Budget 2026 - A Do No Harm Budget

28 October 2026

SUMMARY – Our First Thoughts

This was a holding statement Budget with a number of the big decisions deferred for another day. The Spending Review was as expected pushed out to 2027 and to go with that they have announced a Defence Review Task Force to look at how they get to spending at 3% of GDP in 2030 and 3.5% by 2035. On welfare no changes today with the Millburn report before Christmas then they will look to put together a White Paper and then move on from there. A do no harm Budget as we expected. Ther are a number of large questions to be answered in the future.

Financial Market Initial Reaction

The FTSE100 ended flat on the day with little change post the Budget statement. In the gilt market the 2 year yield was flat at 4.94%, 10 year -2bps at 5.32% and 30 year -4bps at 5.71%. That was against mixed moves globally of small ups and downs. Sterling closed flat on the day against the dollar at $1.3312 and against the Euro 0.1% at Eur1.1942.

OBR and Government Finances –

Spending – welfare spending on OBR (F) to grow from £333.8bn in 2025-26 to £431.3bn in 2031-32. This is before any plan announced next year to cut spending – see above. Overall spending pre-debt interest is £8bn higher for 2026/27 due to higher inflation and the cost of public sector pensions. Then £4bn higher in 2027/28 and £0.4bn in 2028/29.

Spending is (F) to increase from 45.6% of GDP in 2026/27 to peak at 45.7% in 2027/28 falling to 44.7% in 2031/32. The forecasts include departmental spending falling as a per cent of GDP from 21.5% in 2026/27 to 20% in 2031/32.

Borrowing – OBR forecasts move from last April as follows:

2026-27 - £115.5bn to £133.2bn = 4.2% of GDP from 3.6%

2027-28 - £96.5bn to £112bn = 3.4% of GDP from 2.9%

2029-29 - £95.5bn to £112bn

Headroom at the end of forecast period in 2029/30 is £15bn down from previous £24.6bn so as expected used up some of that headroom against budget pressures. The headroom was £12.5bn before measures announced today.

Debt to GDP ratio peaks at 97.3% in 2028/29 from 93.1% in 2025/26 and falls to 95.9% in 2030/31 against prior (F) of 95.1%. That excludes increasing defence spending amongst other ambitions.

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Gilt net financing requirement for 2026/27 now (F) at £258.6bn from £251.2bn prior. The gross requirement is £274.8bn which takes account of gilts maturing. Illustrative gross requirement for 2027/28 is £312.6bn and for 2028/29 £300.4bn.

OBR says that the cost of servicing government debt has also increased sharply recently – from 1.7 per cent of GDP (£39 billion) in 2019-20 to 3.5 per cent of GDP (£109 billion) in 2025-26. We would add that as at September 2026 it is annualising at c.£130bn.

Economy – OBR sees 2026 CPI at 3.1% from 2.3% (F) in April and 2027 at 3.4% from 2% - independent (F) see it exceeding 3.8% in Q1 2027.

UK GDP growth for the first 3 quarters annualised is at 2% and OBR are forecasting 1.2% for 2026 as a whole so that expects a sharp slowdown in Q4 or some downgrading to previous readings. Their (F) for 2027 is lowered from 1.6% to +1%. We view 1.2% as quite a harsh (F) for 2026 although independent (F) consensus is 1.3%.

Interest Rates – the OBR see UK interest rates rising to c.4.25% by mid-2027 and just over 4.5% by the end of the (F) period i.e. 2031.

Devolution – Mayors are to get 20% of local business rates rising to 100% by the end of the decade. Are to have authority to impose an overnight visitors levy by 2028. A share of income tax to follow from 2028/29. They also announced £285m of funding in 2027/28 split £165m for "Good Growth Funds" and £120m of incubator capital finding for areas transitioning to devolved status.

PuFins – public finance institutions like the British Business Bank or National Wealth Fund. An additional £20.4bn is to be allocated to these 2 bodies. Various bodies are questioning whether this is investment or spending.

Bank Tax – increased from 3% to 6% for 15 months from January 2027. Some relief that it is only for 15 months.

Housing –

The details on "Your First Home" were announced. The government are estimating that it will help around 70,000 households in England to get on the housing ladder – not clear over what period that is – and they highlight £4.7bn of funds. We continue to estimate a c.14-15k per annum benefit against the old Help to Buy which was c.35k per annum. Income caps will be set at £110,000 per household outside London and £140,000 inside London. Price caps will be set based on local authority median prices, with inner and outer London caps of £650,000 and £500,000 respectively. The deposit requirement will be set at 2.5%. The scheme will open for pre-registration by the end of December 2026 and full applications from February 2027 with the first loans issued from April 2027. There is a cost to the house builder though set at 1% based on final sale price on the first 100 homes, 3% on next 150 and 4% there on. We see that as quite high.

The statement that the Biodiversity requirement would be removed only applies to brownfield land of 1.5hectare and below so no more than 2 football pitches. Of less relevance to the quoted house building sector.

Social & Affordable Housing – a further £1.5bn committed to take the total to £40bn over 10 years. They see this supporting delivery of 10k homes.

Defence Spending – 3% of GDP by 2030 and 3.5% by 2035 is still the commitment but any detail as to how they will get there deferred until at least 2027.

Minimum Wage – +3.9% and delayed acceleration in under 21's equalisation with over 21. At the lower end of companies expectations so a positive there – see retail sector below.

Triple Lock – confirm the intention to adjust this from the next Parliament so as to deliver personal care free at the point use and a high-quality National Care Service. An independent commission will report on plans in 2027 under Baroness Casey. The State Pension will continue to rise by the highest of 2.5%, inflation or earnings growth each year through to April 2029. From April 2030 the State Pension rises each year by the highest of 2.5%, inflation, or the amount required to maintain its value relative to earnings as reached in April 2029. The savings to be used for care scheme. Savings are a function of expected inflation and earnings.

Business Rates – the Small business Business Rate Exemption rate raised from £12k to £18k. This is being funded by raising the tax on gambling machines and stricter VAT collection from online vendors trading through market places as already announced.

Stamp Duty on Shares – in the Budget policy paper they say that "The government has heard industry feedback that cutting [stamp taxes on shares] could boost UK capital market competitiveness……The government recognises the potential economic benefits of such a change and will keep this under review as part of the government's wider focus on supporting UK capital markets, having appropriate regard to the fiscal implications of any changes."

Personal & Consumer Finance –

Income tax & Thresholds – no change to current plans.

Energy Bills – going to remove the standing order charge on gas bills – c.£108 per year for a household – and move the charge on to a usage basis so goes on to the unit rate.

Spending £2.6bn on £100 per household in Council tax band A to D to help with energy bills through this winter.

Extending cut on VAT on electricity bills to July.

Fuel tax escalator increases cancelled.

ISA's – the proposed cash ISA limit cut to £12k from £20k has been cancelled.

Tax on Income from Property & Savings – a further 2% has been added to the already announced 2% so a 4% in total increase. The rates thus move to 24% for a basic rate payer, 44% for higher rate and 49% for an additional tax payer.

SECTORS - initial comments

Contractors/UK Govt spend: Defence is a winner- extra £5.5bn Opex to 2029 and £4.7bn in Capex terms- no official split of that between accommodation or defence kit- but vast bulk looks like kit: crewed and uncrewed air defence, munitions but 3 new floating docks Faslane. Devenport and Portsmouth already seeing upgrades in July- Babcock incumbent on 2 of 3.

Budget also adds £1.5 billion extra money to deliver around 10,000 social homes in England, Takes the Social/Affordable Homes Programme to more than £40 billion over 10 years. Small +ve.

Transport (Roads/Rail) sees £300m capex cut for 2026/7 and £700m following year- again lacking which schemes deferred- but do spell out biggies like Northern powerhouse Rail, £300m Leeds station, A66, Cardiff Parkway station remain etc. Rest: Health, Justice, Education no real change from before.

Tech Sector & the Budget. The commitment to maintaining existing pledges made in the Spending Review is the best supportive news for the UK tech sector, but it was expected. The main concern for the listed tech sector remains the 2027 Comprehensive Spending Review. There was a new project to use AI to save £600m back-office costs in Government and another to increase NHS productivity, which is a positive across the IT Prof Services cohort, but in the main, the winner seems to be private tech. Reforms to the Enterprise Management Incentives scheme benefit the early-stage tech companies. Specific areas :

Strategic Investment: Up to £5bn over four years to seed defence tech, dual-use software, autonomous systems, and sovereign capabilities.

Sovereign AI Initiative: An additional £60m for the Sovereign AI Fund alongside a £60m R&D public procurement scheme to act as an early customer for British AI innovators. Customer is good as it avoids crowding out commercial players

Regional Ecosystems: Specific allocations were earmarked to accelerate commercialisation, including support for specialised semiconductor design in Scotland (recall: Once upon a time that was 'Silicon Glen').

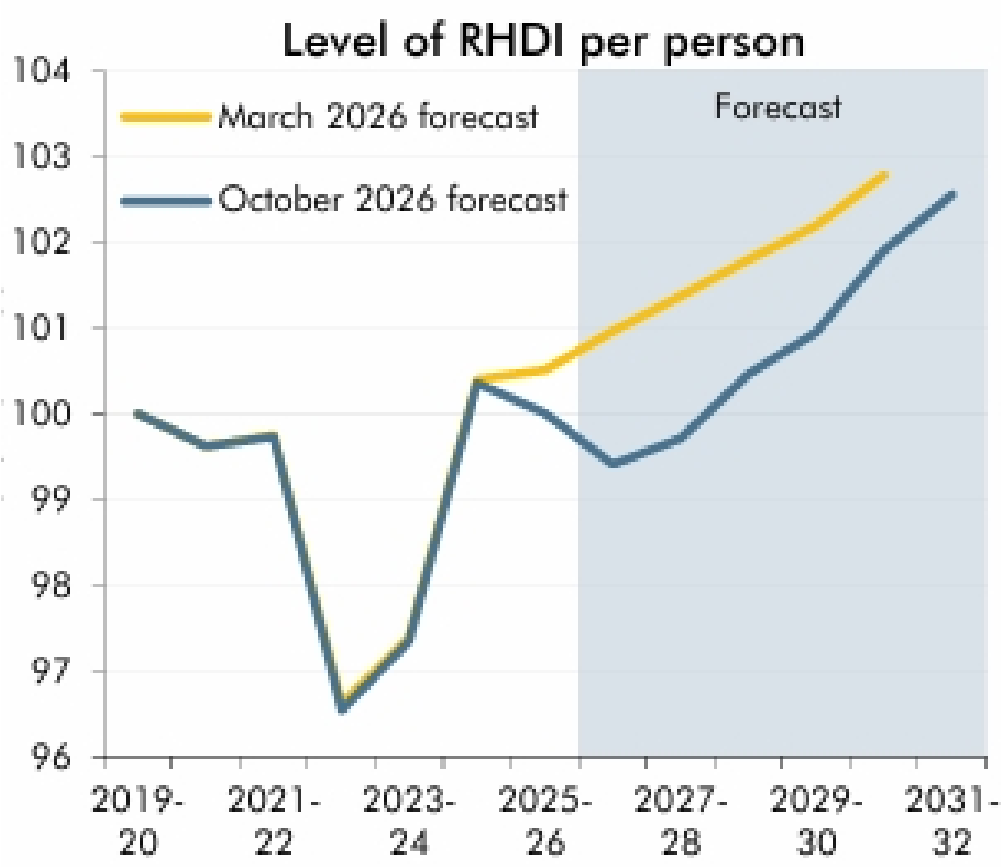
The Budget confirms a three-year exemption from Stamp Duty Reserve Tax for new companies listing on LSE.

Retail & Consumer Sectors - limited effect from this Budget, which is more about trying to ease headwind on cost of living, and not enough to eliminate it. Some energy bill changes (namely the £100 payment) will help. Standing charge removal does a little for a few but nothing for the majority given unit costs rise. Minimum wage at +3.9% is lower than most companies feared/budgeted for, so may give a bit more wiggle room in earnings forecasts to combat any growing demand drag from rising inflation/falling confidence.

Addition for Consumer Sectors from the OBR Report –

In the central forecast, limited second-round effects of externally driven inflation on nominal wages – and labour market looseness – means we expect no real earnings growth in 2027. Real wage growth then recovers to around ½ a per cent a year by 2030, as energy prices drop back. That medium-term growth rate is slightly below growth in output per worker as we expect firms to rebuild profit margins and the rate of return on capital to recover. Subdued real wage growth, alongside the combined effect of frozen income tax thresholds and higher nominal earnings growth, means we expect RHDI (Real Household Disposable Income) per person – an indicator of living standards – to fall slightly in the near term (Chart 1.5). RHDI per person then partially recovers as the energy price shock subsides. But, in 2030-31, it is only around 2 per cent above pre-pandemic levels and is about ¾ per cent below the level from our March forecast.

Figure 1:



Source: Company data, Singer Capital Markets estimates

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