NOVEMBER 2025
THOMAS SMITH
MATHEW SIM
JAMES BROWNE

UK Budget 2025: A Growth Bargain for Government and Business

TONY BLAIR
INSTITUTE FOR
GLOBAL CHANGE

Contents

Contributors: Isabel Atkinson, Ilaria Calvello, Danae Ellina, Jose Mejia, Christos Tsoukalis and Rhea Subramanya

Executive Summary

On 26 November, the Chancellor of the Exchequer will face one of the toughest Budgets in recent memory – and one that will define whether this government can chart a credible course to national renewal. A gap of around £20 to £30 billion has opened in the public finances, driven by global headwinds, two failed attempts to push through welfare reforms and a likely downgrade to productivity growth in the forthcoming Office for Budget Responsibility (OBR) forecasts. With weak business confidence, falling polling ratings and signs of division within her party, the chancellor faces a set of hard choices and very limited room to manoeuvre.

In this context, there is growing pressure from bond markets for a large tax-raising Budget that not only offsets the deterioration in the fiscal position but also rebuilds headroom. Businesses, still bruised by last year's tax increases, want a clear signal that the government will prioritise enterprise, stability and delivery. Many within the Labour Party are calling for higher spending to ease social pressures and show fairness, including by lifting the two-child benefit limit. And voters, after years of stagnant wages and overstretched public services, want to see progress in their own lives – not another squeeze on household budgets.

The government cannot satisfy all these constituencies at once. The objective of this Budget should be to chart a course to national renewal that brings markets, businesses, the party and voters back onside. Achieving that will require tough, politically costly decisions that signal a clear change in direction and a move beyond the caution of the government's first year in office. Ministers have now learned the realities of governing – that every difficult decision faces resistance, that incrementalism creates pain but rarely momentum and that strict adherence to pre-election commitments can obstruct progress in a rapidly changing world.

The starting point for this reset must be a move to restore fiscal credibility. Improving the efficiency of public services would be the best way to contain costs and should form part of the package, but such reforms take time to design and deliver. Large, immediate spending cuts would lack credibility given recent welfare U-turns and the tight departmental settlements already set in June. Tax rises are therefore widely expected at the Budget, with early indicators pointing to a collection of smaller measures to plug the gap. Yet bond markets are signalling that something more decisive may be needed to restore confidence and avoid another round of fiscal firefighting next year. If the chancellor opts for a larger revenue-raising step – particularly a manifesto-breaching increase in income tax or value-added tax (VAT) – she should make clear that it is temporary and conditional: a short-term measure to stabilise the public finances, not a permanent shift in direction. The message should be that today's discipline creates tomorrow's dividend; once growth strengthens and public-service reforms deliver results, the gains should be returned to taxpayers through targeted tax cuts before the election.

But a tax-and-spend Budget will not break the UK out of its economic stagnation. The real focus must be a step change in delivery – making growth the organising purpose of government policy and aligning every major decision with that ambition. While there have been welcome reforms in some areas, such as planning, they have often been offset by contradictory measures elsewhere – for instance, the rise in employer National Insurance. The result is a strategy that still treats growth as one objective among many, rather than the core mission needed to restore economic and fiscal strength.

A convincing growth bargain – government delivering bold pro-enterprise reforms, and business responding with investment and jobs – would shift the dynamic. To achieve it, government must recognise it cannot restart growth alone. It should do its part by announcing a big initial wave of pro-business reforms at the Budget – as a downpayment on a broader growth plan – while placing the onus on business to respond: to hire, invest and grow. This is both an economic strategy rooted in opportunity and a political one grounded in realism; if business fails to act, the alternative will be a less predictable government in the future. Above all, it is in the national interest for government and business to work together to deliver the change Britain needs.

In parallel, the government's other overarching mission – on a par with growth – should be to reimagine the state to deliver better public-service outcomes at lower cost. Having loosened its fiscal rules to boost spending at the last Budget, it has already used most of its fiscal firepower. With tight departmental settlements now baked in, the next phase must focus on reform, not expansion – harnessing technology to cut costs and improve outcomes. This is both a fiscal and political necessity: a more productive, tech-enabled state is essential to rebuild public trust, contain welfare spending and create the fiscal room for progressive priorities.

This paper sets out the first steps on that new path. It explains how to move beyond a purely tax-and-spend Budget by reshaping the government's relationship with the OBR to create licence for bolder, forward-looking pro-growth reforms, and outlines what that shift could look like across four areas – tax, labour, planning and business support – alongside the reforms needed to modernise the state, from preventative welfare to technology-enabled public services.

Such an approach will not satisfy everyone immediately, but by delivering for business, turning policy into tangible results and signalling that Britain is once again a place to invest and grow, the chancellor can lay the foundations for national renewal – ultimately bringing voters and the party back onside. By the time of the next election, a clear record of action on growth and reform would give Britain its best chance of renewed prosperity, restored confidence and the fiscal space for lower taxes and better public services. To deliver progressive policies tomorrow, the government needs a pro-business plan today.

Key Recommendations for the November Budget

1. A Licence to Be Bold: Adjusting the OBR Framework

The government should change the way fiscal policy is assessed and debated so that growth – not just fiscal headroom – becomes the focus of each major fiscal event. The OBR's role in evaluating the government's progress against its fiscal rules, including its growth plan, provides valuable discipline. But the high evidential bar it applies to "scoring" growth policies means that only those with robust historical data or precedents from the UK or overseas influence its forecasts. While this guards against over-optimism, it has the unintended consequence of incentivising growth conservatism – encouraging governments to prioritise what can be easily measured and verified over the more innovative reforms needed to raise productivity in a fast-changing world.

To address this, the OBR should be directed to publish two forecasts at each fiscal event: its existing independent baseline and a more speculative Upside Policy Scenario. The latter would incorporate the Treasury's estimates of a fuller range of government growth policies, set out in a Growth-Policy Impact Report released alongside the Budget detailing the expected effects and supporting evidence behind each measure. The OBR would review this evidence, provide a transparent assessment of its robustness and publish a full set of fiscal projections showing how the public finances would evolve if these impacts were realised.

This reform would mark a shift in how growth policy is judged. First, it would replace the OBR's current conservative approach to scoring with a more nuanced assessment of evidence and uncertainty – exposing which reforms are well-founded, which are riskier but could still pay off and where the biggest potential gains lie. Second, it would improve how the government communicates its strategy, enabling ministers to explain the link between policy choices and the growth outlook – including where they are taking calculated risks with less-tested reforms – and to make credible conditional commitments. This is particularly relevant in the current context: if the chancellor announces significant tax rises at this Budget, she should use the Upside Policy Scenario to show how if growth rebounds as expected, tax cuts will follow prior to the election. Third, it would reframe the fiscal debate itself, shifting the focus from tax-and-spend Budgets that aim to plug a fiscal hole to one centred on how to generate growth and avoid further consolidation in the first place. In short, it would replace a framework that rewards growth conservatism with one that rewards innovation – creating the institutional foundations for a bolder, more ambitious growth strategy.

2. A Pro-Business Package to Revive Productivity Growth

To make this upside growth path credible, the Budget must also set out a bold, pro-business package to tackle the UK's structural barriers to productivity. This should focus on at least four visible areas:

- **Tax reform.** The tax system should be simplified and modernised to unlock investment and boost growth:
  - Extend full expensing across all asset classes so firms can immediately deduct the cost of capital investment.
  - Abolish stamp duty on shares to bring the UK into line with global competitors and support deeper capital markets and higher trading volumes.
  - Replace business rates with a commercial-landowner tax, removing the penalty on improving commercial property and incentivising more productive use of land.
  - Introduce a government loan to spread the cost of stamp duty on property transactions over 20 years, with balances waived if households move earlier, to stimulate labour mobility.
  - Modernise council tax with a capped, proportional levy based on current property values, creating a fairer system that improves housing-market fluidity.
  - Introduce road pricing to replace fuel duty and prepare for the electric-vehicle era, raising revenue while reducing congestion.
- **Labour-market reform.** The UK's flexible labour market has long underpinned growth, but planned changes to migration policy and employment rights risk undermining this strength and require a course correction:

- Align immigration policy with national economic strategy by: expanding access and reducing the cost of the Global Talent visa; introducing a new Tech Excellence visa to attract engineers, founders and researchers; retaining the five-year route to permanent settlement for the Skilled Worker visa and allowing health surcharges to be paid across payroll rather than upfront; creating a permanent Key Worker visa for shortage professions such as construction and care; and securing a Youth Mobility Scheme with the European Union.
- Complement this with reforms to boost domestic labour-market dynamism by introducing a six-month qualifying period for unfair-dismissal protection (rather than day-one rights as proposed in the Employment Rights Bill); simplifying employment protection for high earners; and restricting the use of non-compete clauses to a maximum of three months and only for high earners.

- **Planning and infrastructure reform.** Despite recent progress, the planning system still requires bolder action to accelerate housing and infrastructure delivery:
  - Adopt a more rules-based zonal planning system by: fast-tracking introduction of a permissive “brownfield passport” that automatically permits higher-density housing around transport hubs; designating low-impact zones that are exempt from full Environmental Impact Assessments; and requiring local authorities to introduce Local Development Orders in key growth areas within set timeframes, with central government empowered to step in if they fail to act.
  - Accelerate AI infrastructure development in AI Growth Zones by bringing major data-centre projects under the Nationally Significant Infrastructure Project regime, streamlining local planning, and releasing suitable public land for development.
  - Accelerate housing and infrastructure development in the Oxford–Cambridge Arc and other growth corridors by using compulsory-purchase powers to assemble land quickly and through integrated spatial planning to coordinate delivery.

    - Support the construction sector with an industrial strategy that promotes the use of modern methods of construction and requires local authorities to publish long-term pipelines of housing and infrastructure projects to give the industry certainty and cultivate a domestic workforce.

- **Tech-enabled business support.** Digital tools that cut costs, reduce complexity and help firms grow must be harnessed to support UK businesses, particularly small and medium-sized enterprises (SMEs):

    - Modernise trade facilitation by deploying an AI trade advisor, relaunching the Single Trade Window, and using big data and distributed-ledger technology (DLT) to map supply chains. Incentivise the uptake of DLT-based cross-border payment systems to cut the cost and complexity of trade and ensure more SMEs benefit from existing trade deals.
    - Overhaul tax administration with a digital ID for business, a national e-invoicing programme and a more accessible rollout of Making Tax Digital, reducing compliance costs and fraud while enabling more tailored support.
    - Drive technology diffusion across the economy by establishing a “CTO-as-a-service” platform that combines AI advisory tools, adoption vouchers and university-based support centres, giving SMEs access to the kind of support a chief technology officer provides and the capacity to adopt proven technologies at scale.

Together these reforms would show that the government is serious about growth, create the conditions for higher private investment and give credibility to an optimistic fiscal path.

3. Reforms to Reimagine the State

Beyond near-term credibility and pro-growth reform, the Budget must also begin the hard work of reshaping the state itself. This means tackling the structural drivers of spending not simply through cuts, but through transformation: creating a system that is fiscally sustainable while delivering better services for citizens. Two priorities stand out:

- **Social security.** The government should create a time-limited, outcome-based "preventative welfare" programme that uses planned future welfare payments to fund success in reducing long-term sickness and getting people back into work. The Treasury currently spends around £30 billion a year – about 1 per cent of GDP – on incapacity benefits, a contingent cost it will continue to bear unless the root causes of ill health and inactivity are tackled. This funding could instead operate as a form of contingent investment, delivered by the National Health Service or a consortium of accredited health-care providers, where money would be paid out only if an intervention succeeded in returning people to sustained employment. The programme could focus on pre-approved NHS treatments with a fast fiscal and social payoff that are not yet available at scale – such as talking therapies for mental-health conditions, digital physiotherapy for musculoskeletal problems and new obesity treatments such as GLP-1 drugs. By converting a recurring welfare cost into a results-based investment, the government could improve lives, reduce inactivity and strengthen long-term fiscal sustainability.
- **Public services.** Departments have already been tasked with delivering 5 per cent efficiency savings over the course of this parliament. Historically, cost savings of this scale have proved elusive. But frontier technologies now make them achievable: adoption of AI across the public-sector workforce could yield £10 billion a year by the end of the parliament, rising further over time. These gains are not one-off windfalls. Because the technology is advancing so rapidly, they offer the basis for a sustained transformation in how the state operates – from automating routine tasks to redesigning entire services around citizens' needs. That means lower costs and better outcomes, not a trade-off between the two. Harnessing the growing potential of technology to boost public-sector productivity

should be treated as a central mission of government – on a par with the growth mission that aims to do the same for private-sector productivity – and essential to rebuilding public trust in what the state can deliver.

01

The Fiscal Backdrop to the Budget

Much of the debate running into the Budget has focused on how the chancellor will plug the £20 to £30 billion hole in the public finances. With debt interest now exceeding £100 billion a year and gilt investors watching closely, the government faces growing pressure not only to close the gap but also to rebuild a durable buffer against future shocks and avoid a return to fiscal firefighting next year.

There is no shortage of options on the table for what this tax-and-spend Budget could entail. Welfare cuts are almost certain to feature, as the government seeks to re-establish its ability to deliver savings after recent U-turns. Large-scale reforms would take time to design and implement, and may lack immediate credibility given its recent record, but several shorter-term measures are possible, including:

- **Tightening eligibility for Personal Independence Payments (PIPs).** The number of people receiving enhanced mobility PIPs has almost doubled since 2019, much of it driven by claims where the main condition is psychiatric.[1] Limiting the enhanced rate of mobility support to those who can never plan and complete a familiar journey independently – rather than those who sometimes can – could focus support on people with the most profound conditions and bring spending back under control.[2] This could save around £1.2 billion a year while maintaining support for those most in need.
- **Restricting Motability tax reliefs.** Only around 10 per cent of cars that benefit from favourable tax treatments under the Motability car-leasing scheme are specially adapted for people with disabilities.[3] Providing tax relief to help cover the cost of these vehicle modifications makes sense, but not for unmodified vehicles. Restricting the scheme to adapted vehicles could save £1 billion, preserving support for those who rely on modification while improving value for money.

- **Reducing welfare fraud.** The chancellor has signalled that tackling fraud will form part of her plan to cut wasteful spending. The government's planned new digital-ID system could help, with TBI estimates suggesting potential savings of around £2 billion a year by the end of this parliament by reducing benefit fraud and improving tax collection.[4]

Together, these measures could save around £4 billion, but that still leaves most of the gap to be filled through tax. A wide range of revenue options have been proposed, including:

- **Targeted tax rises.** Harmonising taxation of online gambling with in-person betting, reducing the tax-free pension lump sum from £268,275 to £100,000, applying National Insurance contributions (NICs) to rental income at the same rate as earnings and applying NICs to partnership income could each raise around £2 billion.[5,6,7,8]
- **Extending fiscal drag.** Prolonging the freeze in income tax and National Insurance thresholds from 2028 to 2030 could raise £7.5 to £10.4 billion by the end of this parliament.[9]
- **Manifesto-breaching tax rises.** A 1 percentage point rise in the standard rate of value-added tax (VAT) would raise £9.5 billion, a 1p increase in the basic, higher and additional rates of income tax would raise around £10.5 billion, and a 1p increase in Class 1 employee NICs would raise around £7.5 billion.[10,11]

The eventual scale of the Budget package will depend on three main factors: the underlying shortfall (widely estimated at £20 to £30 billion), the additional headroom the chancellor decides to rebuild above the existing £10 billion buffer (an extra £10 to £20 billion would return to the norm of the 2010s), and the cost of any concurrent giveaways, such as cutting VAT on energy bills (just over £2 billion) or removing the two-child benefit limit (up to £3.5 billion).[12,13,14] Taken together, this points to a total package in the range of £20 to £55 billion.

A key test for this Budget will be whether the chancellor can re-establish fiscal credibility by rebuilding headroom, rather than pursuing headline-grabbing giveaways. Bond markets have reacted favourably to recent signals that the chancellor plans to boost headroom, and government borrowing costs have already eased. By contrast, if the Budget does not deliver a clear increase in headroom, even a modest deterioration in the economic outlook could force the government back next year for another round of tax rises and spending cuts – absorbing political and policy bandwidth, prolonging uncertainty for business and entrenching a sense of drift among voters. Moreover, by 2026 the challenge would be greater, as most of the easier tax-and-spend options would already have been used.

Judging how far to raise taxes will require a delicate balancing act. Any substantive increases would clearly consume scarce political capital – particularly as the chancellor had previously promised that the large tax rises of the 2024 Budget would not be repeated. They would also weigh on growth: the more the government taxes, the less scope there is for households and businesses to spend, invest and drive the recovery. Markets may nonetheless view large tax rises as a signal of seriousness, which could help reduce borrowing costs and prompt the Bank of England to cut interest rates faster than currently expected, easing pressure on mortgages and household budgets. By lowering the risk of further fiscal firefighting, such measures could also help stabilise tax policy, giving businesses greater confidence to invest and buying time for the government to focus on reforms to boost growth and public-sector productivity.

If the chancellor does decide to break her manifesto pledge and raise one of the big three taxes, she should make clear that the intention is to make such rises temporary and conditional: once growth strengthens and public-service reforms deliver results, the aim should be to return the savings to taxpayers through targeted tax cuts before the election. The message should be that today's discipline creates tomorrow's dividend.

Ultimately, a tax-and-spend Budget might re-establish fiscal credibility, but it will not lift the UK out of its economic quagmire. Only growth and public-sector reform will do that. The credibility of the government's economic strategy will depend on whether it can turn fiscal repair into economic renewal by pairing short-term discipline with a credible plan for long-term growth and reform – the focus of the next three chapters.

02 A Licence to Be Bold: Adjusting the OBR Framework

The government's first step should be to change the way fiscal policy is assessed and debated, so that growth – not just fiscal headroom – becomes the focus of each major fiscal event.

The Office for Budget Responsibility's (OBR) role in assessing whether the government meets the letter of its fiscal rules provides valuable discipline, but it continually directs attention towards two highly uncertain figures five years ahead: the deficit and the debt ratio. This is not a criticism of the OBR, which is performing the task it was set; it reflects the way the fiscal rules themselves are designed.

Yet the OBR also plays a wider role as the de facto judge of the government's growth policies. That responsibility brings discipline and stops the government from inflating its growth forecast to game the numbers, but it also incentivises growth conservatism – encouraging governments to prioritise what can be easily measured and verified, rather than the bolder reforms needed to raise productivity and expand the economy's capacity. What is needed is a modest adjustment in the relationship between the Treasury and the OBR: one that preserves the OBR's independence but allows the government to demonstrate how its growth plan can strengthen the public finances, expand fiscal headroom and, over time, underpin a conditional fiscal strategy – where rising growth creates the space for lower taxes.

The OBR must remain central to this process. Its independence is essential to maintaining market confidence and its analysis provides a vital credibility check on the government's economic plans. But the framework within which it operates constrains the debate about growth in three important ways.

First, the OBR's approach to assessing growth policies is necessarily conservative and backward-looking. It credits policy measures only when they are supported by robust evidence from comparable past reforms – a discipline that guards against over-optimism but undervalues innovative or technology-driven strategies where historical precedents are limited, or stated policies where precise details are yet to be agreed (for example, the terms of the Youth Mobility Scheme with the European Union). The effect is to make government more cautious than it needs to be: forward-looking reforms rarely "score" in the OBR's growth assessment, even when they are well founded. In business terms, this is like insisting a company may only pursue growth strategies proven from the past, rather than allowing it to innovate for the future.

Second, the OBR risks becoming a bottleneck in assessing growth policy. It has a highly capable team but a very small one: with a total budget of just £5.4 million a year, it cannot be expected to evaluate every major growth reform across all government policy areas to the level of depth and using the most advanced modelling techniques available. That means some valuable growth policies go unquantified, leaving their fiscal contribution invisible in the forecast and making it harder for ministers to prioritise or defend them.

Third, because the system is acutely sensitive to small changes in assumptions, this growth conservatism can have tangible impacts on fiscal policy today. But as David Miles of the OBR has noted, forecasting productivity is "an educated guess, and maybe not even terribly educated".[15] A shift of just 0.1 percentage points in annual productivity growth alters the year-five deficit by roughly £9 billion. This shows how even modest improvements in the growth outlook, backed by credible growth policies, could remove the need for growth-sapping fiscal consolidations.

The answer is not to weaken the OBR's independence but to broaden the basis on which growth policies are assessed. The Treasury should publish a detailed Growth-Policy Impact Report alongside each Budget setting out the estimated growth effects of all major government policies – including the measures themselves, their expected timing and the supporting economic evidence. The OBR would then assess the quality of that evidence, potentially through a transparent scorecard with RAG (red, amber, green) ratings for each measure – akin to the role played by the independent Regulatory Policy Committee in assessing legislation – and publish two forecasts: its usual baseline, including only those impacts it deems sufficiently evidenced to score, and an alternative Upside Policy Scenario showing how the public finances would evolve *if* the full set of growth-policy impacts were realised.

This institutional change would more transparently highlight the promise and perils of the government's growth strategy – its intended effects, the risks if delivery falls short, but also the opportunities if it materialises – and force a more informed debate about growth. Over time, as the government builds credibility in delivering its growth plan, both the OBR and financial markets would likely give greater weight to those stated policy impacts, buying the government more fiscal headroom. Greater transparency would also strengthen the government's communications strategy. It would enable ministers to make conditional policy commitments – signalling that, if growth returns, specific policy changes such as a reduction in taxes would be on the cards, lending weight to the pre-election approach set out in Chapter 1.

Such a change will only work if built on a foundation of fiscal discipline with additional headroom. Without that, any effort to reshape the framework with a new, more upbeat growth forecast could be dismissed as an attempt to mask a stealth fiscal loosening. But once credibility is restored, introducing a more transparent mechanism for assessing growth policy would mark a powerful shift in the fiscal conversation – from how much headroom the chancellor has to how fast the country can grow, and what that growth could make possible.

03

A Pro-Business Package to Revive Productivity Growth

The Budget should build on these institutional reforms by pairing them with a clear plan for growth. That means tackling the UK's structural barriers to productivity through reforms that operate on several levels: some are bankable policies that the OBR can score within its current framework, others are more forward-looking measures that would be recognised in the government's Growth-Policy Impact Report and still others are signals of intent – showing business that the government is serious about growth, even where that means overriding competing objectives. Taken together, these reforms are designed not only to raise productivity but to reignite confidence and investment, convincing markets and firms alike that the UK is back on a pro-growth path. We focus on four areas – tax, labour markets, planning and infrastructure, and tech-enabled business support – where government action can be both visible and catalytic within this parliament. But this should be seen as the opening salvo in a relentless pursuit of growth.

Tax Reform

A simpler, pro-growth tax system is central to any credible growth strategy. The UK's tax burden is at a multi-decade high. More importantly, though, as taxes have risen, long-standing issues remain unaddressed – and more complexity has been added. It will not be possible for the chancellor to deliver an overall reduction in the tax burden in the Budget. But it is possible to raise revenue more efficiently, minimising the extent to which the tax system stifles investment, distorts incentives for workers to progress and imposes compliance costs on taxpayers.

The government tied its hands during the election campaign by ruling out changes to all three major revenue raisers – National Insurance, income tax and VAT. To fill the fiscal gap, it has instead contorted the system further: layering on distortive tax rises and avoiding the kind of wholesale reform needed to unlock investment. This is a strategic error that leaves one of the government's most powerful levers for growth effectively out of service. Budget 2025 cannot be a repeat of Budget 2024.

A major reset is now required. Rather than more incremental tweaks, the government should acknowledge that the current system is no longer fit for purpose and pursue a wholesale reset: bold, difficult, but necessary reform. With a large parliamentary majority and almost four years still left to run, this government has the best chance in a generation to take on these challenges. And it must do so now, for the reforms to pay off in time for the next election.

This tax package should encompass:

- **Corporation-tax reliefs.** Businesses should be able to deduct the full cost of all capital investment from their taxable profits from April 2026. This would extend the full expensing policy announced in November 2023 to cover all plant and machinery and intangible investments, while increasing the generosity of capital allowances for buildings. This would provide a clear and consistent incentive to invest, while also simplifying the tax treatment of capital across the board. Higher business investment would raise GDP by an estimated 0.3 per cent by the end of this parliament and 0.5 per cent in the long run. This more generous policy should be paid for by removing other poorly targeted business-tax reliefs that are failing to achieve their objectives, such as the Patent Box, NIC reliefs for young workers and apprentices, Business Asset Disposal Relief and some business-rates reliefs – as proposed in *A Pro-Growth Roadmap for Business-Tax Reform*.
- **Business-rates reform.** Business rates should be replaced with a commercial-landowner tax from April 2028. Rather than taxing the value of both land and buildings, this system would assess only the underlying land value and remove the current penalty on developing or upgrading property. This would encourage landowners to make more productive use of their sites and support a wave of investment in commercial property.

The resulting boost to economic activity is expected to increase long-run GDP by a further 0.25 per cent, as set out in *A Pro-Growth Roadmap for Business-Tax Reform*.

- **Capital-taxes reform.** Stamp duty on share transactions should be abolished. The UK is out of step with its major competitors by charging a 0.5 per cent transaction tax on all share purchases. This disincentivises investment and compares poorly with the United States, Germany and Japan, which have no such tax. Oxera analysis suggests removing the tax could raise GDP permanently by 0.2 to 0.7 per cent, generating enough tax revenue from increased share trading to more than offset the £4 billion revenue lost in abolition.[16]
- **Reform of stamp duty on property transactions.** Rather than requiring stamp duty to be paid upfront, households should be given the option to spread payments over 20 years through a government loan. This loan would be financed at a fixed rate of interest linked to the government's long-term borrowing costs. Crucially, any household that moves within 20 years would not need to pay off the remaining balance. This reform could have a small negative impact on receipts, as households that move more frequently would pay less tax (the average owner-occupier in homes above the stamp-duty threshold stays for 26 years).[17] But reducing the lock-in effect would stimulate housing mobility and generate offsetting revenues from higher activity. 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, as set out in *Looking Beyond UK Budget 2024: Priority Reforms for 2025*.
- **Council-tax reform.** The government should replace the current inequitable system of council tax with a capped proportional levy based on up-to-date property values. This levy would be equal to 0.5 per cent of the value of each property but with a minimum payment of £1,350 for properties worth less than £270,000 – to ensure that local authorities in areas with low property values in the north of England are not overly reliant on central-government grants – and a maximum cap of £6,250 for properties worth more than £1.25 million – to avoid a replay of the "mansion tax" debate of the mid-2010s and imposing large annual taxes on the asset rich but cash poor. As set out in *Looking Beyond UK Budget*

2024: Priority Reforms for 2025, this change would see 12.3 million households gain at least £100 through lower council-tax bills – mostly in lower-priced properties outside London. A much smaller number of households – 4.1 million – would lose out, mainly those at the upper end of the income spectrum but also many less well-off households in London. The remaining 7.4 million households would see their net incomes change by less than £100. Not only would this system be more progressive, but it would also create more of an incentive for older homeowners in high-value properties to downsize – supporting the fluidity of the housing market and ultimately economic growth.

- **Introduction of road pricing.** Rather than increasing fuel duty in the spring or postponing the increase yet again in a move the public finances can ill afford, the government should introduce a simple pay-per-mile road-pricing system of 1p per mile for cars and vans, and 2.5p to 4p for heavy-goods vehicles from April 2026. This reform would be revenue neutral compared with current plans to raise fuel duty but would be a crucial step in reforming the UK's system of motoring taxation for the electric-vehicle era.[18] In doing so, it would help prevent a growth-stifling rise in road congestion, as we previously argued in *Looking Beyond UK Budget 2024: Priority Reforms for 2025*.

Labour-Market Reform

The UK's flexible labour market has long underpinned growth. It gives firms readier access to the skills and workers they need, and it supports economic dynamism by allowing resources to gravitate to the most productive parts of the economy and encouraging firms to start and scale in the UK. But recent policy changes risk eroding that strength. The government's immigration white paper, which aims to tighten visa rules to reduce legal migration, risks leaving the UK behind in the global race for talent, while well-intentioned efforts to improve worker protections through the Employment Rights Bill risk increasing the cost of starting and growing businesses. This requires a course correction that would:

- **Align immigration policy with national economic strategy.** Britain needs immigration at all skill levels to power growth, fill labour shortages and stay competitive in future industries. That means welcoming those who are needed, but setting guardrails to ensure that new arrivals do not become a burden. Different types of migration serve different purposes and the system should reflect that – distinguishing between routes, linking them to clear economic need and tailoring terms to maximise national benefit. The government should:

    - **Expand high-skilled routes to attract global talent in frontier sectors.** It should clear the way for new overseas talent by making it easier for graduates of the world's top universities to stay permanently and for those on talent visas in other countries to make a new home in Britain. Steps should include maintaining the Global Talent visa (GTV) three-year fast-track route to indefinite leave to remain, expanding the pool of eligible GTV applicants to a wider range of emerging technologies, reducing costs by exempting GTV holders and their dependants from the immigration health surcharge, recognising international equivalents (such as the US O-1 visa) as grounds for eligibility to the GTV and creating a pathway for those in the UK on a High Potential Individual visa to prolong their stay if they are working in strategic industries. In addition, creating a dedicated Tech Excellence visa would signal that the UK is serious about competing for engineers, founders and researchers in AI, biotech, quantum and clean tech.
    - **Support businesses by making the immigration system faster, cheaper and globally competitive.** The costs facing companies seeking to recruit skilled workers from overseas are already punitive – coming close to the proposed $100,000 levy on US H-1B visas. To continue to attract graduate-level workers, the government should retain the five-year route to settlement for Skilled Worker visas (rather than expanding it to ten years under government proposals), spread NHS-surcharge payments across payroll rather than requiring payment upfront, and introduce new tools like a "parking visa" for short contracts and expedited intra-company transfers – especially for firms using the UK as a regional base.

  - **Create a permanent Key Worker visa for non-graduate roles to plug skills gaps in essential sectors.** This should support sectors such as care and construction with a lower-threshold, tightly regulated visa route. Pooled sponsorship – via sector bodies or umbrella organisations – should be used to make the system accessible to small employers, while ensuring proper oversight and applying safeguards for the taxpayer such as a ten-year settlement timeline and limits on dependants.
  - **Agree a Youth Mobility Scheme with the EU to ease seasonal and high-churn labour shortages.** Modelled on UK schemes with Australia and Canada, it should provide time-limited access for young workers – helping sectors such as hospitality, logistics and agriculture – without creating long-term fiscal or service pressures.

- **Preserve labour-market flexibility by introducing a six-month qualifying period for unfair-dismissal protection.** The Employment Rights Bill introduces some welcome reforms that modernise the relationship between employers and employees. But some provisions risk constraining the UK's dynamic labour market, eroding business confidence to hire and ultimately undermining growth. One key example is the proposal to extend unfair-dismissal protection to all employees from day one. At present, employees gain protection from unfair dismissal only after two years – one of the longest qualifying periods in the OECD. The bill would move to the opposite extreme, granting such rights immediately. This would raise employment costs by increasing the legal and procedural risks attached to every new hire and discourage firms from recruiting – a concern already raised by some of the UK's largest business groups, which have urged the government to amend the bill.[19] As a compromise, the government is expected to introduce regulations allowing an initial probationary period during which an employee could be dismissed under a "light-touch" process, though the details have yet to be published. The risk is that uncertainty over what rights apply during probation will do little to reassure employers nervous about taking on staff. Introducing a six-month qualifying period for unfair-dismissal protection, which is more typical among advanced economies including across much of Northern Europe and Australia, is more likely to balance fairness with flexibility.[20] Such an approach would provide businesses with clarity and confidence to hire while maintaining core employee protections.

- **Simplify employment protection for those on the highest incomes.** Additional protections also risk stifling growth in the most dynamic parts of the UK economy, such as the technology sector. Research by Coatanlem and Coste (Bocconi University) shows that a core reason Europe lags behind the United States in tech is because employment protections increase the cost of restructuring, which undermines the profitability of high-risk tech companies that have high rates of failure.[21] To address this, employers should be given the option to simplify employment protection for those on higher incomes – who are typically highly qualified and highly paid, and hence rarely in periods of long unemployment. This approach would strike a balance between protecting the majority of the population while supporting dynamism.
- **Limit non-compete agreements to a maximum of three months and only allow them to be applied to high earners.** In 2023, around 5 million UK employees were covered by non-compete agreements, typically lasting six months, which prevent workers from joining a competitor or starting their own business immediately after leaving a job.[22] In principle, employers use non-competes to protect investments in training or to safeguard client relationships. In practice, they are often drafted too broadly, provide little demonstrable benefit and, based on US data, can reduce job mobility, suppress wages and slow innovation.[23] California's long-standing refusal to enforce most non-competes has underpinned Silicon Valley's culture of rapid talent circulation and spinouts. The UK should move towards the Californian model and legislate to cap non-compete clauses to a maximum of three months (half of all UK non-competes are above this length). This would strike a balance between removing overly long restrictions for most workers and maintaining flexibility for firms to use them. But to avoid the three-month cap becoming the default floor and these agreements being applied indiscriminately, the government should also consider following

Washington State's approach and imposing a minimum salary threshold (that state's non-compete salary threshold is approximately $123,000) below which they cannot apply.[24]

- **Unlock skills funding by reforming the Apprenticeship Levy and targeting the Immigration Skills Charge.** Skills shortages are holding back growth, yet employer training contributions are being wasted – by being returned to the Treasury, due to the current rigid design of the Apprenticeship Levy, or misallocated, with little connection between the Immigration Skills Charge and actual spending on skills. Firms are blocked from using their own levy funds for short, accredited courses that would address real workforce needs and, as a result, a fifth of levy funding – amounting to almost £1 billion per year – is returned to the Treasury in unspent levy funding, effectively just becoming a tax on business.[25] The government is aware of this problem and has signalled its intention to reform the levy, but this is yet to be implemented. Similarly, employers pay an Immigration Skills Charge – set to increase by 32 per cent to £6,600 for a five-year sponsorship period – on the premise that it will help fund domestic training, but there is little transparency over how the funds are used and a perception that most are absorbed into general revenue and are not used for that purpose.[26,27] The government should accelerate its plans to shift to a more flexible "growth and skills levy", and ensure Immigration Skills Charge revenue is used to fund training in the sectors and regions most reliant on overseas workers.

Planning and Infrastructure Reform

The government has rightly identified the planning system – and the drag it places on housing and infrastructure – as a key barrier to growth and a priority for reform. It is also one of the main obstacles to investment in new energy infrastructure, delaying projects that are critical to lowering the UK's uncompetitively high energy costs during the energy transition.

The government's flagship Planning and Infrastructure Bill makes useful headway by reducing the scope for judicial review, streamlining environmental assessments, imposing stricter approval deadlines and curbing the power of local planning committees. But the government needs to be bolder. The OBR estimates that the GDP impact of the core planning reforms will be modest – just 0.4 per cent over a decade – and heavily backloaded. And for promising ideas like AI Growth Zones and growth corridors to deliver real impact, the government will need to raise its ambitions substantially. It should:

- **Adopt a more rules-based zonal planning system calibrated to accelerate development.** The government should move beyond proposals to strengthen the "presumption in favour of building" by deploying tools that actively permit growth and shift the UK towards a modern zoning system. This includes:
    - Accelerating development of the proposed "brown-field passport" to drive high-density development in urban areas. An ambitious approach could mirror New Zealand's up-zoning approach in automatically granting planning permission for new higher-density housing in expensive cities near public-transport infrastructure.[28]
    - Reforming Local Development Orders (LDOs) to incentivise action in strategically important areas. LDOs, which provide specified permitted-development rights within a defined area and forgo the need for planning permission, already exist but their use is often niche as local authorities are often reluctant to deploy them due to the loss of control associated with them. To unblock this, the government should have powers to set a timeframe over which local authorities must develop LDOs, where development is considered critical. Failure to do so would result in LDOs being issued by central government, creating an incentive to act locally.
    - Designating zones with low anticipated environmental impact as exempt from full Environmental Impact Assessments. The EU is already pursuing this model to accelerate renewables delivery. Collating information about land and communities where development could take place would allow assessments of possible locations upfront, reducing delays and accelerating the buildout of much-needed energy infrastructure.

    - Binding house-building more tightly to infrastructure development – for example, by removing the 500-home cap on joint consenting for major infrastructure projects so that such projects can include significant housing components from the outset.

- **Deploy accelerated planning powers in AI Growth Zones**. As set out in *Sovereignty, Security, Scale: A UK Strategy for AI Infrastructure*, the government should accelerate the development of AI infrastructure under the AI Opportunities Action Plan by:

    - **Accelerating nationally significant projects.** AI data centres should be placed under the Nationally Significant Infrastructure Project regime, accompanied by a fast-tracked National Policy Statement, annual reviews and a national Environmental Delivery Plan, to avoid delays from site-specific assessments.
    - **Streamlining local planning.** Ministerial statements should be issued to approve major data-centre projects above an investment threshold, with councils incentivised through the retention of a share of business rates.
    - **Unlocking government land.** Public land suitable for data-centre development (for example, Ministry of Defence or surplus estate near grid or transport links) should be identified and released, with locations published to give developers certainty and speed up delivery.

- **Accelerate housing and infrastructure development in the Oxford–Cambridge Arc and other growth corridors.** Realising the chancellor's £78 billion growth ambition for the arc will require tripling housebuilding to 15,000 homes a year, alongside major road and rail upgrades. That will require using compulsory-purchase powers to assemble land at pace and delivering joined-up spatial planning, backed by ministerial authority. The same model should be applied in other high-growth corridors.

- **Pair the ten-year infrastructure strategy with an industrial strategy for the construction sector focused on scaling modern methods of construction.** Taking parts of the construction process offsite can increase efficiencies, reduce costs and lower manpower requirements –

the last of these is particularly important in a sector with chronic labour shortages. Government could support adoption by accelerating standardisation and working with builders and insurers to develop a quality-assurance process that will build confidence.[29]

- **Mandate local authorities to have long-term planning pipelines and accelerate use of AI in local approvals.** Local authorities should adopt spatial strategies that sequence housing and infrastructure delivery over time – creating predictable project pipelines that support workforce retention and encourage more construction workers to stay in the industry. Smoothing the development cycle would help reduce precarity, improve skills retention and make the sector a more attractive long-term career. In addition, local authorities should be incentivised to rapidly adopt AI-enabled planning-approval tools to reduce planning backlogs.

Tech-Enabled Business Support

UK businesses, particularly small and medium-sized enterprises (SMEs), have seen their operating environment grow increasingly complex over the past decade. Brexit has made it more difficult to trade, the tax system has become harder to navigate and comply with, and rapid advances in technology have made it harder to choose what to invest in and when. But advances in technology also make it easier now for governments to provide better support to help businesses navigate this complexity. This has the economic benefit of facilitating business growth, investment and tax revenues as well as being politically visible – a clear signal that government is on the side of business.

Harnessing such technology effectively is challenging. Recent history is littered with examples of government attempts to use technology that have fallen flat due to poor delivery. A step change in ambition and drive is therefore required to improve the government's business-support offer. This should focus on at least three areas:

- **Use tech-enabled trade facilitation to make better use of existing trade deals and create a new engine of trade growth.** As set out in *Making Trade Work Again: Resetting the UK's Trade Strategy for a Changing World*, the UK's trade infrastructure is due an upgrade. While parts of the system have been successfully modernised, many critical components remain fragmented and increasingly fall short of global best practice. In the digital age, businesses still often face slow, analogue systems that are hard to navigate. This creates friction for exporters, especially SMEs, and means too many trade agreements are underutilised. In a world where big trade deals are becoming harder to negotiate, the UK must unlock more value from the deals it already has. That demands a modern, digitally enabled trade system – one that reduces the cost and complexity of trade, increases the speed and encourages more firms to trade. To make tech-enabled trade facilitation a new engine of growth, the government should:
    - **Develop an AI trade advisor** that gives firms bespoke guidance on how to navigate trade rules and bureaucracy.
    - **Relaunch the UK's stalled Single Trade Window** to simplify compliance, reduce reporting time and enable wider digitalisation across the border system.
    - **Develop a secure trade-data exchange** enabled by distributed-ledger technology (DLT) to provide firms and government agencies with live consignment visibility, accelerate customs clearance and reduce costs through faster, more secure data exchange.
    - **Use big-data tools to develop a supply-chain intelligence system** that can detect risks before goods reach the border and improve enforcement targeting – reducing delays.
    - **Support the adoption of DLT-powered payment systems** such as UK-regulated stablecoins or tokenised bank deposits to enable instant international trade transactions that cut the cost of trade.
- **Adopt a modern, digital-first approach to tax administration to cut costs for businesses, improve enforcement and create the infrastructure for more targeted support.** The UK's tax system remains too complex, too costly to comply with and too easy to defraud – placing

a heavy compliance burden on businesses, particularly smaller firms. As set out in *A Pro-Growth Roadmap for Business-Tax Reform*, to address this the government should:

- **Accelerate the Making Tax Digital (MTD) programme.** As well as swiftly completing the rollout of MTD for both income tax and corporation tax, the system should be tweaked to be less burdensome and more accessible. The government should remove onerous requirements such as the forthcoming quarterly reporting requirement for income tax. It should provide more tailored support for businesses to help make the digital transition, including better access to free or low-cost software, and practical help for firms with limited administrative capacity.
- **Introduce a digital ID for business.** Each firm should be provided with a unique identifier and single digital access point for government services by 2030. This would reduce administration costs for businesses by reducing data-entry duplication, help detect fraud and help join up services across government departments to deliver higher-quality support. For example, a digital ID could enable a more tailored support service for firms by highlighting eligibility for grants and issuing reminders for tax-filing deadlines or nudges to prompt action. This would be particularly useful for small businesses that often miss out on support simply because they do not know it exists. It could also reduce compliance checks between businesses, which could save £1.7 billion a year in the financial sector alone.[30]
- **Launch a national e-invoicing programme.** The government should initiate a phased rollout of e-invoicing, mandating its use for all business-to-government (B2G) transactions from 2027 and extending it to business-to-business (B2B) and business-to-consumer (B2C) transactions for all VAT-registered businesses by 2030. From 2030 to 2035, the transaction threshold should be gradually lowered to bring smaller firms into the system as the cost of compliance falls. This would result in faster invoice payments and hence improve cash flow

for firms, while also helping to reduce error and fraud in the tax system. Automating VAT reporting at the point of transaction could raise up to £4 billion a year in additional tax revenue.[31]

- **Create a dedicated "CTO-as-a-service" platform to support technology adoption beyond frontier firms.** In its industrial strategy, the government recognised the potential of the adoption of emerging technologies to boost UK growth by 3 to 12 per cent over the next decade.[32] Yet technology adoption, particularly among SMEs, remains constrained by a fragmented and underutilised diffusion ecosystem, limiting the impact of even successful government initiatives such as Made Smarter.[33] An upgraded tech-diffusion offer is required – a dedicated "CTO-as-a-service" that, through a single platform, allows SMEs to access a wide range of support typically provided by a chief technology officer (CTO) to help them identify, acquire and integrate suitable technologies as a route to growth. The government should focus on three areas:

    - **Technology identification.** Build on successful initiatives overseas, particularly those in Singapore, and develop: 1) a tech compass – an interactive online diagnostic tool that helps firms identify tech gaps in their operations and offers personalised advice on how to plug them; and 2) a trusted-tech catalogue – a curated list of secure, affordable technologies that have been proven in other business settings to improve efficiency.[34]
    - **Technology acquisition.** Establish a Technology Adoption Voucher scheme that covers 30 to 50 per cent of the upfront costs of tech adoption for SMEs (up to a maximum value of £10,000) and extend the British Business Bank's Growth Guarantee Scheme to help de-risk the costs of private finance for tech adoption.[35]
    - **Technology integration.** Establish a network of University Technology-Adoption Centres that utilise the UK's higher-education institutions as the new backbone of an upgraded national tech-diffusion system – the UK equivalent of the German Mittelstand support network.[36] Universities would be funded to provide direct training (for example,

delivering government-backed Help to Grow: Management courses), host peer-learning sessions from retired business owners and offer new industrial-placement courses that link SMEs with graduate CTO advisors.[37] This in-person advice would be supplemented by an AI CTO Assistant – available through the CTO platform – that provides firms with on-demand digital advice on their adoption journey.

04

Reforms to Reimagine the State

Near-term tax rises and spending cuts may help stabilise the fiscal position, and a growth package will help the UK chart a road to recovery. But the UK also needs to confront the structural drivers of public spending that, left unchecked, will steadily squeeze fiscal space and limit the government's ability to cut taxes or invest in growth in the future. That means building systems that are fiscally sustainable and capable of delivering better services in an era of rapid technological change. Two priorities stand out: reforming social security and harnessing technology to transform public services.

Social-Security Reform

Alongside immediate measures to control welfare spending, the government also needs a plan to address the structural causes of its rise. In the long term, this will likely mean moving towards a more personalised system of support that matches assistance to individual needs rather than relying on blunt thresholds and fixed levels of support, which leave some people with severe needs undersupported and others receiving more than they require. A shift away from cash entitlements towards in-kind support (payment in goods and services) or support for specific costs associated with disability, as in France's Prestation de Compensation du Handicap (Disability Compensation Benefit), should also be considered to ensure help goes where it is most needed and to avoid welfare provisions being used as income supplements.[38] Such wholesale reforms will take time; the last big reform to the welfare system – Universal Credit – was announced in 2010, first deployed in 2013, but is only expected to be fully rolled out in 2026.

But the government can still tackle some of the structural drivers of rising welfare costs within this parliament through a shift to preventative welfare – intervening early to stop ill health and inactivity from driving long-term spending.

The government is set to spend £30 billion a year in today's prices – or 1 per cent of GDP – for the rest of this parliament on incapacity benefits to support people who are too sick to work.[39] That figure has risen by a third since 2019/20, as the number of people off work due to long-term sickness has climbed from 2.1 million to 2.8 million.[40] This spending is effectively a contingent liability: unless the underlying causes of ill health and inactivity are addressed, the government will continue to incur it every year. The same conditional funding, however, could be used more productively to finance a time-limited, outcome-based programme that pays for success in getting people back into sustained employment.

Under such a programme – running for the remainder of this parliament – the government would contract the NHS, or a consortium of accredited health-care providers, to deliver preventative health care with measurable employment outcomes. Payments would be linked to results, rewarding interventions that bring people back into sustained work within that timeframe. The model would draw on the outcome-based funding model used in social-impact investing, but operate at a far larger scale – both to reflect the size of the challenge and to attract major health-care providers capable of delivering interventions at pace and across regions. The scheme could focus on a set of pre-approved NHS treatments with a fast fiscal and social payoff but which are not yet available at scale, such as talking therapies for mental-health conditions, digital physiotherapy for musculoskeletal problems or the use of GLP-1 weight-loss drugs to tackle obesity.

As previous TBI analysis has shown, preventative health care requires upfront investment but yields substantial long-term savings.[41] Government estimates suggest that getting one additional disabled person into full-time work saves around £18,000 per year in lower benefits and higher tax revenue, with wider societal benefits worth another £10,000.[42] Designing interventions that deliver results within three years at a lower cost than these savings would therefore be fiscally and economically worthwhile. The choice for the Treasury is clear: continue paying benefits for inactivity, or invest in better health, employment and fiscal outcomes that strengthen the UK's long-term position.

Alongside welfare reform, the other major social-security priority should be the state pension. The government has recognised this by re-establishing the Pensions Commission in July, a welcome step towards addressing one of the largest long-term pressures on the public finances. The case for action is clear: on current policies, state-pension spending could rise from around 5 per cent of GDP today to over 9 per cent by 2070 – an increase of roughly £120 billion per year in today's terms.[43] The challenge is not only fiscal but structural and social. The current system is too rigid for modern working lives and unequal across lifetimes: those in poorer health, often in lower-paid manual jobs, draw less over their lives than wealthier, longer-lived groups. Reform will require difficult choices, but without change the system will become increasingly unsustainable. TBI will return to the question of how to reimagine the state pension in the coming weeks.

Tech-Enabled Public Services

As part of the government's 2025 Spending Review, all government departments are required to deliver at least 5 per cent of savings and efficiencies by April 2029. These fiscal savings are vital: if they are not delivered, analysis by the Institute for Fiscal Studies suggests the public finances would be left with an £18 billion hole.[44] Historically, governments have struggled to achieve efficiency gains on this scale. But the pace of technological change now makes it possible – and with sufficient ambition, the potential is even greater. Unlike past efficiency drives, today's frontier technologies, particularly AI, are advancing so rapidly that they offer not just a short-term fix, but the foundation for a sustained transformation of how the state operates.

The government has already recognised this with a £3.25 billion transformation fund, but it should go further. The opportunity is not simply to cut costs, but to raise public-sector productivity year after year – reshaping services around citizens, improving outcomes and creating fiscal space for the future.

TBI analysis suggests investing £4 billion per year in AI tools and training across the public sector could yield £10 billion in net annual savings by the end of this parliament – rising to £37 billion by 2040.[45] The potential applications are wide ranging and visible:

- AI-enabled triaging could free up 29 million GP appointments per year.[46]
- Local authorities could save the equivalent of 380 million hours of work per year.[47]
- At the Department for Work and Pensions, AI could cut workloads by 40 per cent and help to reduce backlogs, while a digital employment assistant could transform job centres so every claimant could find work or training.[48]

These examples illustrate the scale of what is already possible. But the bigger point is that this is not a one-off efficiency exercise. Because the underlying technologies are improving at such pace, the potential savings and service gains will continue to grow over time. Reimagining the state through technology must therefore be treated as a central reforming mission of government on a par with the growth agenda, not only to deliver the 5 per cent savings already assumed in the Spending Review, but to create an enduring pathway to lower costs, better outcomes and renewed public trust in what the state can deliver.

Conclusion

This Budget is a test of whether the government is willing to be bold. A traditional tax-and-spend Budget might reassure markets in the short term, but it will not be enough to break the UK out of its economic quagmire and chart a course back to national renewal.

A credible Budget cannot just raise taxes – it must raise Britain's sights. That demands bold growth reforms – overhauling taxes, unlocking the labour market, fixing planning and modernising business support – backed by a genuine partnership with business and underpinned by a state reimagined through technology. Only then can Britain escape permanent crisis management and create the fiscal space for the progressive policies of tomorrow.

Endnotes

1 https://stat-xplore.dwp.gov.uk/

2 PIP mobility support is awarded at either a standard rate (£29.20 a week) or an enhanced rate (£77.05 a week). Entitlement is assessed through a points system across two activities: 1) the ability to reliably plan and follow journeys; and 2) the ability to move around physically. Claimants who score 12 or more points across these tests qualify for the enhanced rate. Since 2019, the number of claimants receiving the enhanced mobility rate has almost doubled to just under 2 million, driving annual spending close to £8 billion. Much of the increase has been driven by claims where the main condition is psychiatric, typically qualifying under the "planning and following journeys" activity. In 2017, the previous government attempted to restrict such claims by adding a qualifier "for reasons other than psychological stress" to the journey-planning assessment, but this was struck down by the High Court as discriminatory against those with mental-health conditions. Under the proposed policy change, the journey-planning assessment would only receive 12 points if an individual was never able to plan and complete a familiar journey independently. Claimants who can do so some of the time would move to the standard rate unless they also qualified through the physical-mobility route. Approximately 494,000 people would be reassigned from enhanced to standard due to this change.

3 Motability customers who qualify for PIP enhanced mobility payments can also lease a vehicle through the Motability Scheme, which benefits from exemption from VAT and Insurance Premium Tax. The rationale for these tax reliefs, which are worth £1.2 billion in total, is that those with disabilities who need specially modified vehicles should not be penalised for having to incur the additional costs associated with those modifications. However, only 10 per cent of Motability cars are modified to accommodate disabilities and the cars that most benefit from the tax relief tend to be higher-end models.

4 https://institute.global/insights/economic-prosperity/the-economic-case-for-a-uk-digital-id

5 https://www.smf.co.uk/wp-content/uploads/2025/07/The-Duty-to-Differentiate-July-2025.pdf

6 https://ifs.org.uk/articles/raising-revenue-reforms-pensions-taxation

7 https://archive.is/u7941

8 https://centax.org.uk/wp-content/uploads/2025/09/AdvaniGazmuribarkerLonsdaleSummers2025%5FPartnershipNICs.pdf

9 The Resolution Foundation estimates a £7.5 billion revenue gain while the Institute for Fiscal Studies estimates a £10.4 billion gain by April 2030.

10 https://www.gov.uk/government/statistics/direct-effects-of-illustrative-tax-changes/direct-effects-of-illustrative-tax-changes-bulletin-january-2025

11 Most commentators do not see a rise in employee NICs as likely given it would disincentivise employment relative to other forms of income and reduce labour supply. Although similar in scale, a VAT rise and income-tax rise would have different effects on the economy. Both would weigh directly on growth by reducing household disposable income - according to NIESR a 1p increase in income tax would lower GDP by around 0.2 per cent and a VAT rise of a similar scale would likely have a similar direct impact. But unlike an income-tax rise, a VAT rise would also directly boost inflation. The last time the standard rate of VAT was increased from 17.5 per cent to 20 per cent in 2010/11, the Bank of England estimated it added 1 percentage point to inflation for a year – so a 1pp rise in the rate of VAT today would add around 0.4pp to inflation for a year. The key difference in the growth impact between VAT and income tax in the short-term is how monetary policy would respond. An income-tax rise represents a clear reduction in aggregate demand, which might lead the Bank of England to reduce interest rates faster than currently expected – offsetting some of the growth impact. By contrast, a VAT rise would add to inflation at a time when it is already high. In September 2025 inflation was 3.8 per cent and is expected to stay above the Bank of England's inflation target until 2027 – so a VAT rise now might cause the Bank of England to keep interest rates higher for longer, compounding VAT's negative impact on growth.

12 See Chart 7.2 from the Office for Budget Responsibility's March 2025 Economic and Fiscal Outlook for a historical record of fiscal headroom since 2010.

13 Data from HMRC for 2023/24 show that if households paid the standard 20 per cent rate of VAT on their energy bills, instead of the reduced 5 per cent rate, it would raise an additional £6.5 billion in revenue. Using the same arithmetic, reducing the VAT rate to zero would likely cost an additional £2.2 billion. The latest ONS Family Spending survey shows that electricity bills account for 55 per cent of household energy costs and gas the remaining 45 per cent, so if the VAT cut was applied only to electricity it would like cost £1.2 billion.

14 https://www.resolutionfoundation.org/publications/limited-ambition/

15 https://committees.parliament.uk/oralevidence/14450/html/

16 https://cps.org.uk/wp-content/uploads/2024/03/Oxera-Stamp-Duty-analysis-February-2024.pdf

17 https://institute.global/insights/economic-prosperity/looking-beyond-uk-budget-2024-priority-reforms-for-2025

18 Thegovernment's current fiscal plans assume that fuel duty will rise significantly in the spring as the "temporary" 5p cut in fuel duty announced in 2022 is scheduled to come to an end in March 2026. Fuel duty is then set to rise further in April 2026 in line with RPI – estimated to be a further 3.2 per cent increase based on the OBR's latest forecasts, or the equivalent of almost an extra 1.8p. VAT is then charged on top of these increases, taking the total uplift in fuel duty to 8p. According to current OBR forecasts, these measures will generate around £3 billion in 2026/27, but despite the assumption that fuel duty will continue to rise in line with RPI inflation, revenues are expected to peak in cash terms in 2027/28 before beginning to fall as electric-vehicle uptake continues to accelerate.

19 https://archive.is/BwRB9

20 https://www.resolutionfoundation.org/publications/unfair-dismissal-day-one-frights/

21 https://iep.unibocconi.eu/sites/default/files/media/attach/PB25%5F%20Cost%20of%20Failure%20and%20Competitiveness%20in%20Disruptive%20Innovation%5F0.pdf

22 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment%5Fdata/file/1156212/non-compete-clauses-impact-assessment-.pdf

23 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment%5Fdata/file/1156212/non-compete-clauses-impact-assessment-.pdf

24 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment%5Fdata/file/1156212/non-compete-clauses-impact-assessment-.pdf; https://www.seyfarth.com/news-insights/washington-increases-minimum-wage-and-salary-thresholds-for-exemption-and-non-competes.html

25 https://fabians.org.uk/government-must-urgently-reform-the-failed-apprenticeship-levy-to-boost-growth-and-unlock-opportunity-for-all/

26 The current fees for the Immigration Skills Charge are up to £1,000 a year for medium and large employers, or £5,000 over the maximum five-year sponsorship period. However, in October 2025, the government announced it would increase the charge by 32 percent from 2026, raising the maximum cost to £6,600.

27 https://www.smf.co.uk/commentary%5Fpodcasts/immigration-skills-charge-purpose/#:~:text=the%20government%20has%20required%20employers,in%20the%20domestic%20skills%20base.

28 https://www.samdumitriu.com/p/why-we-need-a-brownfield-passport

29 https://committees.parliament.uk/committee/518/built-environment-committee/news/199612/mmc-sector-may-continue-to-struggle-without-a-fresh-approach-from-the-government/

30 https://institute.global/insights/economic-prosperity/a-pro-growth-roadmap-for-business-tax-reform

31 https://institute.global/insights/economic-prosperity/a-pro-growth-roadmap-for-business-tax-reform

32 https://www.gov.uk/government/publications/the-wider-economic-impacts-of-emerging-technologies-in-the-uk/the-wider-economic-impacts-of-emerging-technologies-in-the-uk-html#wider-economic-impacts-of-technology-use

33 https://www.madesmarter.uk/

34 https://www.imda.gov.sg/how-we-can-help/smes-go-digital/ctoaas

35 https://www.british-business-bank.co.uk/finance-options/debt-finance/growth-guarantee-scheme

36 The German Mittelstand support network is a system designed to foster the success and digital transformation of Germany's SMEs. A key component is the Mittelstand-Digital initiative, funded by the Federal Ministry for Economic Affairs and Climate Action, which operates a nationwide network of Centres of Excellence. These centres provide regional, sector-specific and impartial support – often free of charge – to help SMEs adopt digital applications and technologies, such as cloud computing, AI and cybersecurity. They offer services like workshops, training, demonstration factories and practical examples, frequently partnering with universities and research institutes (like the Fraunhofer-Gesellschaft and various technical universities) to transfer expert knowledge and applied research directly to businesses.

37 https://www.gov.uk/business-finance-support/help-to-grow-management-uk

38 https://www.service-public.gouv.fr/particuliers/vosdroits/F14202?lang=en

39 https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2025

40 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics

41 See Prosperity Through Health: The Macroeconomic Case for Investing in Preventative Health Care in the UK, The Economic Case for Protect Britain, a Preventative Health Care Delivery Programme and Anti-Obesity Medications: Faster, Broader Access Can Drive Health and Wealth in the UK

42 https://www.gov.uk/government/consultations/occupational-health-working-better/occupational-health-working-better#executive-summary

43 These figures are taken from Chart 2.6 from the OBR's 2025 Fiscal Risk and Sustainability Report under a scenario where inflation and earnings growth remain as volatile as since 2010.

44 https://ifs.org.uk/publications/outlook-public-sector-productivity

45 https://institute.global/insights/economic-prosperity/the-economic-case-for-reimagining-the-state

46 https://institute.global/insights/public-services/preparing-the-nhs-for-the-ai-era-why-smarter-triage-and-navigation-mean-better-health-care

47 https://institute.global/insights/politics-and-governance/governing-in-the-age-of-ai-reimagining-local-government

48 https://institute.global/insights/politics-and-governance/reimagining-uk-department-for-work-and-pensions

TONY BLAIR
INSTITUTE FOR
GLOBAL CHANGE

Follow us

facebook.com/instituteglobal

x.com/instituteGC

instagram.com/institutegc

General enquiries

info@institute.global