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# Taking the Brakes Off UK Growth: Building a More Dynamic Economy for a Faster World

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# Executive Summary

Reigniting growth is the defining challenge for this government. It is the only route to raising living standards and improving fiscal sustainability. The postponement of fiscal consolidation in the Budget adds to the political urgency: if growth does not recover, the government will have to resort to costly tax rises or spending cuts towards the end of this parliament. Growth must become the organising purpose of this government – not just one objective among many – with every major policy decision aligned to that ambition.

Meeting this challenge will require sustained focus on stimulating economic dynamism – the speed with which labour, capital and other productive resources can be redeployed to their most valuable uses. This has received too little attention in the past, and the economy is suffering for it. In the years ahead, the countries that thrive will be those that can adapt fastest to change. Structural forces – the green transition, an ageing population and geopolitical fragmentation – are already reshaping the global economy. But it is the technological revolution that makes reviving dynamism especially urgent. Thanks to AI, it has never been easier to start and scale a business where conditions are right, and conversely, never more dangerous to rely on past strengths where they are not. In this environment, economic success depends less on preserving what exists and more on enabling swift adjustment. For economies to thrive in the age of AI, they must be dynamic.

UK dynamism has been declining since the 2008 global financial crisis. The forces of creative destruction that once accounted for a quarter of economic growth before the crisis are now barely contributing at all. New firms are still forming, but too few scale. Stagnant incumbent firms are muddling along – neither investing nor being competed out of business – tying up labour and capital that could be used more productively elsewhere. Job-to-job mobility has fallen, leaving more workers stuck in roles that underutilise their skills. And risk-taking has declined, muting the “animal spirits” that drive investment, experimentation and growth. The result is an economy that has struggled to renew itself for close to two decades – still structured for the last century in a world that has moved on. For individuals,

the consequences are stark: stagnant wages, fewer opportunities and a growing sense the economy is not working for them. Dynamism matters not only for growth, but for how widely its gains are shared.

This is not simply a story of the UK being swept along by global forces; it is the result of policy choices. Successive governments have treated dynamism as an afterthought, prioritising political short-termism, stability and risk avoidance even as economic change has intensified. Brexit weakened a core historic advantage – the UK’s flexible labour market – and raised barriers to companies starting and scaling by reducing market access. The financial crisis required a strong focus on restoring financial stability, but this has hindered Britain’s ability to support an agile digital economy where value is increasingly created through ideas, data and intellectual property rather than physical collateral. And as the world has grown more complex, lawmakers and regulators have responded with layers of new rules but without a corresponding effort to simplify compliance for businesses – allowing friction to accumulate into a persistent drag on growth.

In its first 18 months in office, this government has often fallen into a similar trap, prioritising other objectives over growth. Recent policy decisions – including higher taxes on employment, stricter migration rules, expanded employment protections and an energy strategy that prioritises speed in reaching net zero over affordability – risk weighing the economy down at precisely the moment it needs to become more agile.

A reset is needed. If growth is to be the government’s primary mission, economic dynamism must play a central role. Restoring it is not a quick fix: it requires sustained reform and difficult judgements about where flexibility matters most – for example, in areas such as competition, insolvency and sector-specific regulation, where trade-offs between stability and growth are unavoidable. This report does not attempt to resolve every one of those debates. Instead, it sets out the first steps in a wider reset, focusing on three areas where policy has most clearly fallen out of step with a fast-changing economy: labour markets that adjust too slowly, a financial system that stymies reallocation of investment to ideas-driven firms, and a regulatory environment that impedes rather than supports experimentation and scale.

**Pillar 1: The government should reestablish the UK's labour market as a beacon of flexibility in the age of modern work by:**

- **Simplifying domestic employment legislation to incentivise dynamic firms to start and scale in the UK.** Introduce a tiered employment-protection regime that reduces restructuring costs for high-paid roles where workers are better able to absorb unemployment risk, while preserving strong protections for most workers. Cap non-compete clauses at a maximum of three months and restrict their use to high earners to support job-to-job mobility, spinouts and knowledge diffusion. Halt the automatic rise in the minimum wage relative to median earnings, restore a principles-based remit for the Low Pay Commission that accounts for labour-market conditions and make convergence of the youth rate with the adult rate explicitly conditional on youth-employment outcomes.
- **Amending migration policy and the UK's tax regime to attract global talent and ensure access to critical skills.** Expand the Global Talent visa by widening eligibility to cover expertise in emerging technologies and holders of equivalent elite visas (such as the US O-1). Reduce costs by exempting holders and their dependants from the immigration health surcharge. Support internationally mobile investors by creating a new, more targeted investor visa and reforming the grace period before overseas income is subject to UK tax, simplifying both eligibility criteria and compliance requirements to reduce barriers to relocate to the UK. Introduce a permanent Key Worker visa for essential non-graduate roles such as construction and care to address persistent skills shortages, and agree a Youth Mobility Scheme with the EU to inject flexibility into high-churn and seasonal labour markets.
- **Making it easier for workers to find and move into jobs that better utilise their skills.** Invest in AI-enabled job-matching platforms to reduce friction in job-to-job transitions and speed up movement into growing sectors. Create a new personal transition fund, modelled on contributory pensions – with workers and employers contributing from pre-tax – but accessible during periods of redundancy or retraining to buy time to

secure roles better matched to workers' skills. Reform stamp duty by allowing households to spread payments over time through a government-backed loan, reducing the upfront cost of moving for work.

- **Improving the pipeline of entrepreneurial talent by embedding it systematically in the school curriculum.** Include statutory exposure at Key Stage 3 and a GCSE-equivalent Certificate in Entrepreneurship at Key Stage 4, to build business literacy, confidence and risk appetite, and strengthen the long-term pipeline of founders and scale-up leaders.

**Pillar 2: The government should modernise the financial system to support risk-taking and encourage the flow of investment into dynamic, ideas-intensive firms by:**

- **Creating a market for intellectual-property-backed finance to unlock debt funding for high-growth firms.** Establish a dedicated IP-backed lending window through the British Business Bank, using an extension of the Growth Guarantee Scheme to de-risk early lending against IP and generate loan-performance data at scale. Use that evidence to establish a Prudential Regulation Authority (PRA) regulatory sandbox and pave the way over time for permanent recognition of IP-backed lending in bank capital rules, enabling banks to treat IP as credible collateral and unlock cheaper, longer-term debt finance for innovative firms.
- **Aligning the tax system with a modern, intangible-driven economy.** Extend full expensing beyond plant and machinery to cover intangible investments such as software, data and IP, allowing firms to deduct the full cost of these assets immediately from their corporation tax bill. Refocus R&D tax relief by introducing a £30,000 *de minimis* threshold, stripping out low-value claims, reducing fraud and administrative burden, and directing support towards firms undertaking substantive, growth-enhancing innovation.
- **Reducing the personal cost of failure to encourage entrepreneurship, reinvestment and scale-up.** Bring lending practices that rely on personal guarantees within the scope of the Financial Conduct Authority (FCA), ensuring clearer consumer protection, consistency and limits on excessive personal exposure. Modernise bankruptcy rules to allow faster

re-entry after failure, including shorter restrictions and automatic, rapid credit-file clean-up on discharge. Expand Business Asset Rollover Relief to allow proceeds from successful exits to be reinvested into new ventures without an immediate tax charge, strengthening capital recycling and the pipeline of serial entrepreneurs.

**Pillar 3: The government should build a regulatory system fit for a more complex, fast-changing economy by:**

- **Being more ambitious in reforming planning and infrastructure regulation so land can be repurposed for higher value uses.** Move decisively towards a more rules-based, zonal planning system to reduce uncertainty and accelerate delivery, including fast-tracking a permissive brownfield passport, expanding the use of Local Development Orders in growth areas, and designating low-impact zones exempt from full Environmental Impact Assessments. Use these reforms to accelerate delivery of nationally important housing, energy, transport and digital infrastructure – including AI-related projects such as data centres – by streamlining approvals, releasing suitable public land and aligning planning decisions more closely with energy and grid capacity.
- **Modernising tax administration and trade facilitation to cut compliance costs and support scale.** Overhaul tax administration by introducing a Business Digital ID, expanding e-invoicing and accelerating the rollout of Making Tax Digital in a way that reduces friction for growing firms, cutting the time and cost of compliance. In parallel, build a digitally enabled trade-facilitation system – including a fully functioning Single Trade Window and AI-enabled trade advice – to simplify documentation, reduce duplication and lower the fixed costs of exporting, to make it easier for firms to scale internationally.

The UK is entering a decisive moment. A wave of technological change is beginning to reshape the global economy. Countries with dynamic economies will ride it – quickly redeploying capital and labour, repurposing land and turning disruption into growth. Others risk being overwhelmed by change they cannot absorb. After two decades of drift, too much of Britain's economy has become rigid. Restoring dynamism is therefore an essential

task for government. Without it, Britain will fall behind as change accelerates; with it, we can build a resurgent country, stoking the animal spirits needed to drive investment, innovation and growth.

## 01

# Why Dynamism Matters as an Engine of Renewal

For most of the UK's modern economic history, success has depended on its dynamism: the ability of the economy to adapt as technologies, markets and global conditions change. When that process works, old industries give way to new, resources flow to where they create the most value and the economy expands. But history offers numerous cautionary tales of what happens when things go wrong – from Argentina's mid-20th-century descent out of the ranks of the world's richest nations to Japan's lost decades after its early-1990s crash.

Over the past two decades, the UK has started to fall into the same trap: a sustained decline in economic dynamism. This is most evident in the weakening of the forces that reallocate resources from failing firms to growing ones. Since the global financial crisis, the pace at which companies grow, shrink, enter and exit has slowed markedly. The facts are striking:

- **The UK is failing to create new firms that scale.** Young businesses – typically a key source of innovation and competitive pressure – are contributing far less to the economy than they once did. The share of UK turnover generated by firms younger than five years has almost halved, falling to around 10 per cent between 2005 and 2021.<sup>1</sup>
- **Incumbent firms are stagnating.** A defining symptom of weakening dynamism is the stagnation of established firms. In a dynamic economy, efficient firms should invest, grow and hire more workers while inefficient firms should shrink and shed jobs, resulting in a sizeable reallocation of workers each year. But the pace of job reallocation has slowed sharply since the financial crisis – from 17.4 per cent on average before 2008 to 13.6 per cent during the 2010s.<sup>2</sup> This equates to close to a million fewer job movements each year. This pattern is broad-based across the economy, suggesting a structural slowdown in business dynamism.

- **Failing firms are less likely to go out of business.** Despite repeated shocks, including Brexit and the pandemic, fewer firms are being forced out of the market by competition. Consequently, a growing share of labour and capital is tied up in low-productivity firms that continue to operate without investing or expanding. Nearly one in ten publicly listed UK firms are classed as “zombies” – firms that generate just enough revenue to service interest payments but are unable to invest for growth – twice the share before the 2008 financial crisis.<sup>3</sup>

These trends matter for growth for three main reasons.

First, the forces of creative destruction have weakened. Young and expanding firms play a disproportionate role in driving innovation.<sup>4</sup> They are more likely to adopt new technologies, challenge incumbents and reallocate resources towards higher-value uses.<sup>5</sup> When new firms fail to scale, and when older inefficient firms fail to die, the economy becomes dominated by a stagnating middle with low levels of competition and innovation. By one estimate, the forces of creative destruction boosted productivity growth by 0.7 percentage points a year before the financial crisis – accounting for a quarter of total economic growth – but this has fallen to just 0.1 percentage points since.<sup>6</sup>

Second, labour-market mismatch has worsened. When economic dynamism slows, workers are more likely to get trapped in unsuitable roles. According to a 2023 survey by the Organisation for Economic Co-operation and Development (OECD), more than a third of UK workers are overqualified for their roles, making it the worst performing country in the OECD for matching workers to jobs suited to their qualifications.<sup>7</sup> According to a 2020 study by the London School of Economics and others, a mismatch in this range has been estimated to cost the country 3 per cent of GDP.<sup>8</sup>

Third, the UK’s economic structure has been stuck in stasis. Despite seismic changes in the global economy, the UK’s sectoral structure has changed little since 2008.<sup>9</sup> Before the financial crisis, movement of workers from low- to high-productivity sectors added around 0.4 percentage points annually to

productivity growth. Since then, labour reallocation between sectors has fallen to its lowest level in nearly a century – and now adds almost nothing to growth.<sup>10</sup>

## How Does Dynamism Fit Within the UK's Growth Strategy?

The UK can recover its lost dynamism. The slowdown of the past two decades is not the result of immutable forces, but of policy choices – some taken deliberately in the name of post-crisis stability, others reflecting a failure to adapt as the pace of change accelerated. That matters because it means weak growth is not inevitable. An economy that allows labour, capital and other productive resources to move more easily towards higher-value uses can generate stronger growth, even in a more volatile world.

The case for dynamism is strengthening, not weakening. The global economy is increasingly multi-speed, with technologies, markets and regions evolving at different paces and firms forced to adapt continuously.<sup>11</sup> At the same time, digital technologies have dramatically lowered the barriers to starting and scaling businesses, allowing firms in the most dynamic economies to reach global customers, talent and capital at unprecedented speed. Evidence from China illustrates this shift: the diffusion of generative AI has been associated with a marked increase in the creation of new businesses, particularly among first-time entrepreneurs.<sup>12</sup> Another sign of this acceleration is the declining lifespan of leading firms in the most dynamic economies: in the United States, the median age of the largest 20 companies – based on market capitalisation – fell from 124 years in 2010 to 50 years in 2025.<sup>13</sup> By contrast, the median age in the UK over the same period rose from 94 years to 121 years. In such an environment, the returns to speed, flexibility and rapid reallocation rise sharply.

These dynamics are already beginning to reshape the UK labour market and are likely to accelerate in the years ahead. AI is expected to displace 1 to 3 million UK jobs by 2050, particularly in white-collar services, but could also support the creation of a comparable number of new roles if the economy can adapt.<sup>14</sup> The green transition presents a similar challenge and

opportunity: around 700,000 UK jobs in carbon-intensive sectors may decline by the middle of this century, but this could be more than offset if the UK builds competitiveness in emerging green industries and services.<sup>15</sup> Demographic change adds further pressure. An ageing population will sharply increase demand for health and social care, with the social-care sector alone likely to require close to half a million additional workers over the next decade.<sup>16</sup> In each case, the scale of the opportunity depends on whether the UK can reallocate workers and investment quickly enough.

A dynamic economy does more than weather these disruptions; it can turn them into sources of growth. Indeed, restoring dynamism is a precondition for inclusive growth in a rapidly changing environment: without it, innovation rewards a narrow set of firms and workers, while others are left behind. The question for government is therefore whether policy is aligned around enabling adjustment at scale. On this test, the government's growth strategy is mixed. There are areas of progress: planning reform and an ambitious housebuilding programme should ease constraints on expansion and mobility, while new growth mandates for regulators signal a welcome shift in mindset. But in other areas, policy continues to pull in the opposite direction. Higher employer National Insurance contributions, large minimum-wage increases, tighter migration rules and new rigidities introduced by the Employment Rights Act all raise the cost of hiring and restructuring, slowing the pace at which firms can grow or reallocate labour and investment as new opportunities emerge.

These tensions reflect a deeper, longer-term misalignment. Successive governments have struggled to adapt institutions designed for a more stable economy to one shaped by digitalisation, repeated shocks and rising complexity. That challenge has been compounded by domestic policy choices – most notably Brexit – which reduced market access and labour mobility, making it harder for firms to start, scale and adjust. And while the UK has one of the world's most sophisticated financial sectors, its systems have not fully adapted to an economy in which value creation is increasingly ideas-based, leaving growing digital firms facing higher costs and constraints on access to risk capital. Too often, rising complexity has been

met with additional layers of legislation and regulation, leaving businesses to absorb the costs of adjustment and allowing frictions to accumulate into a persistent drag on growth.

These frictions are being compounded by further headwinds that raise the hurdle for business investment. Trade fragmentation has increased uncertainty for exporters, while UK energy costs – elevated by global shocks, past underinvestment and policy choices – are now high by both historical and international standards, undermining competitiveness. And there is a risk these costs could rise further if the government continues to prioritise speed over affordability in its net-zero strategy, particularly if rapid deployment proceeds amid supply-chain bottlenecks.

If the government is serious about matching its rhetoric on growth with action, it must therefore prioritise dynamism far more ruthlessly. That means tackling three interlocking weaknesses that have emerged over the past two decades: a labour market that adjusts too slowly, a financial system that is insufficiently aligned with the needs of digital, ideas-driven firms, and a regulatory environment that has become harder to navigate. Together, these weaknesses have left British businesses less flexible and more risk-averse than they need to be in a fast-changing world. The rest of this report sets out where to start.

## 02

## Pillar 1: Building a Labour Market Fit for a Fast-Changing Economy

Economic dynamism relies on a labour market that moves workers efficiently into roles that match their skills, and enables firms to hire, scale and reorganise as conditions change. One of the UK's core strengths has traditionally been its flexible labour market. Lighter-touch rules have supported faster adjustment than for its European peers, giving employers more confidence to recruit more staff, reorganise when needed and expand into new markets. OECD data on the strictness of employment protection regularly place the UK well below the advanced-economy average, reflecting lighter-touch hiring and dismissal rules than countries including France, Germany and Sweden.<sup>17</sup> Combined with historically open access to EU labour, this flexibility helped the UK absorb shocks and reallocate talent more rapidly than many comparable economies.

That strength has weakened over the past decade. Brexit has made the labour market less responsive to the economy's needs, while successive policy choices have increased the cost and complexity of workforce adjustment. Over the past two years in particular, firms have faced steep minimum-wage rises, higher employer National Insurance contributions and new requirements under the Employment Rights Act. Immigration has become more restrictive while changes to tax incentives for those with overseas income have made the UK less attractive as a destination for globally mobile talent. Individually, many of these measures are defensible. Taken together, they have made it more difficult to hire and restructure at a time when firms need to adapt more quickly, not less.

Declining flexibility has exposed longer-standing weaknesses. A one-size-fits-all approach to employment protection no longer reflects the realities of a modern economy characterised by frequent adjustment, experimentation and retraining. Instead of supporting the "fail-fast" dynamism required in high-growth sectors – where firms must be able to experiment, scale and exit unsuccessful ideas quickly – the current framework increasingly suppresses it. At the same time, the UK's poor record on matching skills to

jobs has worsened, while entrepreneurial education has failed to adapt even as repeated shocks since the financial crisis have made the economy more risk averse.

To protect workers, policy must do more than protect existing jobs – it must support movement. Rebuilding dynamism will require reforms to employment regulation, migration, job matching and skills to ensure that firms can access the talent they need and that workers are equipped to navigate volatility. A labour market that cannot move people quickly is a brake on growth, delaying investment and making it harder for new sectors to scale. In a slow-growing economy facing rapid structural change, rigidity for businesses means fewer opportunities and lower living standards for workers.

## Simplify Domestic Employment Legislation

The UK needs an employment framework designed for a fast-changing economy. The current one-size-fits-all system imposes high adjustment costs on roles and companies where long-term unemployment risk is relatively low, discouraging experimentation and expansion in precisely the sectors that drive productivity growth.

Targeted reform can reduce those costs without weakening worker protection. Streamlining employment law for higher-paid roles would lower the cost of reorganisation and risk-taking, while preserving strong protections for more vulnerable workers. Limiting non-compete clauses and stabilising minimum-wage policy would further reduce frictions that slow labour reallocation and suppress entry-level hiring.

### **INTRODUCE A TIERED EMPLOYMENT-PROTECTION REGIME**

High and inflexible dismissal costs are now a material barrier to experimentation and scale in the UK's fastest growing sectors. Higher restructuring costs make experimentation more expensive and discourage firms from scaling rapidly. Restructuring expenses in the UK, even before the new costs imposed by the Employment Rights Act, are already almost three

times higher than in the US<sup>18</sup> – a key reason it continues to lag behind in attracting and scaling dynamic firms.<sup>19</sup> International evidence suggests these costs matter: higher dismissal costs are associated with lower R&D intensity and slower growth in technology- and knowledge-intensive sectors.<sup>20</sup>

Employers opting into a lighter-touch regime would retain full protections for employees earning below £75,000,<sup>21</sup> while benefiting from simpler, faster dismissal processes for those earning more.<sup>22</sup> This would allow dynamic firms to reorganise and experiment at the pace demanded by a fast-changing economy. Similar targeted flexibility already exists in other advanced economies, particularly in financial services.<sup>23</sup>

For high earners, the trade-off would be greater risk but also greater reward. Reduced employment protection<sup>24</sup> would be offset by higher pay and stronger long-term earnings prospects associated with faster-growing firms. New startups could opt into the regime from the outset, while existing firms could offer voluntary opt-ins in exchange for higher compensation. Setting the threshold near the top decile of earnings would free up the high-skilled talent most critical to growth, while preserving protections for workers less able to absorb adjustment risk.

### **LIMIT NON-COMPETE AGREEMENTS TO HIGH EARNERS, CAPPED AT THREE MONTHS**

Non-compete agreements are now commonplace in the UK, barring around 5 million workers from joining competitors or starting new ventures for, on average, six months after leaving a job.<sup>25</sup> Non-competes are particularly prevalent in high-skill, fast-moving sectors such as technology and professional services.<sup>26</sup> Lengthy restrictions suppress labour mobility, deter startups and slow the diffusion of skills and ideas, often with little evidence of offsetting benefits for employers.

A reform would allow workers to move more easily between companies and start new ventures, while giving businesses faster access to talent. International experience – most notably from the United States – suggests that limiting non-competes supports innovation ecosystems by encouraging

spinouts and knowledge spillovers.<sup>27</sup> Progress would set the UK apart in Europe: non-competes can last up to 24 months in Germany and five years in Italy. But the UK is moving too slowly. Although the current government issued a working paper in November 2025, the case for reform has already been well established.<sup>28</sup> A 2023 consultation showed that around 60 per cent of respondents – including most employers – supported a statutory cap on non-competes, at a negligible cost to either businesses or taxpayers.<sup>29</sup>

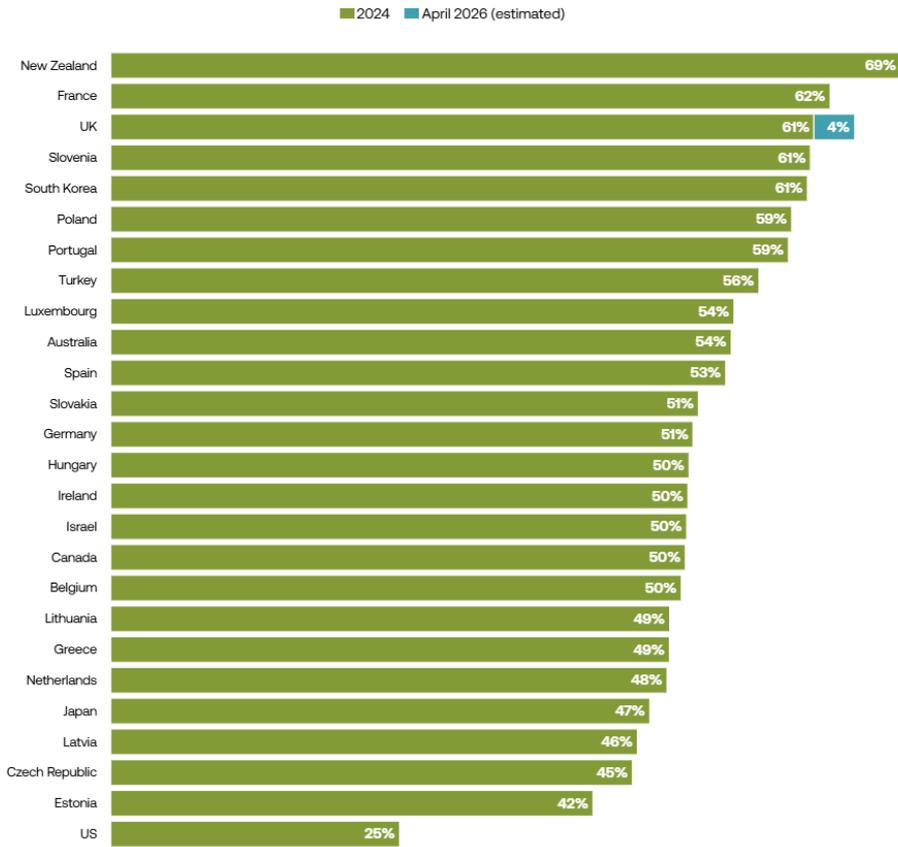
A three-month statutory cap, applied only to senior, high-paid roles, would sweep away unnecessarily long restrictions for most workers while preserving firms' ability to protect legitimate commercial interests through narrower tools such as confidentiality or non-solicitation clauses. To prevent the cap becoming a default minimum, the government should tie any permitted non-competes to clear, objective criteria – such as seniority, tenure or demonstrable commercial risk – potentially enforced through a salary threshold.<sup>30</sup>

### **RE-INTRODUCE A PRINCIPLES-BASED REMIT FOR SETTING THE NATIONAL LIVING WAGE**

The UK's minimum wage has been one of its quiet policy successes. Over the past three decades it has raised living standards for those on the lowest pay, helped reduce inequality and confounded warnings it would lead to rising unemployment. But the policy is now entering uncharted territory.<sup>31</sup> Over the past decade, the wage floor has risen from less than half of median earnings to around two-thirds and is now among the highest in the OECD for countries with comparable levels of income (Figure 1).

FIGURE 1

# Minimum wages as a share of median incomes across OECD countries with comparable incomes



Source: Commons Library, UK government, OECD. Note: The chart shows OECD countries with GDP per capita above \$40,000 in 2024, measured in purchasing-power-parity terms. April 2026 estimate for UK only.

While earlier increases in the UK minimum wage had little impact on employment, there is no guarantee that this will continue to be the case going forward. International evidence is thin. Even the current rate may not be benign in the long term; large increases often look manageable at first, only to bite later as companies adjust hiring plans, business models and investment. The risk is that further rises – including raising the youth rate for

under-21s to match the over-21s rate – will discourage firms from taking a chance on new employees, particularly younger workers. Set too high, a wage floor can erode the first rung on the career ladder and reduce the churn that underpins a dynamic labour market.

These risks are real. Recent rises in the minimum wage are not occurring in isolation. The 2025 minimum-wage rise hit businesses at the same time as the hike in employer National Insurance, which together raised the cost of hiring a minimum-wage worker by 10.5 per cent – and by 16.3 per cent for under-21s. From April 2026, the minimum wage will rise again – to £12.71 for over 21s (a 4.3 per cent increase) and to £10.85 for 18- to 20-year-olds (an 8.5 per cent rise). These rises will occur at the same time as firms have to contend with the impact of the Employment Rights Act – which will tighten rules on hours, enforcement and compliance — and further restrict their ability to adapt.

Macroeconomic conditions have also become less favourable. The labour market has loosened over the past year, with unemployment rising to its highest level in a decade (excluding the pandemic period). In February, the overall rate reached 5.2 per cent, climbing to 16.1 per cent for 18- to 24-year-olds. Business surveys indicate further rises are possible, with around half of firms considering job cuts.<sup>32</sup> In short, the accommodating labour market that helped absorb previous increases in the minimum wage has reversed.<sup>33</sup> At the same time, other business-adjustment margins are also narrowing. In the past, businesses absorbed higher minimum-wage costs through lower profits, higher prices or cuts elsewhere. The Federation of Small Businesses suggests that firms should cut investment and training following the 2025 rise,<sup>34</sup> but those adjustment channels are now increasingly constrained.

Against this backdrop, the government should take a more cautious approach to further increases in the minimum wage by:

- **Restoring a principles-based remit for the Low Pay Commission (LPC) with a strong employment safeguard.** The LPC should move beyond a rigid two-thirds-of-median-earnings benchmark and be explicitly tasked with balancing pay objectives against employment, hiring and labour-market dynamism. Its remit should give it clear authority to slow, pause or

reverse increases where evidence shows wage floors are constraining adjustment – for example, during an economic downturn or when rising taxes and tighter employment regulation weaken labour-market conditions. This would restore flexibility to policy and protect jobs in a higher-cost environment.

- **Adopting a conditional, evidence-led approach to further rises in the minimum-wage rate for under-21s.** The government’s plan to abolish the youth rate on a fixed timetable is increasingly risky, with further convergence already scheduled from 2026 and the LPC recommending that 20-year-olds move to the adult rate in 2027, followed by 18- to 19-year-olds before the end of this parliament. Youth employment is more sensitive to hiring costs, and the minimum wage for under-21s has risen faster than for other cohorts, just as youth-unemployment and inactivity rates have climbed. Any convergence with the adult rate should be explicitly conditional on sustained improvements in youth-employment outcomes, with the LPC empowered to pause or adjust if risks emerge. That conditionality should also apply to changes announced at the last Budget that accelerate youth-rate changes, with those changes delayed or reversed if employment risks continue to crystallise. Retaining the youth rate must sit alongside wider welfare reforms that make work pay at the point of entry and lower the risk for young people moving into employment.

## Attract the World’s Best and Brightest to Start, Fund and Help Scale British Companies of the Future

Since Brexit, erratic migration policy has disrupted one of the UK’s key labour-market strengths: the ability of firms to access EU labour when and where it is needed. Free movement allowed businesses to respond quickly to shifting skills demands, buying time for the domestic workforce to adapt. It has been replaced by a system that is less responsive – failing to fill shortages in essential sectors or attract sufficient world-class talent, while still generating high headline migration numbers. And this comes at a time when other countries are competing more intensely for global talent and capital through their immigration and tax policies.

Getting openness right is now central to restoring economic dynamism. Reduced access to the global talent market has come at exactly the wrong moment, as technological change and an ageing population intensify pressure on firms to adapt and as other countries compete harder for the best and brightest. A migration strategy fit for the future must therefore actively support growth, welcoming the skills the economy needs at all levels.

### **EXPAND HIGH-SKILLED VISA ROUTES TO ATTRACT GLOBAL TALENT AND INVESTMENT IN FRONTIER SECTORS**

If the government is serious about growth, it must widen and simplify routes for top global talent and investors. The UK should be well placed to compete: it has a strong startup ecosystem, world-class universities, the English language and one of the world’s most desirable global cities. But for high-growth firms, access to talent remains the single biggest constraint on expansion.<sup>35</sup> Brexit has removed free movement with the EU, and existing talent visas have failed to compensate. High costs, narrow eligibility and complex processes now deter recruitment. In 2025, fewer than 4,000 people entered the UK through the Global Talent visa (GTV) – compared with around 100,000 through Canada’s Express Entry, which offers broadly similar access.<sup>36</sup> And for foreigners looking to invest in the UK, there are no viable visa routes, since the closure of the UK’s Investor visa in 2022.

Reforms are needed if the GTV is to attract overseas talent at the scale needed. Costs for the GTV should be reduced by exempting holders and their dependants from the immigration health surcharge, and eligibility should be widened. Equivalent elite visas, such as the US O-1, should provide automatic access to the GTV, alongside a clear pathway for High Potential Individual (HPI) visa holders who are delivering value in strategic sectors. These routes should remain uncapped – in contrast to recent government proposals to limit entrants coming in on HPI visas. And the GTV should move beyond the narrow endorsement criteria used to assess “exceptional talent” to compete more aggressively for engineers, founders and researchers in AI, biotech, quantum and clean tech. For potential employees in these sectors, employment by a recognised firm, a salary above the additional income tax

rate (or an equivalent in other forms of remunerations) and past experience at an established tech firm could be qualifying criteria. A trusted employer scheme could apply this streamlined visa access to promising startups and scale-ups recognised by the government, shifting verification to those closest to the talent. For founders, eligibility should extend to acceptance by a UK-based incubator or accelerator, as well as affiliation with non-traditional research institutes.

Changes are also needed if the UK is to remain competitive for globally mobile innovators and investors. Recent policy choices have pulled in the opposite direction – first by failing to replace the Investor visa abolished in 2022, and then by ending the non-dom regime, weakening a long-standing draw for internationally mobile talent.<sup>37</sup> The government should reset the signal by introducing a new Growth Investor visa, explicitly designed to attract mobile global capital that supports UK growth. Unlike its predecessor, the route should channel capital into tightly defined, productive investments – such as UK growth equity, venture and scale-up finance – while excluding passive assets like gilts. To avoid reopening the integrity risks of the past, any visa will need to be underpinned by ongoing source-of-funds checks and active monitoring, which the progressive strengthening of the UK’s anti-money-laundering (AML) and sanctions regime since 2022 should help support.<sup>38</sup>

Alongside this, the government should ease the transition of newcomers into the UK tax system. At a minimum, eligibility for the foreign income and gains regime should reflect the nature of internationally mobile careers by counting ten years of non-UK residence over the past 20 years, rather than requiring ten consecutive years. This would ensure the grace period is available to genuinely new or returning arrivals, without excluding individuals due to a brief period of UK residence.<sup>39</sup> It should also simplify the current reporting regime, which requires eligible individuals to calculate and report all overseas income in detail each year, even though that income is fully exempt from UK tax. Requiring detailed, line-by-line reporting when no tax is due adds little real enforcement value but increases compliance costs and creates the risk of large tax bills from small mistakes, which disincentivises

potential newcomers. Instead, once someone is eligible, overseas income should either be automatically exempt or only required to report in full where it exceeds a clear material threshold.

### **CREATE PATHWAYS FOR NON-GRADUATE ROLES THROUGH A PERMANENT KEY WORKER VISA AND A YOUTH MOBILITY SCHEME WITH THE EU**

Across the wider economy, the government risks overcorrecting on immigration – tightening rules just as businesses need flexibility. Policy has been shaped by record migration in 2023, even though net migration has since fallen back to pre-pandemic levels. Higher costs, stricter settlement rules and proposed bans on non-graduate recruitment now make it harder for firms to hire when demand shifts.

The government should accept that the current system is not meeting labour-market needs and introduce a permanent Key Worker visa for essential non-graduate roles. A tightly controlled, lower-income-threshold route would allow sectors such as care and construction to function properly, reducing reliance on short-term fixes or illegal work. Pooled sponsorship through sector bodies would widen access for small employers while maintaining enforcement, with clear safeguards to protect public confidence and the taxpayer. At the same time, the UK should move quickly to agree a Youth Mobility Scheme with the EU. A time-limited route, modelled on schemes with Australia and Canada, would inject flexibility into high-churn and seasonal labour markets, easing pressure in hospitality, logistics and agriculture without recreating long-term fiscal or service pressures.

## **Make It Easier for Workers to Find and Move Into Jobs That Better Utilise Their Skills**

The UK must shift from protecting existing jobs to enabling worker mobility, allowing people to move quickly into roles that better match their skills. Weak job matching is now a serious drag on dynamism, with the UK ranked worst in the OECD.<sup>40</sup> While the government has begun to respond by taking

steps to reform unemployment insurance, the response falls short of the challenge. A more ambitious shift is needed: investment in modern job-matching infrastructure, support for precautionary saving to enable active job search and retraining, and reform of stamp duty to remove barriers to moving for work.

### **CREATE AN AI-ENABLED JOB-MATCHING AND TRANSITION SERVICE**

The government should upgrade the Jobcentre Plus Rapid Response Service into a modern, AI-enabled matching and transition service that helps workers move more quickly into productive roles as demand shifts. By bringing support upstream – before redundancy, where possible – the system would reduce information and coordination frictions that slow reallocation and leave skills underutilised. Encouragingly, the government has taken the first step to upgrading this infrastructure by announcing a pilot to trial the use of AI assistants to support job seekers.<sup>41</sup> But to meaningfully reduce the frictions created by switching roles, shorten job searches and help newly retrained workers move rapidly into growing sectors, this programme will need to be ambitious. As set out in greater detail in [The Impact of AI on the Labour Market](#), real-time labour-market data should be used to match workers' skills to live vacancies, highlight emerging sectors and in-demand skills, and guide users towards the most effective retraining routes where needed.

### **CREATE A NEW PERSONAL, PORTABLE TRANSITION-SAVINGS FUND**

Effective labour-market adjustment depends not just on skills and vacancies, but on giving workers the financial space to move into roles that genuinely match their capabilities. By this metric, the UK is failing: the UK has among the lowest unemployment benefits in the OECD, due in part to strict eligibility rules, while household savings are roughly a third of the EU average.<sup>42</sup> As a result, workers who lose jobs are often pushed into the first role available rather than one that makes full use of their skills, weakening efficiency and holding back productivity.

To address this, the government should work with businesses to introduce [individual, private, portable transition-savings funds](#). These would be structured in a similar way to private-pension saving – benefiting from tax advantages, with the automatic enrolment of employees and jointly funded by workers and employers. However, unlike pensions, they could be drawn down during periods of redundancy or retraining. By providing a financial buffer, the system would allow workers to search longer, retrain where needed and move into roles better aligned with their skills. This would improve labour-market matching, support more productive job-to-job transitions and help the economy adjust to structural change without increasing reliance on means-tested benefits.

### **INTRODUCE A GOVERNMENT LOAN TO ALLOW HOUSEHOLDS TO SPREAD THE COST OF STAMP DUTY ON PROPERTY TRANSACTIONS OVER 20 YEARS**

The government should overhaul housing taxes so that they no longer penalise people for moving. Stamp duty, as an upfront transaction-based tax, imposes a punitive cost on those seeking to move in order to pursue better opportunities, reducing the pool of jobs available to them.

Ideally, stamp duty would be replaced with an annual property-service tax linked to property values – but shifting to such a system is challenging, both technically and politically. Instead, households should be able to spread stamp-duty payments over 20 years through a government-backed loan rather than requiring upfront payment. Crucially, any household that moves within 20 years would not need to pay off the remaining balance. Spreading property taxation across ownership rather than at the point of sale reduces the lock-in effect that hinders housing mobility and, by extension, labour mobility. It would also move the property-tax system closer to the ideal of an annual property-service tax linked to value – a short-term change designed with long-term reform in mind.

## Improve the Pipeline of Entrepreneurial Talent

In the AI era, technology has lowered the barriers to starting and scaling a business, as new tools cut costs and speed up learning. But without a pipeline of people willing and able to take risks, the UK risks being left on the sidelines. And after years of economic shocks, fear of failure is high: almost 60 per cent of people say it would stop them starting a business, up from under 40 per cent in 2008 and higher than in the US, France or Germany.<sup>43</sup> Building stronger entrepreneurial fluency will be essential to ensure the UK's future workforce has the skills and attitude needed to embrace change.

### **EMBED ENTREPRENEURIAL EDUCATION AT SCHOOL**

The government should incorporate entrepreneurship more firmly into the national curriculum. Early exposure matters: teaching young people how businesses are built, giving them practical skills, and letting them test ideas can help make entrepreneurship a less risky career option.<sup>44</sup> Yet provision for entrepreneurial education in the UK remains low.<sup>45</sup> Fewer than 1.5 per cent of pupils take part in enterprise programmes,<sup>46</sup> and the last national review found that only one in ten schools had the conditions needed to deliver effective entrepreneurial education.<sup>47</sup>

A more systematic approach should start in secondary school and combine classroom teaching, digital tools and partnerships with local employers to build real-world experience and confidence. Many peer countries – including Norway, Sweden and the Netherlands – already embed entrepreneurial learning across schools and vocational pathways.<sup>48</sup> Moreover, since 2013 the European Commission has sought to draw together best practice from established national programmes. Evidence from the UK<sup>49</sup> and the EU<sup>50</sup> shows these programmes raise employability and earnings and – crucially – increase young people's willingness to take risks and start businesses.

To deliver, the government should establish a clearer role for entrepreneurial education in the curriculum:

- **Embed early entrepreneurship exposure as a statutory expectation within personal, social, health and economic (PSHE) education at Key Stage 3.** The government should update statutory PSHE guidance to require schools to provide foundational exposure to entrepreneurship for pupils in Years 7 to 9. This would be delivered through a light-touch module – no more than 40 hours across Key Stage 3 – using a mix of classroom teaching, digital content and activities such as enterprise clubs or employer engagement. Schools should retain flexibility in delivery, while ensuring all pupils gain foundational skills in initiative, problem-solving and managing uncertainty. Evidence shows that early exposure to innovation can have lasting effects on later entrepreneurial choices<sup>51</sup> and even short, well-designed programmes can significantly improve entrepreneurial skills and confidence.<sup>52</sup>
- **Introduce a Certificate in Entrepreneurship at Key Stage 4.** Schools should be able to offer an optional Certificate in Entrepreneurship, equivalent to half a GCSE, delivered over Years 10 to 11. The qualification would focus on applying curriculum knowledge creatively, building business and financial literacy, and using modern technologies – including AI – to solve real-world problems. Content should be co-designed with local employers and built around innovation challenges, industry-linked projects and student-run mini-ventures, ensuring alignment with local economic needs. Clear progression routes – into apprenticeships, T Levels and further study – should support take-up and widen participation. International evidence shows that entrepreneurship education at this stage increases the likelihood of business formation later in life.<sup>53</sup>

## 03

## Pillar 2: Building a Financial System Fit for an Ideas-Driven Economy

A dynamic economy needs a financial system that backs calculated risk-taking and moves capital from stagnating firms to new, dynamic ones. Home to one of the world's preeminent financial centres in London and deep pools of capital, the UK has the means and expertise to meet the needs of a fast-changing economy. But in crucial ways, the rules that dictate where capital flows have become a barrier to dynamism because they have failed to keep up with the changing demands of an increasingly digital economy.

The global financial crisis has cast a long shadow across the financing conditions for smaller firms. Post-crisis regulations have made banks more cautious at precisely the time smaller, knowledge-rich businesses need more patient finance backed by harder-to-collateralise ideas-based “intangible” assets. As a share of GDP, lending to small and medium-sized enterprises (SMEs) in the UK languishes near the bottom of the OECD, in part as policy has failed to adapt to the pivot to a more intangible-reliant economy.<sup>54</sup> And that same caution forces business owners to take far greater personal and legal risks to secure finance, which discourages experimentation, investment and growth. Uncertain access to credit combined with high personal costs of business failure have sapped demand for credit: fewer than 15 per cent of SMEs now seek external finance, down from nearly a quarter before the crisis.

As the modern economy shifts further towards a structure powered by intangible, IP-driven activity, systems designed for an economy of physical assets are becoming steadily less fit for purpose. The rise of digital services means that intangible assets now make up between 70 and 80 per cent of a typical firm's value,<sup>55</sup> with IP-intensive industries accounting for more than a quarter of UK output.<sup>56</sup> But the nature of intangible investment – high upfront costs and near-zero scaling costs – amplifies incumbency advantages and raises barriers to entry, while banks' reluctance to lend

against intangible assets, coupled with tax rules that privilege tangible investment, leaves challenger firms struggling to scale. Unsurprisingly, the sectors most reliant on intangibles have seen the steepest fall in dynamism with entrenched leaders pulling further ahead of the rest.<sup>57</sup> As intangible intensity continues to rise, this mismatch will only deepen, further eroding dynamism in the sectors that should be driving future growth.

Reform must focus on getting capital to the right places – supporting fast-growing, knowledge-rich firms and allowing money to move on quickly from those companies that are no longer productive. Well-targeted changes to the UK’s financial and tax rules, set out below, can better reflect how value is now created and incentivise experimentation, boosting growth without compromising on financial stability.

## Create a Market for IP-Backed Finance

The UK economy is increasingly driven by intangible assets – ideas, data and IP – but the banking system remains rooted in a world of bricks and mortar. Capital rules and lending practices are still geared towards physical collateral, leaving knowledge-rich firms unable to borrow against the assets that actually drive their value. As a result, even profitable, fast-growing companies struggle to access bank finance, not because they lack prospects, but because their assets do not fit a system designed for the last century.

The prize is significant and widely recognised. Enabling IP to serve as collateral would channel more capital into innovative firms<sup>58</sup> and incentivise greater investment in IP and other intangible assets.<sup>59</sup> Moreover, the UK is well placed to lead on IP-backed finance: more than half of its intangible assets are already legally protected, making them identifiable, enforceable and transferable – and therefore assets banks can value and lend against, just like physical collateral.<sup>60</sup> And IP-rich firms are generally regarded as more resilient through the economic cycle, with half the loss rate and two-thirds less likely to default, according to the British Business Bank (BBB).<sup>61</sup>

The need for progress is obvious but blocked by a circular problem. Banks are reluctant to lend against IP in large part because regulators do not recognise it as collateral for capital purposes; regulators, in turn, are unwilling to offer capital relief without strong evidence around loan performance. The result is paralysis: risk weights on loans to younger, intangible-rich firms can reach 300 per cent – many times higher than for secured lending to large corporates – making bank finance prohibitively expensive.<sup>62</sup> Until this loop is broken, innovative firms will remain locked out of debt finance, forced into more costly equity and held back from scaling at the pace the economy needs.

Breaking this loop requires a phased approach: using the BBB to kickstart IP-backed lending, allowing banks to build loan-performance data, and enabling the Prudential Regulation Authority (PRA) to test – and ultimately recognise – IP-backed finance through a regulatory sandbox. The ultimate goal should be capital relief, so that IP is treated appropriately in prudential rules and the market can become self-sustaining rather than reliant on public support.

### **ESTABLISH A DEDICATED £1 BILLION IP WINDOW VIA AN EXTENSION OF THE BBB'S GROWTH GUARANTEE SCHEME**

Any intervention must simultaneously operate on two fronts: reshaping bank behaviour to encourage lending against IP, while producing the hard evidence required to assess performance in distress and, ultimately, to change regulatory treatment. In principle, a bespoke IP-backed lending scheme would be the cleanest route, but lead times are long and the need to act is immediate. Using an existing platform – either an IP window within the BBB's Growth Guarantee Scheme or a ringfenced IP sub-portfolio under Enable (a BBB scheme that reduces banks' capital and funding constraints to support SME lending) – offers a pragmatic foundation: banks and regulators already understand the architecture, it can be deployed without new legislation and can generate performance data at scale.

To make these existing schemes work as vehicles for performance measurement, the window must be tightly ringfenced: only loans where IP is a material part of the credit decision should qualify. Participating lenders

should be required to tag loans and meet enhanced reporting standards – covering valuation, monitoring, defaults and recoveries – to build a credible evidence base. Any such scheme would also need sufficient scale: a £1 billion portfolio would generate meaningful default and recovery data even at low loss rates, giving banks and regulators a robust data set to judge IP-backed lending properly.

To compensate banks for the additional complexity of lending against IP, as well as enhanced reporting requirements, the IP window should offer preferential terms – explicitly conditional on behaviour the government wants to see. Lenders that meet clear underwriting and reporting standards – taking a legal charge over IP where appropriate, using approved valuation methods, and committing to ongoing monitoring and data sharing – could receive higher guarantee coverage (for example, 80 per cent rather than 70 per cent) and lower guarantee fees (for example, up to 30 basis points below standard pricing).

The cost to the taxpayer would remain modest: on a £1 billion facility, an 80 per cent guarantee and a 4 per cent loss rate implies an expected cost of around £32 million. In return, the UK would unlock growth finance for IP-rich firms and build the evidence base that regulators need to assess the true risk of lending against intangible assets.

#### **USE DATA GENERATED BY THE IP WINDOW TO JUSTIFY A PRA REGULATORY SANDBOX FOR IP-BACKED LENDING**

The goal should be clear: capital rules should reflect real risk, removing the need for guarantees when banks lend against IP and allowing valuable intangible assets to become a mainstream source of growth finance for the UK's most dynamic firms. Today's prudential framework is effectively blind to intangible collateral. Under the Basel III banking-standards framework, capital benefit is reserved for a narrow set of recognised collateral types, leaving IP and other intangibles treated much like unsecured lending. That removes banks' incentives to offer better terms – such as lower rates or longer maturities – even where IP clearly underpins a company's value, forcing innovative companies into more expensive finance and hindering their ability to scale.

The data gathered via the BBB's IP-backed lending window should be used to create a controlled regulatory sandbox, allowing the PRA to test how IP-backed loans perform under enhanced supervisory oversight. Banks participating in the window would generate a standardised evidence base on valuations, monitoring, defaults, loss-given default (LGD) and real recovery outcomes. That data set should be formally shared with the PRA and used to design a time-limited, tightly scoped sandbox that allows a defined set of banks to originate IP-backed loans under enhanced supervisory oversight and common standards. This is not a fast process, requiring around two years to justify a sandbox and a further three to five years to recalibrate capital treatment, making early action essential.

By letting banks build capability and giving the PRA hard data, the sandbox would establish whether – and under what conditions – IP collateral genuinely improves recoveries and reduces losses. If it does, the PRA would have a clear empirical basis to recalibrate capital treatment, through adjusted probability-of-default/LGD assumptions or defined collateral recognition, moving IP-lending from experiment to policy.

## Incentivise More Investment in Modern Idea-Intensive Firms Through the Tax System

The UK's unreformed tax system is sapping dynamism. Inconsistent capital allowances that privilege tangible assets and poorly targeted R&D relief lock capital into legacy uses and withhold it from emerging high-growth businesses. Extending tax reliefs to intangible assets and focusing R&D support would give the right businesses the right incentives to invest.

### **EXTEND FULL EXPENSING TO INCLUDE ALL TANGIBLE AND INTANGIBLE ASSETS**

The UK's capital-allowance regime has not kept pace with how modern businesses grow. While full expensing now applies to plant and machinery, much of the investment that matters most in a digital economy, particularly in intangible assets, still receives less generous tax relief; for intangible assets, capital allowances are spread over the life of the asset. As these

allowances are not adjusted for inflation or the time value of money, their real value falls short of the original cost of the investment. This mismatch favours older, asset-heavy incumbents and holds back newer, high-growth firms that rely on intangible investment to scale and compete.

Extending full expensing to intangible assets would level the playing field between old and new forms of capital, giving businesses a more balanced incentive to invest in the assets that drive productivity today. As the economy becomes increasingly intangible-intensive, aligning tax treatment is essential to avoid locking capital into legacy uses and slowing the reallocation of investment towards more dynamic sectors.

As set out in [A Pro-Growth Roadmap for Business-Tax Reform](#), extending full expensing to cover intangibles and other capital would send a stable, long-term signal to investors, supporting higher business investment, faster scaling and stronger productivity growth. The impact would be material: higher investment could lift GDP by around 0.3 per cent by the end of this parliament if introduced immediately and 0.5 per cent in the long term.

### **INTRODUCE A £30,000 DE MINIMIS THRESHOLD FOR R&D TAX RELIEF**

The UK's R&D tax-credit system has become increasingly complex and vulnerable to abuse, imposing growing administrative and compliance burdens on both HMRC and legitimate businesses. A proliferation of very small claims – often low quality or poorly evidenced – now absorbs a disproportionate share of enforcement effort, undermining confidence in the system and slowing payments to startups and scale-ups that rely on predictable support to invest.

By stripping out low-value noise and concentrating incentives on genuine innovation, a *de minimis* threshold would help capital flow more quickly to the most productive firms.<sup>63</sup> A £30,000 *de minimis* threshold would allow HMRC to focus resources on higher-impact R&D while reducing administrative burdens for compliant firms. Nearly half of the value of claims below this threshold is non-compliant, compared with around a quarter above it, meaning the reform would significantly improve compliance without materially reducing real R&D investment.<sup>64</sup> For high-growth firms

undertaking substantial R&D, the result would be faster processing, greater certainty and a system that rewards serious innovation rather than paperwork.

## Reduce the Risk of Growth Finance for Entrepreneurs

To build an economy in which innovation can scale, the UK's entrepreneurial class must be able to take risks without facing disproportionate penalties for failure. The current set up is not delivering. Instead of rewarding risk-taking, potential founders are laden with personal exposure and punitive bankruptcy rules that discourage experimentation through fear of failure. And founders that have overcome a risk-averse environment and want to reinvest in new productive enterprises face punitive capital-gains rules that trap capital in legacy uses. When the consequences of failure are too severe, fewer people are willing to start or grow a business.

The high cost of failure is reflected in businesses' appetite for borrowing. More than three-quarters of UK SMEs are so reluctant to take on financial risk by borrowing that they are more willing to accept slower growth as a trade-off.<sup>65</sup> And the borrowing that does happen is more often funnelled to less risky cashflow management rather than expansion: Bank of England data show a sharp fall in borrowing for investment, mergers and acquisitions, and development, with credit instead used to manage inventories or refinance liabilities.<sup>66</sup>

The government must back experimentation, reducing the cost of failure and removing the barriers to reward, through reforms to personal guarantees, bankruptcy rules and taxes on reinvestment.

### **REGULATE THE USE OF PERSONAL GUARANTEES TO INCREASE CONSUMER PROTECTION**

The UK stands out internationally for the severity of the personal costs attached to business failure, and the prevalence of personal guarantees is a major reason. Although they have allowed banks to lend to riskier firms by

tying business loans to the owner’s personal assets, such as family homes and savings, they often push excessive risk on to individual entrepreneurs and deter many from borrowing to start or scale up. More than half of UK SME borrowers are required to sign personal guarantees – often covering most or all of a loan – reflecting in part a heavier reliance on bank lending than in other countries, including the US. International evidence shows the damage this causes: the OECD finds that higher personal costs of failure increase capital misallocation,<sup>67</sup> while research from Japan shows that personal guarantees depress risk-taking and weaken company performance.<sup>68</sup>

The government should reform the use of personal guarantees to reduce barriers to risk-taking. Personal guarantees are meant to protect lenders, not punish entrepreneurs – but in practice, their widespread and inconsistent use raises the personal cost of failure and holds back economic dynamism. To rectify this, the government should:

1. **Extend FCA regulatory oversight to the lending most associated with personal guarantees.** As personal guarantees introduce individual liability, they justify greater consumer protection. Yet the FCA’s remit excludes most forms of lending that are likely to rely on guarantees, such as loans to limited companies, larger partnerships and some hire-purchase agreements.<sup>69</sup> Only 0.3 per cent of loans that fall within its scope involve a personal guarantee.<sup>70</sup> Bringing this lending within scope is a prerequisite for effective reform.
2. **Standardise borrower protections where personal guarantees are used.** Once within scope, the FCA should issue clear borrower-protection guidelines to curb excessive and inconsistent practices. Evidence from the Lending Standards Board suggests that, while personal guarantees are widespread, thresholds and conditions vary significantly across lenders, creating unnecessary uncertainty and risk for borrowers.<sup>71</sup> Guidelines should include: capping liability at a fixed amount rather than allowing unlimited exposure; limiting guarantees to specific debts rather than “all-monies” clauses; time-limiting liability (for example, to a director’s tenure); and, where assets are already pledged as collateral, restricting lender recourse to the value of those assets alone.

3. **Introduce a *de minimis* threshold for personal guarantees.** The FCA should set a minimum loan value below which personal guarantees cannot be required. This would protect small-value loans – often critical first steps for young firms to build creditworthiness – from carrying disproportionate personal risk. This would not materially reduce credit supply, as personal guarantees are typically required only for loans of around £200,000 or more.<sup>72</sup>

### MODERNISE THE UK'S BANKRUPTCY REGIME

The UK's bankruptcy regime remains unusually slow and punitive, deterring risk-taking and locking capable entrepreneurs out of finance long after a business failure. Bankrupt individuals face sweeping restrictions – including limits on borrowing, bans on directorships, frozen accounts and the potential liquidation of personal assets – and even after discharge, bankruptcy can linger on credit files for up to six years.<sup>73</sup> Compared with Germany and Australia, where bankruptcy typically lasts three years, or the US and Canada, where restructuring is more widely used, the UK turns business failure into a long-term personal penalty. These high personal costs suppress entrepreneurship,<sup>74</sup> despite strong evidence that repeat entrepreneurs – successful or not on their first attempt – are more likely to build high-growth firms.<sup>75</sup> Wholesale insolvency reform would involve difficult trade-offs around creditor protection and financial stability, but targeted changes that ease re-entry can deliver faster gains by reducing the stigma and duration of failure<sup>76</sup> and allowing scarce entrepreneurial talent to recover, thereby shortening the path back to productive activity.<sup>77</sup>

To do this, the government should focus on removing the practical bottlenecks that prevent entrepreneurs seeking a second chance from accessing finance and rebuilding quickly:

1. **Ensure rapid credit-file clean-up at discharge.** The Insolvency Service should automatically notify all three UK credit-reference agencies – Experian, Equifax and TransUnion – when a bankruptcy is discharged, requiring files to be updated within 48 hours, accounts marked as settled and updated reports issued to individuals following discharge. Each

discharge notice should also include a short, practical guide on rebuilding credit – such as registering on the electoral roll, setting up direct debits or using credit-builder products – and signpost “second-chance” lenders that assess risk using broader data.

**2. Expand the Bank Referral Scheme to include insolvency practitioners.**

The scheme currently requires banks to refer rejected loan applicants to alternative finance platforms, but discharged entrepreneurs are often excluded because they are discouraged from applying to banks and therefore never trigger a referral. Allowing insolvency practitioners to initiate referrals would proactively connect restarters to appropriate lenders. Referrals should be paired with a standardised post-mortem explaining why the business failed and which financial products, particularly those not requiring personal guarantees, are most suitable going forward.

**3. Use the BBB to support restart finance.** The BBB should back this system with a targeted, time-limited guarantee window for restart loans, piloted regionally, to crowd in private capital while maintaining lending discipline and responsible underwriting.

## **EXPAND BUSINESS ASSET ROLLOVER RELIEF TO ALLOW REINVESTMENT INTO NEW VENTURES**

The UK tax system still treats entrepreneurship as a one-off event rather than a process of repeated risk-taking and reinvestment. Business asset rollover relief is narrowly restricted to like-for-like asset swaps, such as selling one building and buying another, rather than allowing proceeds to be reinvested in new ventures – a policy designed for an economy of physical assets. As a result, entrepreneurs looking to sell one business and back another face immediate tax penalties that discourage capital reallocation, dampening the “flywheel” effect – in which capital, talent and experience are repeatedly recycled into new, productive firms – that underpins dynamic startup ecosystems.

Extending business asset rollover relief to reinvestment in new ventures without an immediate tax charge would remove this barrier and support serial entrepreneurship. As set out in *From Startup to Scaleup: Turning UK*

*Innovation Into Prosperity and Power*, enabling founders to roll over gains into new businesses would accelerate capital recycling, support faster company formation and strengthen the pipeline of high-growth companies. While the upfront fiscal cost is estimated at around £435 million in the first year, much of this would be recouped as capital is reinvested, firms grow and tax receipts rise over time.

## 04

## Pillar 3: Building a Regulatory System Fit for a More Complex Economy

Dynamic economies depend on regulatory systems that protect citizens while providing space for business to innovate. The UK has long struggled to strike this balance. Before the global financial crisis, strong growth masked high regulatory burdens – particularly in planning and tax – where rising complexity was tolerated while the economy expanded. As growth has slowed, these structural weaknesses have become harder to ignore.

Moreover, over the past decade, the problem has worsened. Faced with a more complex and risk-laden world, successive governments have too often responded by layering new regulation on to an already dense rulebook, matching complexity with even more complexity. Many of these interventions were well intentioned. Post-financial-crisis capital rules helped stabilise the banking system, but also tilted lending away from younger, intangible-intensive firms. GDPR strengthened privacy protections, but increased data-storage costs by around a fifth – and by even more for small businesses.<sup>78</sup> In each case, regulation expanded without a commensurate effort to help businesses, particularly SMEs, navigate the added complexity.

Crucially, this rising burden has not been matched by a serious upgrade in the state's business-support capability. Initiatives that do exist, such as regulatory sandboxes, largely focus on frontier innovation rather than the day-to-day regulatory burden facing most firms. Nowhere is this clearer than in trade. Brexit was not just a political shock – it was a self-inflicted and anticipated increase in regulatory friction that has fallen hardest on smaller businesses. But despite a sharp rise in post-Brexit compliance requirements, exporters still face a fragmented and confusing patchwork of support. The result has been predictable: more than 20,000 micro-firms have stopped exporting directly to the EU, and small-firm exports have fallen sharply.<sup>79</sup>

All of this sits atop a system already weighed down by excessive complexity. The UK tax code has quadrupled in size since the mid-1990s as successive governments added new provisions rather than undertaking wholesale reform.<sup>80</sup> The planning system remains slow, costly and deeply resistant to change, deterring investment and preventing land and capital from being repurposed quickly.<sup>81</sup> In an economy restructuring around AI and net zero, this rigidity will become increasingly unsustainable. Inertia around planning, for example, has left the UK with energy infrastructure ill-equipped to deal with the demands of the green transition.

The government recognises some of these challenges and has begun to move in the right direction. Planning reform is rightly central to the growth agenda, and efforts to embed growth mandates within regulators are a positive signal, even if they have yet to translate into meaningful changes in regulatory behaviour. The UK's more permissive stance on AI, including through the AI Opportunities Action Plan, has also helped preserve a relative openness to innovation that compares favourably with the EU. And as disruptive as Brexit was, it also gave the UK the opportunity to extend this relative regulatory advantage into new technological domains, such as genetic technologies.<sup>82</sup> But the overall approach remains incoherent. In some areas, new regulatory layers risk being added without regard to the cumulative burden; in others, support for SMEs to navigate complexity remains weak, with practical reforms such as the single trade window still stalled.

A more joined-up approach is needed. The following actions set out how to recalibrate the government's regulatory strategy.

## Reform Planning Rules so Land and Labour Can Quickly Pivot to High-Value Uses

The government must go further in overhauling the UK's planning regime. A shift towards rules-based, zonal planning, rather than today's highly discretionary approvals, is essential if the country is to deliver nationally important development at the speed required.

The need to build in the UK has never been greater. A dynamic economy undergoing both a technological and green transition depends on infrastructure that supports emerging sectors, as well as housing that allows workers to move to where jobs are created. But the UK remains slow to deliver on both. Planning is a major bottleneck. Major infrastructure takes around four years longer to deliver than in the US.<sup>83</sup> And slow planning over the past has meant a mounting infrastructure backlog that is colliding with the need to deliver new assets at pace in the near future. This is most apparent in the energy system: as set out in [\*Cheaper Power 2030, Net Zero 2050: Resetting the UK's Electricity Strategy for the Future\*](#), the planning system has helped make grid expansion and the deployment of renewables more expensive, leaving the UK with Europe's most costly electricity. And that has had knock-on effects in other areas needing modernisation. For example, AI data centres can wait up to a decade for a grid connection, compared with about three to four years in Italy and Spain.

The UK is beginning to make progress. The government's flagship Planning and Infrastructure Bill marks an important step forward by streamlining approvals, tightening deadlines and curbing excessive local discretion. Yet the bill's impact will be modest: the OBR estimates it will add just 0.4 per cent to GDP over a decade – and only gradually. And the government is already well behind its target of building 1.5 million homes over this parliament. To deliver on its stated ambitions around growth, the government must be bolder.

### **ADOPT A MORE RULES-BASED ZONAL PLANNING SYSTEM**

The planning system should be geared to drive housing in high-growth areas where labour mobility is most constrained. Rather than relying on strengthened “presumption in favour of development” powers, the government should move towards a modern zoning model that actively permits growth where it is needed most. There is precedent for a rules-based approach in the UK: in Croydon, an experiment in rules-based planning radically increased housing density via its “Suburban Design

Guide”, which boosted supply with clear guidance on allowable development on small sites before it was revoked in 2022 due to a change in political leadership.<sup>84</sup>

The government should take steps including:

- Accelerating deployment of a brownfield passport to enable high-density housing in urban areas, especially near public transport. The UK should follow international examples such as New Zealand’s up-zoning approach, automatically granting planning permission for new higher-density housing in expensive cities near public-transport infrastructure.<sup>85</sup>
- Reforming Local Development Orders to drive delivery in strategically important locations, with time-limited requirements for local authorities to act and central government stepping in where progress stalls.
- Designating low-impact zones exempt from full Environmental Impact Assessments to reduce delays. Collating information about land and communities where development could take place would allow assessments of possible locations upfront. The EU is already pursuing this model to accelerate renewables delivery.
- Integrate housing delivery more tightly with infrastructure development, including by removing the 500-home cap on joint consenting so that major projects can support the housing needed to attract workers and sustain growth.

## **DEPLOY ACCELERATED PLANNING POWERS IN DEVELOPING AI INFRASTRUCTURE**

Planning powers must be used to help businesses adjust to a rapidly changing technological landscape. As AI reshapes production, services and competition, companies need faster access to compute and digital infrastructure to drive the adoption of new technologies and remain competitive. As set out in [Sovereignty, Security, Scale: A UK Strategy for AI Infrastructure](#), the government should accelerate delivery of AI infrastructure under the AI Opportunities Action Plan by:

- Fast-tracking nationally significant AI data centres through the Nationally Significant Infrastructure Project regime, supported by a dedicated National Policy Statement, regular reviews and a national Environmental Delivery Plan to reduce uncertainty and delay.
- Streamline local planning in AI Growth Zones through ministerial approvals for major projects above a defined investment threshold, with councils incentivised via retained business.
- Unlock government land suitable for data-centre development – such as surplus government or defence sites near grid and transport links – to give developers greater certainty, lower upfront risk and speed up the rollout of compute capacity.
- Align energy and AI infrastructure strategies by enabling data centres to co-locate with energy generation and access the grid more flexibly. Embedding AI demand into energy-system planning would reduce uncertainty over future energy demand, prices and investment.

## Provide More Personalised and Targeted Tech-Enabled Business Support

An increasingly complex world needs new rules to manage new risks – but these need to be matched by a business-support ecosystem that helps businesses navigate them. Instead, business support has weakened, with fragmented systems and long waits for basic services. When the UK does need to regulate more, it should pair new rules with more support for businesses to offset any new burdens. A modern, tech-enabled support infrastructure can simplify compliance for SMEs, particularly in tax and trade, using digital tools such as business IDs and AI-driven regulatory assistance. Without this, rising complexity risks entrenching incumbents and holding back the dynamism of growing firms.

## MODERNISE TAX ADMINISTRATION TO MAKE COMPLIANCE FASTER AND CHEAPER

The government should adopt a digital-first approach to tax administration to cut costs and create the infrastructure for more targeted support. The UK's tax system is overly complex, costly to navigate, and prone to error and fraud – with a disproportionate impact on smaller and fast-growing firms, diverting time and capital away from investment and expansion. HMRC spends more than £4 billion a year on tax collection and businesses spend more than £15 billion on compliance.<sup>86</sup> Wholesale tax reform is difficult, but government can radically lower the cost of compliance in the following ways:<sup>87</sup>

- **Accelerating Making Tax Digital (MTD).** Complete the rollout of MTD for income and corporation tax, while redesigning the system to reduce friction for growing firms. This should include removing onerous requirements such as quarterly income-tax reporting and expanding access to free or low-cost software and hands-on support for businesses with limited administrative capacity.
- **Introducing a digital ID for business.** Provide each firm with a unique identifier and single digital gateway to government services by 2030. This would reduce duplication, lower compliance costs and allow more joined-up, proactive support, such as tailored reminders, grant eligibility alerts and simplified interactions across departments, particularly benefiting smaller firms that struggle to navigate complex systems.
- **Launch a national e-invoicing programme** for business-to-government transactions by 2027 and extend it to all business-to-business transactions for VAT-registered firms by 2030. Faster, more reliable payments would improve cashflow for scaling firms while automated VAT reporting dramatically reduces the cost of compliance.
- **Establish a *de minimis* VAT-registration threshold.** The current threshold – the highest in the OECD<sup>88</sup> – is a long-standing barrier to growth, with half of all SMEs clustering just below it to avoid the compliance burden,<sup>89</sup> costing the UK more than £100 million annually in lost output.<sup>90</sup> The level is largely justified by the administrative burden

that registration imposes. Phasing out the current high thresholds by the early 2030s as compliance costs fall would incentivise more firms to grow and compete with incumbents.

### **BUILD A DIGITALLY ENABLED TRADE-FACILITATION SYSTEM**

The UK should rewire its trade-facilitation system to make exporting more accessible to small and new firms in a world where Brexit has already added to costs and wider trade fragmentation threatens to create even more barriers. While parts of the UK's trade-facilitation system have been modernised, much of it remains fragmented, leaving many firms without the knowledge or confidence to enter new markets. Less than one in five companies feels well informed about exporting, many are unaware of major trade agreements, and a third cannot even [estimate the cost of exporting](#). That lack of investment is inexcusable given the degree to which Brexit has predictably raised the costs and complexity of trade – with the burden falling hardest on small and growing companies, which can least cope with the administrative overheads.

To help smaller firms navigate a more complex trading system, the government should:<sup>91</sup>

- **Build an AI-powered Trade Advisor** to reduce uncertainty and the cost of getting started. This would guide firms through documentation, tariffs and market opportunities, evolving into an automated agent that pre-fills customs forms, surfaces export leads and flags regulatory barriers in real time.
- **Situate it within a modernised single trade window**, restarting efforts paused since 2024 to build a unified platform to simplify documentation, reduce duplication and act as a single point of digital entry for all UK trade processes.
- **Build a Trade Worldwide Information Network** that would use distributed-ledger technology (DLT) to enable real-time, secure, interoperable data exchange between UK agencies and global partners to streamline verification and reduce clearance times.

- **Use big-data tools to develop a supply-chain intelligence system** that can track inputs into supply chains, streamline compliance with trading rules and strengthen the targeting of customs enforcement inspections, reducing delays.
- **Support the adoption of DLT-based cross-border payment systems** such as UK-regulated stablecoins or tokenised bank deposits to enable instant international trade transactions that cut the cost of trade.

## 05

## Conclusion

The defining challenge facing the UK economy is whether it has the capacity to adapt as change accelerates. In a world shaped by rapid technological progress, growth depends on the ability to reallocate labour, capital and other resources as opportunities emerge and old patterns are disrupted. That adaptive capacity has weakened in the UK. As a result, change increasingly exposes rigidities rather than generating momentum, leaving the economy slower to respond just as the pace of global transformation intensifies.

Restoring dynamism is therefore not a peripheral reform agenda, but a core task of economic strategy. It is what allows economies to adapt in the face of uncertainty, to scale when opportunities arise and to avoid being locked in to structures built for the past. For government, the test is whether policy consistently supports that adaptability – across labour markets, finance and regulation – rather than working against it. Getting this right will determine whether Britain can prosper in a fast-changing world, or fall steadily out of step with it.

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# Endnotes

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