guidance: discounting](#).
- The government will publish an updated Infrastructure Pipeline setting out over £750 billion of planned infrastructure investment over the next decade, alongside measures to speed up planning and reduce delays from legal challenges.
- Building cheaper, faster grid connections through GB Grid and reforming grid governance. Only building new projects when they lower bills and can connect to the grid.
- £1.5 billion of new funding to deliver around 10,000 additional homes in England, prioritising Social Rent housing and council homes, taking total investment in the Social and Affordable Homes Programme to more than £40 billion over 10 years.

- A new £4.7 billion "Your First Home" equity loan scheme will help around 70,000 households onto the housing ladder through government equity loans of up to 20% of a property's value.
- The government will extend preferential Public Works Loan Board borrowing rates for councils and has committed to delivering the largest council housebuilding programme since the post-war era.
- A new zero rate of VAT on land sold to registered social housing providers will be introduced from April 2027 to support and accelerate the construction of affordable housing.

Sustainability and Climate

- Commitment to Net Zero by 2050.
- Biodiversity Net Gain requirements removed for certain additional brownfield development sites.

Energy

- Launch of Energy Wealth Fund with a £2 billion downpayment to reinvest oil and gas revenues into the climate transition.
- Jackdaw gas field approved, bringing energy security and £2.9bn to the economy.
- Bringing energy bills down in line with Europe:
 - New 'levy control' framework giving the Treasury and No. 10 greater control over future green charges, taking the power from DESNZ
 - Removal of green levies from energy bills, putting them instead on general taxation
 - Standing charges removed from gas bills. The fixed costs will be moved onto the unit rate instead, saving 60% of account-holding households an average of £45 a year.
 - The upcoming Gas Shipper Obligation and levy to fund hydrogen projects is scrapped. Backing for those projects will come instead direct from government.
- Moving more of all renewables onto fixed price contracts.
- Immediate actions:
 - extend 0% VAT on household electricity bills for three months, to 30 June 2027
 - removal of the 4% tariff on kerosene will support the 142,000 Scottish households that rely on heating oil
 - 20 million households in council tax bands A-D in England to receive a £100 'household energy payment' this winter
 - Fuel duty freeze and the 5p temporary fuel duty discount continue to 30 June
 - The Approved Mileage Allowance Payment (AMAP) tax-free rates for cars and vans made permanent at 55p up to 10,000 miles. The rate above 10,000 miles increases from 25p to 35p.
 - Extension of the cut in duty on red diesel until July
- Extra 3% on bank surcharges to pay for immediate support for energy bills, starting in January and ending 15 months later.

Artificial Intelligence

- The government will strengthen AI security and resilience, including through an additional £120 million for the AI Security Institute, and £165 million for a new National AI Biosecurity Initiative.
- £154 million investment to strengthen cyber defences and £40 million to establish a National Agentic Security Unit to investigate and respond to rogue agentic incidents.
- An additional £140 million for the Sovereign AI Unit to back promising UK AI companies to scale and succeed in the UK.
- The government will establish a Data Centre Covenant, with all strategic data centres required to meet tests around electricity bills, investing in local communities, adhering to environmental standards, creating jobs and driving reindustrialisation, and strengthening security.

- In return, the government will reserve and reallocate connections, identify additional capacity, accelerate connections before 2030 and enable access to temporary power to bridge the gap to grid connections.

Health

- Ending the Carer's Allowance cliff edge, so unpaid carers no longer lose their entire allowance simply for earning a penny over the Weekly Earnings Limit. Instead, only £1 of support will taper away for every additional £1 earned.
- £1bn of life science investment by private companies, backed by £70m from the Government
- A regulatory carve out so that medicines can be tested and rapidly scaled.
- Review of NHS productivity and AI so staff can focus on patients, not administration.
- Rebalancing universal credit so it doesn't force people to label themselves too sick to work.
- The Milburn and Timms Panel will publish their final report next month, with a White Paper by the end of this year.

IFoA Comment

Commenting on the government's Green Book discount rate proposals, the IFoA said:

"The Institute and Faculty of Actuaries (IFoA) welcomes the Government's response to the independent review of Green Book discounting and its decision to reduce the headline social discount rate.

Discount rates play a critical role in public investment appraisal because they determine how future costs and benefits are valued in today's terms. Giving greater weight to long-term impacts has the potential to improve the appraisal of investments whose benefits accrue over many decades, including infrastructure, resilience, climate adaptation, preventative public services and other policies designed to deliver benefits for future generations."

Our full comment can be read on the IFoA website.

Budget Documents

The Budget document can be found here: [Budget 2026 – Breathing Space for today, Fresh hope for the future](#)

The supporting documents for the Budget can be found here: [Supporting documents for Budget 2026 - GOV.UK](#)

The OBR's Economic and Fiscal Outlook can be found here: [Economic and fiscal outlook – October 2026 - Office for Budget Responsibility](#)

Should you wish to discuss any of the information provided in this briefing, please contact: public.affairs@actuaries.org.uk

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