



THE DAILY HERALD BUDGET

A Five-Year Economic Strategy 2026–2031

“Growth, Modernisation, Lower Cost of Living”

A policy proposal published by The Daily Herald,
setting out the Budget we believe the Labour government
under Prime Minister Andy Burnham should now introduce.

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Introduction

Executive Summary

The Daily Herald Budget 2026–2031 sets out a comprehensive economic strategy designed to modernise the British economy, strengthen public services, reduce structural costs, and restore long-term fiscal sustainability.

The Budget is built around a central principle: long-term prosperity depends upon aligning the economy toward productive investment, technological advancement, efficient resource use, and broad-based participation in economic growth. Rather than relying upon broad tax increases on work, enterprise, or productive investment, the strategy restructures taxation toward passive wealth, speculative asset holding, underutilised land, luxury consumption, and economically unproductive rent extraction.^{137,136,236}

At the same time, the Budget lowers major structural costs facing households and businesses through the abolition of business rates, the removal of electricity network costs from energy bills, council tax reductions funded through Land Value Tax reform, large-scale infrastructure investment, planning reform, industrial modernisation, and energy market stabilisation measures.¹⁴⁶

Two of this Budget's structural reforms, removing network costs from energy bills and transforming Jobcentres into active Employment Hubs, were developed independently of, but align with, ideas put to Andy Burnham shortly before he became Prime Minister, in a letter signed by Jim O'Neill and other economists, which accompanied the University College London Institute for Global Prosperity's Prosperity 2030 report, and with separate remarks on tax reform made around the same time by Andy Haldane in an interview with City AM.⁵⁰ This Budget was not developed in coordination with that letter, report, or interview, and its own tax and spending measures, including its LVT design and welfare reforms, differ from theirs in several respects; the convergence on these two specific measures reflects independent economic reasoning rather than shared authorship.

The strategy combines long-term supply-side reform, targeted public investment, fiscal responsibility, industrial strategy, and cost-of-living reduction measures within a single coordinated framework. The objective is not simply to increase short-term demand, but to permanently raise the productive capacity of the British economy while strengthening long-term fiscal sustainability.²³⁴

Economic Headwinds and Business Pressures

The United Kingdom enters this period facing a combination of weak productivity growth, low investment, infrastructure constraints, housing shortages, and persistently high living costs.¹⁰⁸ Productivity growth has slowed substantially compared with earlier decades, while rising housing costs and elevated energy prices have placed increasing pressure on household finances.¹³⁹

Businesses have simultaneously faced rising operating costs, weak domestic demand growth, labour shortages, investment uncertainty, and some of the highest industrial electricity prices in the developed world. These pressures have reduced the pace of expansion across major sectors of the economy and weakened Britain's long-term competitiveness.^{25,173}

The economy has also become increasingly characterised by passive asset inflation, speculative land appreciation, underinvestment in productive industry, regional inequality, and inefficient land use. Significant volumes of national wealth remain concentrated in passive financial assets, offshore structures, speculative property holdings, and underutilised land rather than being directed toward productive economic activity.^{235,136,151}

The current tax system compounds many of these problems. Taxes on productive activity, including business rates, continue to discourage commercial investment and development, while large gains from rising land values and passive wealth accumulation are only partially captured. The result is a system that too often penalises productive enterprise while rewarding speculative and economically unproductive behaviour.²³⁶

The Budget therefore seeks to rebalance the economy away from speculative and passive wealth accumulation and toward productive investment, technological development, infrastructure expansion, industrial growth, and higher long-term productivity.

Fiscal Strain and the Need for Prudence

The United Kingdom also faces substantial fiscal pressures following the pandemic, energy crisis, inflation shock, and wider economic disruptions of recent years.¹⁷⁰

Although emergency spending protected jobs, businesses, and household incomes during periods of crisis, it also contributed to substantially higher public debt and debt servicing costs.

Current Fiscal Position (2026–27)

Indicator	Estimate
Fiscal deficit	~£118 billion
Fiscal deficit (% GDP)	~4.0%
Public debt (% GDP)	~94.5%
Annual debt interest costs	~£104 billion
Trend GDP growth	~1.1% (OBR, March 2026)
Inflation	~2.6% (ONS, June 2026)

The Budget therefore combines long-term public investment with a credible medium-term fiscal consolidation strategy designed to strengthen economic growth while progressively improving the public finances.

The Government will deliver its Budget on 28 October 2026. This document is published in advance of it, and sets out the Budget we believe should be delivered on that date.

Note on baseline: all figures in this document are presented as incremental to the current Labour government's existing spending, taxation, and departmental settlements. The £95–£100 billion in annual spending set out in Chapters 1–6 and 5B represents new measures introduced by this Budget on top of existing departmental budgets (for example, the existing NHS, education, and defence baselines), not a restatement or replacement of total public spending, which exceeds £1,200 billion annually.²⁹ Equally, the £80–£176 billion in annual revenue set out in Chapters 7A–7I and 8 represents new revenue raised by the measures in this Budget, layered on top of existing tax revenues of approximately £1,100 billion annually, not a restatement of the total tax base. Where this document references current fiscal aggregates (the £118 billion deficit, £104 billion debt interest, and 94.5% debt-to-GDP ratio, taken from the Office for Budget Responsibility's March 2026 forecast and adjusted for the energy shock that post-dated it), these reflect the full public finances as they stand prior to this Budget's measures, inclusive of all current government policy.

Unlike traditional austerity programmes, the strategy does not rely primarily upon reductions in productive investment or major cuts to public services. Equally, it does not depend upon permanently increasing borrowing to sustain economic expansion. Instead, the approach seeks to improve the fiscal position structurally through stronger growth, higher productivity, broader tax revenues, reduced welfare dependency, lower structural inflation, and lower debt servicing costs over time.

Budgetary Strategy for Economic Recovery

This Budget responds to Britain's economic challenges through a coordinated programme of cost reduction, public investment, industrial modernisation, tax reform, and supply-side expansion.

In the short term, the Budget strengthens demand through lower household costs, increased disposable income, energy bill reductions, and targeted investment. In the medium term, it seeks to expand the supply capacity of the economy through infrastructure development, housing construction, technological investment, planning reform, industrial strategy, and labour market modernisation.^{234,146}

A major component of the strategy is the restructuring of property and land taxation through the introduction of a Land Value Tax framework inspired partly by the principles of the Mirrlees Review and proposals associated with the Labour Growth Group. The reform is designed to shift taxation away from productive investment and toward the underlying value of land and passive economic rents.

The Land Value Tax is specifically designed to abolish business rates and stamp duty, improve incentives for productive land use, and discourage speculative land hoarding, while the Residential Property Tax replaces council tax. Because the Land Value Tax falls on all land, including the land beneath homes, it is calibrated together with the Residential Property Tax so that the two combined leave the great majority of households paying less than council tax. Unlike taxes on buildings, investment, or commercial activity, Land Value Taxation does not penalise productive development and instead encourages efficient use of land, infrastructure, and urban space.

Alongside these reforms, the Budget introduces a wider package of passive wealth taxes, offshore passive capital levies, anti-hoarding measures, luxury consumption taxes, and land efficiency reforms designed to shift taxation away from productive activity and toward economically inefficient rent extraction and speculative asset holding.^{137,151}

Core Economic Objectives and Strategies

The Budget is designed around several core strategic objectives: increasing long-term economic growth, lowering structural inflation, reducing inequality, modernising public services, improving housing affordability, strengthening fiscal sustainability, and rebuilding Britain's productive capacity.

Particular emphasis is placed upon increasing investment in frontier industries and nationally strategic sectors. Major investment programmes are directed toward artificial intelligence, quantum technology, nuclear fusion, advanced manufacturing, clean energy, defence technology, transport infrastructure, and scientific research.¹⁷⁸

These investments are combined with major skills and training programmes, apprenticeship expansion, technical education reform, workforce retraining, and regional investment strategies designed to prepare the labour force for long-term technological and industrial transformation. Alongside these investments, a reformed welfare system simplifies entitlement into a single coherent structure, reduces the financial penalty on moving into work, and transforms Jobcentres into active Employment Hubs, while guaranteeing that no current claimant receives less support in real terms. The strategy therefore seeks not merely to stimulate short-term economic activity, but to permanently increase productivity, innovation capacity, labour market efficiency, and long-term economic growth potential.

Initial Economic Stimulus and Structural Cost Reduction

The Budget includes a major programme of structural cost reduction designed to improve competitiveness, strengthen household finances, and increase business investment across the economy.^{236,154}

Key Structural Cost Reduction Measures

Measure	Annual effect
Business rates abolished	~£25bn business tax reduction
Electricity Bill Reduction Package	£23.7bn (£11.4bn households, £12.3bn business)
Average household electricity saving	–£400 a year, from Year 1
VAT removal on electricity, domestic and business	–£45 a year, from Year 1, made permanent
Average household total energy saving	–£624 (Year 1); –£764 (Year 5)
Average council tax reduction	~£1,026 (from Year 5, via RPT)
Stamp duty on home purchase	Abolished (from ~£2,500 average, rising to tens of thousands on higher-value homes)

The abolition of business rates substantially lowers the cost of investment, expansion, and commercial occupation across the economy, particularly for retail, manufacturing, logistics, and regional business activity.¹⁷⁸

The removal of electricity network costs from bills, temporary VAT suspension on domestic energy during crisis periods, and the Essential Usage Energy Guarantee together substantially reduce household energy costs while also lowering industrial electricity prices and wider business operating costs. These changes are expected to reduce structural inflationary pressures over time while improving industrial competitiveness.

Council tax reductions further increase disposable incomes, particularly for lower-income and middle-income households with higher propensities to spend within the domestic economy. Together, these reforms are intended to create a lower-cost, higher-investment economy with stronger incentives for productive activity and long-term growth.

Economic and Social Targets

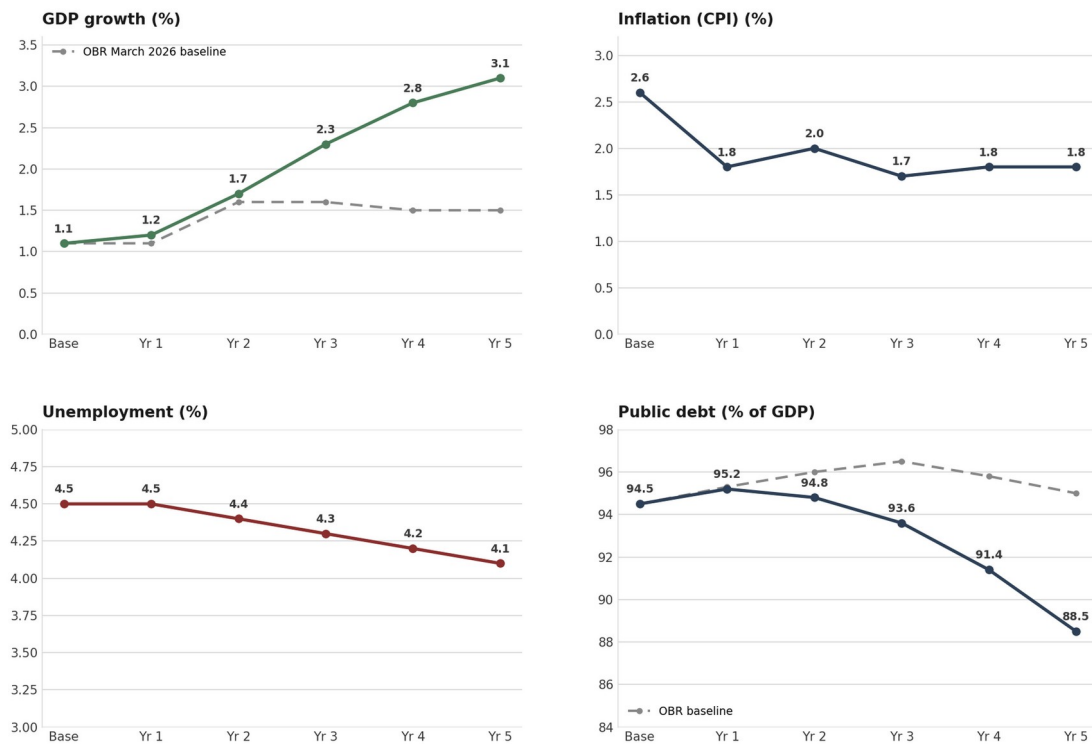
The Budget establishes a series of medium-term economic and social objectives designed to improve both national economic performance and broader living standards.²³³

These are not aspirations detached from the costings that follow but the measurable outcomes against which the whole programme should be judged. Each is tied to specific policies set out in the chapters below and to the revenue and spending decisions that fund them, and each is expressed as a change against a clearly defined baseline, so that progress can be tracked and the Budget held to account. The targets span the growth, fiscal and social dimensions together, reflecting the argument that runs through the document: that sound public finances, a stronger economy and improved living standards are complementary rather than competing goals.^{233,154}

Macroeconomic Targets

Indicator	Baseline	Yr 5 target
GDP growth	1.1% (OBR, March 2026); 1.6% in 2027 and 2028	3.0% central (2.5% downside, 3.9% upside)
Inflation (CPI)	2.6% (ONS, June 2026)	1.9%, troughing at 1.7% in Year 3
Deficit	–£118bn (4.0% of GDP)	–£38bn (1.1% of GDP)
Debt-to-GDP	94.5%, rising to 96.5% by 2028–29 on the OBR baseline	88.4%
Unemployment	4.5%	4.1%, with 1.8m added to the workforce
Core defence spending	2.45% of GDP, drifting down to 2.37%	3.00%, on a published path to 3.5% by 2035
Business investment	18% of GDP	21% of GDP
Public net investment	2.5% of GDP	3.5% of GDP

Chart A.1: Macroeconomic path against the OBR baseline, to Year 5



Baseline: OBR March 2026 (growth 1.1% in 2026, 1.6% in 2027 and 2028); ONS June 2026 outturn for CPI. Dashed line: OBR baseline. Solid: this Budget, central delivery scenario.

These targets reflect the combined effect of every chapter in this Budget, rather than any single measure. Growth is driven primarily by capital investment in housing, energy infrastructure, business support and industrial strategy, reinforced by labour market reforms that increase workforce participation and reduce economic inactivity. Inflation is expected to ease as energy bills fall, housing supply expands, and structural cost pressures on business ease, addressing two of the largest drivers of the current cost of living. Unemployment falls as a result of increased construction and industrial activity, business investment incentives, and active labour market policies that help people move into sustained work. Public debt declines through a combination of new revenue measures targeting wealth, land and windfall gains, efficiency and fraud reduction savings across public services, and the effect of stronger growth in reducing the debt-to-GDP ratio over time.^{144,236}

Individual chapters throughout this document each state an estimated GDP growth contribution, for example, housing supply, business investment, or industrial strategy. These are partial-equilibrium estimates: each assumes the rest of the economy is held constant, which is a reasonable way to illustrate one policy's likely direction and rough scale in isolation, but is not a valid basis for simple addition across chapters. Summing every chapter's stated contribution gives a figure well above the 1.6 percentage point increase in GDP growth (from 1.1% to 2.7%) set out in the macroeconomic targets above, because several chapters draw on the same underlying channels, higher business investment, improved labour supply, and productivity gains, and crediting each chapter's estimate in full would double-count these shared effects.¹³² The 1.1%–2.7% growth path is the Budget's central, reconciled estimate of the combined effect after accounting for this overlap, and is the figure that should be relied upon; the individual chapter-level figures should be read as indicative of each policy's relative importance and direction, not as additive building blocks.¹³²²³⁶

Fiscal and Debt Path

Year	Fiscal Balance	Debt-to-GDP
Baseline (2026–27)	–£118bn	94.5%
Year 1 (2027-28)	–£121bn	95.9%
Year 2 (2028-29)	–£93bn	95.4%
Year 3 (2029-30)	–£72bn	94.1%
Year 4 (2030-31)	–£53bn	91.6%
Year 5 (2031-32)	–£38bn	88.4%
OBR baseline, Year 5 (no Budget)	–£53bn	95.0%

The central macroeconomic path underlying these fiscal figures is set out below, year by year. Growth builds as the capital investment programme lands, inflation is held down in Year 1 by the energy package against the oil-price premium and settles around target, troughing in Year 3, unemployment eases as construction and industrial activity expand, and debt-to-GDP rises modestly in Year 1 before falling to meet the sub-90 per cent target by Year 5.¹³²

Macroeconomic Path

Indicator	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth (%)	1.1	1.0	1.7	2.3	2.7	3.0
Inflation, CPI (%)	2.6	2.1	2.1	1.7	1.9	1.9
Unemployment (%)	4.5	4.5	4.4	4.3	4.2	4.1
Debt-to-GDP (%)	94.5	95.9	95.4	94.1	91.6	88.4

GDP growth is shown on the central scenario, reaching 3.0 per cent in Year 5; the reconciled whole-Budget estimate, which strips out any overlap between individual chapters, is 2.7 per cent and is the figure relied upon in the fiscal projections.¹³² Inflation is measured on the Consumer Price Index and debt-to-GDP on the same basis as the Fiscal and Debt Path above, against an OBR baseline rising to 96.5 per cent by Year 5.²⁹

The overall path of public spending and tax revenue is shown below, both in cash terms and as a share of GDP. Total revenue rises as the new measures take effect, while total spending grows more slowly than the economy, so that the two converge and the deficit closes over the five-year period.¹⁷⁵

The strategy is designed to move the public finances gradually from a substantial deficit toward fiscal balance and eventual surplus through stronger growth, lower debt interest costs, higher productivity, broader tax revenues, and lower welfare dependency rather than through reductions in productive public investment. The Year 5 public debt target of below 90% of GDP reflects this combination of higher revenue, efficiency savings, and stronger growth, rather than any single measure.¹³² From a baseline of 94.5%, the central scenario reaches 88.4%, comfortably inside the target, and even the main downside delivery scenario comes close, at 90.3%; the target is therefore met with margin in the central case and very nearly held even if delivery falls short, and each contributing policy has been chosen to protect support for carers, disabled people, pensioners, and working households.¹³²

Social and Public Service Targets

These targets reflect the additional improvement expected from this Budget's measures, on top of outcomes already in train under existing government policy.

Objective	Medium-Term Target
NHS waiting lists	Reduce by ~20–30% over 5 years
Council and social housing	Major multi-year expansion programme
Homelessness	Reduce rough sleeping by ~70–80% within 5 years, working toward functional eradication
School class sizes	Modest reduction in average class sizes, alongside expanded school capacity and technical training
Apprenticeships and technical training	Major national expansion
Transport infrastructure	Large-scale national upgrades
Defence modernisation	Expanded technological and industrial capability
Border and asylum processing	Significant reduction in processing backlogs
Welfare and employment support	Simplified eight-tier welfare system with no current claimant receiving less; reformed taper and Employment Hubs supporting sustained moves into work

Estimated Bills Reductions

Reform	Household effect
Network charges removed from electricity	–£215 a year, from Year 1
Environmental and social levies removed from electricity	–£159 a year, from Year 1
Balancing and system operation costs removed	–£26 a year, from Year 1
Electricity Bill Reduction Package, total	–£400 a year, from Year 1 (about 45% of the electricity bill)
VAT removed from electricity, domestic and business (extends the Government's October 2026 cut)	–£45 a year, from Year 1, made permanent
Clean power programme, lower wholesale cost	–£60 in Year 2 rising to –£140 by Year 5
Essential Usage Energy Guarantee	–£100 a year on average; more for low-usage households
Total energy bill reduction	–£545 in Year 1, –£685 by Year 5

Scenario	Official Ofgem Cap	Structural Reductions	Effective Bill Before Guarantee
April 2026 cap, dual fuel	£1,641	–£545 (Yr 1) / –£685 (Yr 5)	£1,096 (Yr 1) / £956 (Yr 5)
of which electricity	£875	–£445 from Year 1 (£400 package + £45 VAT)	£483
of which gas	£766	unchanged — relief is applied to electricity only	£766
July 2026 cap, dual fuel	£1,862	–£545 (Yr 1) / –£685 (Yr 5)	£1,238 (Yr 1) / £1,098 (Yr 5)

Scenario	Estimated Annual Cost
April 2026 cap (£1,641)	~£1bn or below
July 2026 cap (£1,862)	~£2–3bn
Higher winter escalation	~£5.5–6bn

These objectives are intended to ensure that economic modernisation is accompanied by visible improvements in living standards, public services, infrastructure quality, and national productive capacity.

A Strategy for Long-Term National Renewal

The Daily Herald Budget therefore represents a programme not simply for short-term economic management, but for long-term national renewal and structural economic modernisation.

The strategy seeks to build a higher-growth economy, a lower-cost business environment, stronger public services, modern infrastructure, improved technological capability, and more sustainable public finances.

It is fundamentally a pro-business, pro-worker programme designed to support productive enterprise, strengthen living standards, modernise the state, and restore long-term economic resilience.

Its central objective is not merely to manage economic decline more efficiently, but to actively rebuild and modernise the British economy for the decades ahead.

Chapter 1: Energy Price Stabilization Plan Following the Iran Conflict

Overview

Conflict between Israel, the United States and Iran erupted in February 2026 and caused a sharp but short-lived spike in global oil and gas prices, driven by supply disruption, damage to energy infrastructure, and the closure of key shipping routes including the Strait of Hormuz. A two-week ceasefire took effect on 8 April 2026 and was extended, but it collapsed in June and the conflict remains unresolved. A United States naval blockade is in force, the Strait of Hormuz remains disrupted, and Houthi action in the Red Sea continues to divert tankers around Africa.²⁷ Negotiations mediated through Oman are live at the time of writing, and both sides have signalled that an agreement to reopen the Strait may be close.²⁸ Wholesale prices have fallen back from their wartime peak on that expectation but remain substantially from their wartime peak. A substantial risk premium persists, and the range of outcomes remains unusually wide. Forecasters cluster around a Brent price of seventy to seventy-eight dollars by the end of 2026 and sixty-four to seventy-five dollars in 2027 on the assumption that the Strait reopens, with prices above one hundred dollars treated as a tail case conditional on the blockade continuing.^{21,2322,189}

The case for a standing stabilisation mechanism does not rest on prices remaining elevated; it rests on their volatility. The episode demonstrated how quickly a regional conflict can transmit into British energy bills, and how exposed households and businesses remain to events over which they have no influence and government little short-term control. Even with prices well below their wartime peak, the risk of a renewed spike has not disappeared, and the structural vulnerability, an electricity system whose marginal price is still set largely by imported gas, remains. A stabilisation plan therefore serves two purposes: it cushions bills against the next shock whenever it comes, and it buys time for the deeper reforms in the following chapters, which reduce the exposure itself by removing fixed costs from bills and accelerating the shift to domestic low-carbon generation.

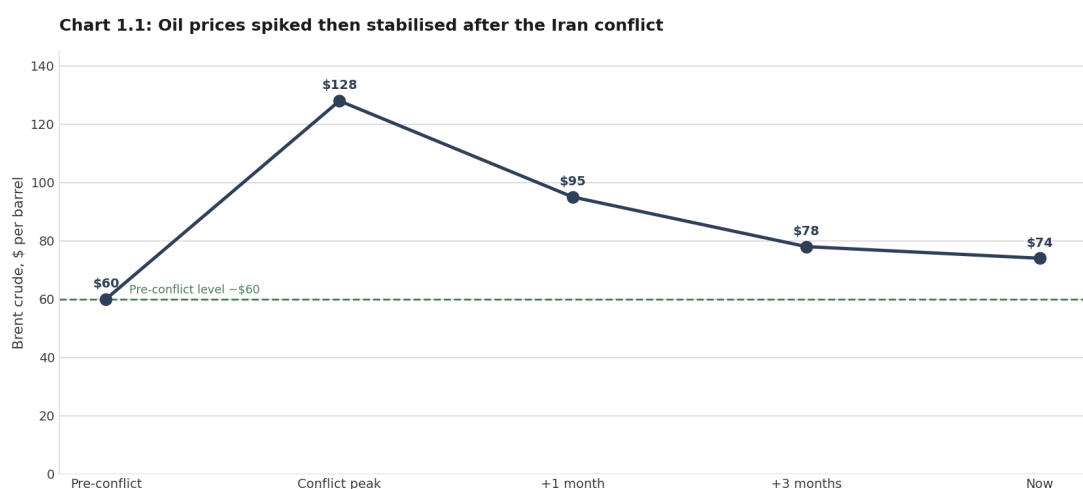
A standing mechanism is preferable to emergency intervention for the same reason that insurance is preferable to improvised borrowing after a disaster. Ad-hoc support, designed under pressure once a crisis is already raising bills, tends to be poorly targeted, slow to arrive and expensive, because the government negotiates from weakness and pays whatever the moment demands. A mechanism established in advance, with clear trigger points, defined limits and a pre-agreed funding source, can act immediately and at lower cost, and its very existence dampens the volatility it is designed to counter by reassuring markets and consumers that extreme spikes will not be passed through in full. The design in this chapter is therefore built around rules rather than discretion: support activates automatically when wholesale prices cross defined thresholds, scales in proportion to the shock, and withdraws as prices normalise, so that the public purse is exposed only to genuine emergencies and not to the ordinary fluctuations of the market.

The distributional case reinforces the economic one. Energy costs absorb a far larger share of income for poorer households than for richer ones, so an unmanaged price spike is sharply regressive, falling hardest on those least able to absorb it and often forcing painful choices between heating and other essentials. For energy-intensive businesses, the same volatility deters investment and can push viable firms into difficulty during a shock that later proves temporary. A stabilisation mechanism therefore does more than smooth an aggregate number: it protects the specific households and firms for whom energy volatility is most damaging, and it does so predictably, which is itself valuable because the knowledge that support exists allows families and businesses to plan rather than brace for each successive crisis.

At the height of the conflict, wholesale gas and oil prices rose sharply on fears of a prolonged closure of the Strait of Hormuz, with some forecasters warning of a sustained move above \$120 per barrel. That scenario did not materialise: Brent crude has since fallen back to around \$74 per barrel, down substantially from its wartime peak, though still running well above the approximately \$60 per barrel level that prevailed before the conflict began, as markets price in the prospect of a negotiated reopening of the Strait rather than its achievement. UK consumer energy bills have risen more modestly than the initial shock implied: Ofgem's price cap rose by 13% between the April and July 2026 settings, from £1,641 to £1,862 for a typical household, which remains well below the £2,500 cap reached during the 2022 energy crisis.¹³ With the conflict unresolved but a settlement under negotiation, the principal risk to the UK outlook is the width of the range rather than any single central estimate, and the stabilisation mechanism is sized accordingly.^{15,196}

Table 1.1: Oil price scenarios and the stabilisation response

Scenario	Brent crude	Ofgem cap effect	Budget response
Pre-conflict	~\$60/barrel	Stable	Baseline
Conflict peak	~\$128/barrel	Sharp upward pressure	Stabilisation fund activated
Current	~\$74/barrel	+13% (Apr–Jul caps)	Bill reductions phased in
Renewed shock (contingency)	\$100+/barrel	Large upward pressure	Fund absorbs the spike



Forecasters warned of oil above \$200 a barrel; the spike instead peaked near \$128 and Brent has fallen back to around \$74, close to the pre-conflict level. The plan stabilises bills against a

The wartime spike contributed an estimated 0.3 to 0.5 percentage points to UK inflation at its peak in spring 2026, with a smaller residual effect persisting through the July 2026 price cap rise; the impact is expected to fade further as oil and wholesale gas prices continue to normalise toward pre-conflict levels if the Strait of Hormuz reopens, though the pace of that normalisation remains subject to how quickly markets and long-term supply contracts adjust.

In addition to the structural reforms set out in this Budget, a Labour government should implement targeted, time-limited measures to address immediate external shocks.

This chapter sets out a targeted, temporary Energy Support Programme designed to bring effective consumer and industrial energy prices back toward 2020 levels, prevent a renewed cost-of-living shock, protect small and medium-sized enterprises and key industries, and stabilise inflation while supporting growth.

Programme Scope and Complementary Reforms

This programme is explicitly short-term and crisis-focused, operating alongside the structural reforms in Chapter 2, which deliver permanent reductions in energy costs through domestic clean energy and efficiency improvements.

The measures in this programme are strictly time-limited and fiscally classified as temporary support, distinct from the long-term structural reforms outlined in Chapter 2.

Policy 1.1: Essential Usage Energy Price Guarantee Details

Policy Description

A temporary usage-capped Energy Price Guarantee will cap the cost of essential energy consumption for households and SMEs at levels equivalent to average 2020 prices. For households the cap covers the first 3,500 kWh of electricity and the first 12,000 kWh of heating, whether gas or the equivalent.¹³²

These thresholds are set against Ofgem's typical domestic consumption values, the benchmark figures the regulator uses to describe the usage of an ordinary household, so that the cap is anchored to real consumption patterns rather than an arbitrary allowance. The electricity threshold of 3,500 kWh sits above the roughly 2,700 kWh a typical medium-use household consumes in a year and close to the level of a high-use household, which means that the great majority of households have all or almost all of their electricity protected at the capped rate.¹³ The heating threshold of 12,000 kWh is set just above the roughly 11,500 kWh of gas a typical household uses for heating and hot water over a year, so that an average home's essential heating is covered in full.¹³ Setting the caps at the typical rather than the frugal level is deliberate: it ensures that ordinary families, including those in larger or less efficient homes and those with children or elderly or vulnerable residents, are genuinely protected, while the tail of very high consumption, concentrated among the largest and wealthiest households, pays the market rate on the excess. The thresholds are expressed in energy units rather than in pounds so that the protection is not eroded as prices rise, and the heating cap is defined in gas-equivalent terms so that households using electric or other heating receive comparable treatment rather than being penalised for their heating technology.¹⁵

For small and medium-sized enterprises in eligible sectors, the cap covers usage of up to 1,500 MWh a year.¹³²

The small-business threshold is set to cover the essential operating consumption of the energy-intensive small and medium firms most exposed to a price shock, while excluding the very large industrial users whose needs are met separately by the relief scheme in Policy 1.2. An annual allowance of 1,500 megawatt hours is substantial in household terms but modest for a business, corresponding to a firm such as a small bakery, a light-manufacturing workshop, a commercial laundry or a refrigerated warehouse, for which energy is a large and largely unavoidable share of costs.¹³² Protecting the first tranche of a small firm's consumption shields the essential energy it needs to keep operating, and with it the jobs that depend on the business surviving a temporary spike, without underwriting unlimited use or subsidising firms for which energy is only a minor cost. Eligibility is confined to defined energy-intensive sectors and combined with the same market-rate charging above the threshold, so that the scheme reaches the businesses genuinely at risk while remaining affordable and resistant to gaming.¹⁷⁸

Consumption above these thresholds is charged at market rates, and the Government compensates suppliers for the difference between wholesale costs and capped retail prices.

The defining feature of this design is the usage cap, and it is what distinguishes the scheme from the blanket energy support deployed during previous crises. A universal price cap protects a household's entire consumption at the same subsidised rate, which is both extremely expensive and perverse in its effect, since it delivers the largest cash benefit to the largest consumers, who tend to be the wealthiest households in the biggest homes. Capping only the first tranche of consumption, set at a level that covers the essential needs of a typical household, protects everyone against unaffordable bills for heating, lighting and cooking while leaving discretionary consumption above that level exposed to the market price. The thresholds are calibrated to the consumption of an average household rather than a frugal one, so that ordinary families are substantially or wholly covered, while a large home with a swimming pool or extensive electric heating pays the market rate on the difference. The same logic applies to the small-business threshold, which shields essential operating consumption without underwriting unlimited use.

Rationale: Consequences of Energy Shocks and Subsidy Strategy

Energy shocks act as a cost-push inflation driver, raising prices across the economy and reducing real incomes.

Broad subsidies are expensive and inefficient; a usage-capped approach ensures support is targeted at essential consumption only, reducing fiscal cost while maintaining economic protection.

The usage cap achieves three things at once that a universal subsidy cannot. It concentrates the fiscal resource where it does most social good, on the essential consumption that no household can avoid, rather than spreading it thinly across all use including the discretionary consumption of the wealthy. It preserves the price signal at the margin, so that households and businesses still have every incentive to use energy efficiently and to invest in insulation and efficient appliances, avoiding the wasteful over-consumption that a flat subsidy encourages. And it is progressive by construction, because essential consumption makes up a far larger share of a poorer household's total energy use, so capping the essential tranche delivers proportionally the greatest protection to those on the lowest incomes. In combination these features allow the scheme to provide meaningful protection at roughly a third of the cost of the universal support offered during the previous energy crisis.

Identification of Beneficiaries and Non-Beneficiaries

The beneficiaries are low- and middle-income households, average energy users, and small and medium-sized enterprises in energy-intensive sectors. Those not reached by the scheme are high-consumption households whose usage runs beyond the thresholds and large corporations with bespoke energy contracts.

The pattern of who benefits and who does not follows directly from the usage-cap design. Ordinary households and average energy users are protected in full or close to it, because their consumption falls largely within the capped thresholds, and energy-intensive small businesses in eligible sectors receive equivalent protection for their essential operating use. Those left outside the scheme are, by design, the least in need of it: high-consumption households whose usage runs well beyond the essential thresholds, who pay the market rate only on that excess, and large corporations that negotiate their own energy contracts directly and are already able to hedge and manage their exposure. This distribution is the intended consequence of targeting rather than an accidental gap, and it is what allows the scheme to be both socially protective and fiscally sustainable.

Estimated Financial Outlay for Support Measures

Price support accounts for £5.0 to £5.5 billion a year and administration, covering billing systems, monitoring and enforcement, for a further £0.5 billion, giving a total of £5.5 to £6.0 billion a year.

The cost is dominated by the price support itself, with administration a small fraction of the total, reflecting the fact that the scheme largely operates through existing billing and metering infrastructure rather than a new delivery apparatus. The range reflects the uncertainty inherent in any measure whose cost depends on market prices: in a mild year the support required is at the lower end, while a sustained shock pushes it toward the upper bound. Because the support is tied to the gap between market prices and a defined level, the cost falls automatically as prices normalise, so the scheme does not lock in permanent expenditure.¹⁷³

Projected Economic and Demand Effects

The programme is estimated to reduce inflation by 0.4 to 0.6 percentage points, to raise GDP growth by 0.2 to 0.3 percentage points, and to lower unemployment by 0.05 to 0.1 percentage points, while reducing energy demand at higher usage levels through marginal pricing.

The disinflationary effect is the most significant of these, because energy costs feed directly into the prices of almost all goods and services and into households' expectations of future inflation. Lowering them therefore eases price pressure across the economy and gives the Bank of England more room to reduce interest rates, which supports growth and investment. The design deliberately preserves the incentive to use energy efficiently by protecting essential usage while leaving high consumption exposed to the full marginal price, so that support for households does not come at the cost of higher overall demand.^{93,172}

Policy 1.2: Industrial Energy Cost Relief Scheme

Policy Description: Scheme Overview and Eligibility

A targeted scheme provides direct energy cost relief to energy-intensive industries, including manufacturing, steel, chemicals and food production, and logistics and cold-chain sectors. Support is linked to energy usage and to international competitiveness benchmarks.²¹⁶

Eligibility is defined by exposure rather than by sector label, so that the relief reaches the firms that genuinely need it and no others. A business qualifies where energy represents a large share of its costs and where it competes in internationally traded markets, the combination that makes it vulnerable to a price shock it cannot pass on to customers without losing market share to foreign rivals. Tying support to measured energy intensity and to competitiveness benchmarks rather than to a fixed list of industries keeps the scheme both fair and affordable: it avoids subsidising firms that could absorb higher costs comfortably, and it can adapt as the pattern of exposure shifts over time. The relief is calibrated to the scale of the shock and withdrawn as prices normalise, so that it functions as insurance against extreme events rather than as a permanent subsidy to any particular sector.

Justification for Intervention

Energy-intensive industries are highly exposed to global price shocks. Without intervention, firms may reduce output, relocate, or shut down, causing job losses and supply chain disruption.

The case for targeted relief rests on a market failure rather than a general subsidy. Energy-intensive manufacturers, in sectors such as steel, chemicals, glass and ceramics, compete in international markets where rivals in other countries often face lower and more stable energy costs, sometimes because their governments shield them from precisely the kind of shock this scheme addresses. A temporary spike driven by a geopolitical event can therefore inflict lasting damage: contracts are lost, plants are mothballed, and the skilled workforce and industrial capacity dispersed in a downturn are extremely difficult to rebuild once gone. Relief that bridges firms through a genuine, temporary shock preserves that capacity at far lower long-run cost than allowing it to be destroyed and attempting to recreate it later.

The scale of the exposure is easiest to grasp through a concrete case. Consider a mid-sized ceramics manufacturer with an annual electricity bill of around two million pounds, for which energy is perhaps a quarter of total operating costs. A doubling of wholesale prices during a shock, of the kind seen after the invasion of Ukraine and again during the Iran conflict, could add a million pounds or more to that firm's costs within a single quarter, wiping out its margin and forcing it to choose between passing on prices it cannot pass on in a competitive international market, cutting production, or shutting down. A competitor in France or the United States, shielded by a more stable domestic energy market, faces no such shock and takes the market share the British firm is forced to concede. Relief that caps the firm's exposure during the spike keeps it trading through the disruption, preserving the plant, the workforce and the supply chains around it, at a fraction of the cost of allowing the capacity to be lost and attempting to rebuild it once the shock has passed.

Stakeholder Impact Analysis

The beneficiaries are energy-intensive small and mid-sized firms and the workers in manufacturing and logistics whose jobs depend on them. Low-energy service sectors are not affected.

The incidence of the scheme is deliberately narrow. Its beneficiaries are the energy-intensive manufacturers and the workers whose jobs depend on those plants remaining viable through a temporary shock, together with the supply chains and communities that cluster around them. Low-energy service businesses, for which energy is a minor input, neither need nor receive support, which keeps the cost contained and the targeting sharp. Because the relief protects existing industrial capacity rather than creating new liabilities, its wider benefit is felt as the avoidance of a loss, the plants that keep running, the skills that are retained and the regional economies spared the shock of a large employer closing, rather than as a visible new gain, which is precisely why a rules-based, automatic scheme is more effective here than case-by-case rescue after the damage is done.^{93,148}

Financial and Economic Projections

The scheme is estimated to cost £2.5 to £3.0 billion a year.¹³² It is projected to raise GDP growth by 0.2 percentage points, to protect approximately 150,000 to 250,000 jobs, to reduce inflation by 0.1 percentage points through lower production costs, and to improve the trade balance by supporting industrial competitiveness.¹³²

These figures are estimates bounded by the scale and duration of the shock the scheme is designed to absorb, and the cost falls as prices normalise, since support is tied to the gap between market prices and a defined stabilised level rather than paid at a flat rate. The employment figure reflects the concentration of energy-intensive activity in particular regions and communities, where the loss of a single large plant can remove the economic anchor of a whole locality. Because the relief lowers input costs during a spike, it is mildly disinflationary at the point of application, working with rather than against the wider objective of keeping prices stable.

Policy 1.3: Emergency Energy Hedging Policy and Reserve Release

Policy Description

A Labour government should Hedge up to 50%¹³² of public and critical sector energy demand

Hedging is a standard tool of corporate energy management, but it has been applied only unevenly across the public sector, leaving schools, hospitals and other essential services exposed to the full force of price spikes. By hedging a substantial share of public and critical-sector demand in advance, the government fixes a large part of its own energy costs and insulates essential services from volatility, while the release of strategic reserves during a shock adds supply at exactly the moment the market is tightest. Together these measures reduce both the fiscal exposure of the public sector and the severity of price spikes for everyone, and they do so using instruments that are well understood and already used widely in the private sector.²³²

Managing Energy Market Volatility and Reserves

A Labour government should also coordinate with international partners to release strategic reserves and use temporary market interventions to smooth price spikes.

Strategic reserves and coordinated release are the second arm of the policy, complementing hedging. Hedging fixes the price the public sector pays but does nothing to increase the physical supply available to the market during a shock; reserve release does the opposite, adding gas or fuel to the market at the moment supply is tightest and so directly moderating the price spike itself. Coordinating that release with international partners multiplies its effect, because a shortage in a globally traded commodity is eased far more by several countries releasing reserves together than by any one acting alone, as the coordinated releases from the International Energy Agency during previous oil shocks demonstrated. Temporary market interventions, used sparingly and with clear exit conditions, provide a final backstop for extreme episodes. The guiding principle throughout is to intervene in a way that dampens the peak of a spike without suppressing the price signals that encourage conservation and new supply, so that the market continues to function rather than being replaced by administration.

Rationale

Global energy markets are volatile during geopolitical crises, and hedging and reserves reduce short-term exposure while stabilising domestic pricing.

The deeper rationale is that volatility itself, quite apart from the average level of prices, imposes real economic costs. Sharp, unpredictable swings in energy prices deter investment, because firms cannot plan when a key input cost might double or halve within months; they force households into difficult choices during spikes that later reverse; and they feed directly into headline inflation, complicating the task of monetary policy. Measures that reduce volatility therefore deliver value even when they do not change the average price paid over time, by allowing households and businesses to plan with confidence and by removing a recurring source of inflationary shock. This is why the policy is framed as insurance against instability rather than as a subsidy to lower prices: its purpose is to make energy costs predictable, which is a public good in its own right.¹⁷²

Who Is Affected

The beneficiaries are the entire economy, through reduced volatility, and the public sector in particular, including schools, hospitals and transport systems. The measure costs £1.5 to £2.0 billion a year.¹³²²³²

The policy is estimated to reduce inflation by 0.1 to 0.2 percentage points, to reduce market volatility and so support financial stability, and to lower the variability of energy subsidy costs in the public finances.

Policy 1.4: Emergency Demand Reduction Incentives

Policy Description

Short-term incentives are introduced to reduce peak energy demand, through payments for reduced industrial consumption during peak periods, smart tariff incentives for households, and a public awareness campaign on energy saving.

These measures work by reducing demand at the moments when it is most expensive and most stressful to the system, rather than by cutting total energy use across the board. Electricity and gas markets are priced at the margin, which means that the last and most expensive units of supply set the price for everyone during periods of peak demand; shaving that peak therefore lowers the price paid across the whole market, not only by those who reduce their consumption. Payments to large industrial users for curtailing consumption during stress periods are the most powerful lever, because a single large site can shift a substantial load at short notice, and such demand-response schemes are already well established in the electricity market. Smart tariffs extend the same principle to households, rewarding those who can shift discretionary use, such as charging or heating water, away from peak hours, while the public information campaign helps households respond to price signals they might otherwise not notice.

Rationale

Reducing peak demand lowers wholesale prices and reduces the cost of price support schemes.

This gives the policy an unusually favourable cost profile, because it partly pays for itself. By lowering the wholesale price during stress periods, demand reduction directly reduces the amount the government must spend on the price-support and stabilisation schemes set out earlier in this chapter, so a pound spent incentivising demand reduction offsets part of the cost of those larger programmes. It is also the fastest of the energy measures to deploy, since it requires no new physical infrastructure and can be activated within a single billing period, which makes it especially valuable in the acute phase of a crisis before slower supply-side measures take effect. Reducing peak demand additionally lessens the strain on the network at its most vulnerable moments, cutting the risk of outages and reducing the long-run need to build capacity that is used only for a handful of hours each year.

The beneficiaries are the participating households and firms, and the wider economy through lower system costs. The measure costs £1.0 to £1.5 billion a year.¹³²

Peak demand is expected to fall by 5 to 8 per cent, wholesale prices to be reduced during stress periods, and inflation to ease by 0.05 to 0.1 percentage points.¹³²

Financial Breakdown of the Iran Crisis Energy Support Programme

Across the programme as a whole, the usage-capped Energy Price Guarantee costs £5.5 to £6.0 billion a year, industrial energy relief £2.5 to £3.0 billion, hedging and reserves £1.5 to £2.0 billion, and demand reduction incentives £1.0 to £1.5 billion, giving a total annual cost of £10.0 to £12.0 billion.¹³²

The timing of this programme differs from every other measure in this Budget, and the difference matters. The rest of the programme takes effect from April 2027, the start of Year 1. Energy support cannot wait that long, because the shock it answers is happening now: the Ofgem cap rose 13 per cent in July 2026 and the conflict remains unresolved.¹³ This support therefore begins on announcement, with a part-year cost falling in 2026-27, and tapers as prices normalise rather than building as the other measures do. On the central case in which the Strait reopens and wholesale prices return toward the sixty-five to seventy-five dollar range forecasters expect for 2027, the profile is £6 billion in the remainder of 2026-27, £5 billion in Year 1, £2 billion in Year 2 and nothing thereafter, a total of £13 billion.^{21,13} The full £10 to £12 billion a year set out above is retained as a standing contingency, drawn upon only in the escalation case in which the blockade persists and the Strait remains closed.²²

These costs are accounted for as temporary crisis-related expenditure, limited to the duration of the energy shock, and are separate from the structural energy investment programmes set out in Chapter 2.

Following the collapse of the April 2026 ceasefire, the cost of the programme depends on whether the negotiations now under way succeed. The lower end of each range applies in the central case in which the Strait reopens, and is consistent with the Ofgem July 2026 price cap of £1,862, an increase of only 13% on the April 2026 cap rather than the much sharper rise initially feared.¹³ The upper end of each range is retained as a contingency in case implementation of the settlement falters and the Strait of Hormuz is again disrupted. A Labour government should review the scale of this programme at each quarterly fiscal update in light of the settlement's implementation, and will scale down the Energy Price Guarantee and Industrial Energy Cost Relief Scheme more quickly than currently budgeted if oil prices continue to normalise toward pre-conflict levels.²²⁸

Projected Economic and Social Effects

The figures below represent the upper-bound benefit of the programme relative to providing no support, under the escalation scenario in which the blockade persists and the Strait remains closed. Under the central scenario in which a settlement is reached, the realised benefit would be smaller, broadly in proportion to the lower cost range set out in the financial breakdown.

On that basis the programme is estimated to reduce inflation by 0.5 to 0.8 percentage points, to raise GDP growth by 0.4 to 0.6 percentage points, and to lower unemployment by 0.1 to 0.2 percentage points. Household energy bills are reduced to approximately 2020-equivalent levels for essential usage, business costs are stabilised, preventing closures and supply chain disruption, and the targeted design limits the fiscal cost compared with universal subsidies.

Chapter 2: Energy and Cost-of-Living Transformation

The energy system represents one of the most important structural cost drivers within the UK economy. High electricity prices have increased household living costs, weakened business competitiveness, and contributed significantly to recent inflationary pressures. Addressing these structural energy costs is therefore a central pillar of the Daily Herald Budget.¹⁹⁵

This chapter introduces a comprehensive programme of reforms designed to reduce electricity costs, accelerate the deployment of clean generation, stabilise power markets, and improve long-term energy security. The policies in this chapter operate together as a coordinated framework: immediate tax relief reduces bills in the short term, while structural market reforms and investment programmes permanently lower energy production costs over time.

The overall objective is to reduce average household electricity bills by approximately £400 per year.¹³ This is achieved by removing the environmental and social policy levies from electricity bills, worth about £159 a year, by lower wholesale prices delivered through the clean power programme, worth about £140 by Year 5, and by efficiency and system cost reductions worth a further £100 or so.^{13,75} Value Added Tax on electricity is not counted here, because the Government's October 2026 cut already delivers it and it therefore forms part of the baseline rather than of this Budget.¹³¹⁹¹

These reductions in energy costs are expected to contribute to lower inflation, stronger consumer spending, improved business investment, and increased economic growth.

Policy 2.1: Removal of VAT on Electricity for Households and Businesses

Policy Description

The Government cut Value Added Tax on domestic electricity from 5 per cent to zero with effect from 1 October 2026, for an initial six months. This Budget would make that cut permanent and extends it to business electricity, so that Value Added Tax is removed from all electricity consumption by households and businesses on a lasting basis.

Electricity is currently subject to 5 per cent VAT for households, while businesses are typically charged 20 per cent VAT on electricity inputs. However, many businesses are able to reclaim VAT, meaning the effective burden varies across sectors. Smaller firms and non-VAT-reclaiming organisations bear a higher effective cost.

Under this policy, electricity will be treated as an essential utility rather than a standard taxable consumption good.

The removal of VAT will apply to all electricity supplied through licensed electricity providers. Suppliers will remove VAT directly from bills at the point of sale, meaning households and firms will see the reduction immediately in their monthly or quarterly bills. The Treasury will compensate suppliers for the lost VAT revenue through a quarterly reimbursement mechanism, ensuring that suppliers remain financially neutral.

The policy will apply to all electricity consumption across the residential, commercial, and industrial sectors. No additional administrative burden will be placed on consumers or suppliers beyond existing billing processes.

Rationale

Electricity taxation disproportionately amplifies inflation during energy price shocks. When wholesale electricity prices rise, VAT increases the final consumer price further, effectively magnifying price volatility.

Electricity also functions as a core input across the entire economy. Higher electricity costs raise production costs for manufacturers, increase operating expenses for service sector firms, and raise household living costs. These effects feed into broader inflationary pressures and reduce real incomes.

Removing VAT from electricity therefore acts as an immediate cost-of-living measure while simultaneously improving the competitiveness of British businesses. By lowering the cost of a universal input, the policy provides broad economic stimulus without requiring targeted subsidy programmes.

The policy also recognises electricity as an essential service in the transition to electrified heating, transport, and industry. Maintaining high taxation on electricity would discourage the adoption of electric technologies such as heat pumps and electric vehicles.^{234,197}

Fiscal Cost

Making the cut permanent and extending it to business will reduce government revenue by approximately **£2.5–£3.0 billion per year**, resulting in a total fiscal cost of approximately **£15 billion over five years**.¹³²

This cost is partially offset through higher economic activity generated by lower energy costs, including increased VAT receipts from consumption, higher corporation tax receipts from stronger business profitability, and higher income tax receipts from increased employment and wage growth.

Who Is Affected

All electricity consumers benefit from this policy. Households benefit directly through lower electricity bills, with the greatest proportional benefit accruing to lower-income households that spend a higher share of income on energy. Small and medium-sized businesses benefit through lower operating costs, particularly in sectors such as hospitality, retail, and small manufacturing.

Energy suppliers are not financially disadvantaged because the Treasury compensates them for the VAT removal.

The policy does not apply to fossil fuel consumption such as petrol or natural gas, which remain subject to existing taxation frameworks.¹⁸⁹

Economic Effects

For households, the removal of VAT on electricity is expected to reduce annual electricity bills by approximately £45–£50, with a further £10–£25 in indirect savings through lower business costs passed through to prices.¹³

For small businesses that are unable to fully reclaim VAT, annual electricity costs are expected to fall by £300–£800, depending on consumption levels and sector.¹³²

The reduction in electricity prices is expected to contribute to a decline in inflation of approximately 0.05–0.1 percentage points in the first year of implementation.²²⁸

Lower **electricity** costs will increase disposable household income, supporting a modest increase in consumer spending, particularly among households with higher energy expenditure as a share of **income**.

The policy also improves the competitiveness of British firms relative to international competitors by lowering energy input costs.

Social Impact

Lower electricity prices reduce the risk of fuel poverty, particularly among low-income households. Reduced energy costs can also improve health outcomes by enabling households to maintain adequate heating and cooling.

Small businesses operating on narrow profit margins will experience improved financial resilience, reducing the risk of closures and layoffs during economic downturns.

Policy 2.2: Rapid Clean Energy Cost Reduction Programme

Policy Description

This policy introduces a comprehensive regulatory reform programme designed to accelerate the deployment of renewable energy infrastructure across the United Kingdom. The objective is to significantly increase the supply of low-cost electricity and reduce wholesale electricity prices over the medium term.

The programme establishes a new National Renewable Approval Office responsible for coordinating planning approvals for renewable energy projects. This office will introduce a statutory six-month maximum approval period for renewable energy developments, replacing the current multi-year planning processes that often delay projects.

In addition to planning reform, the government will invest in expanding grid capacity and upgrading transmission infrastructure. These upgrades will reduce bottlenecks that currently prevent new renewable energy projects from connecting to the national grid.¹⁸⁰

The programme will also introduce standardised long-term power purchase agreements that reduce financing uncertainty for renewable energy developers. These agreements guarantee stable long-term electricity prices, allowing developers to secure lower-cost financing for new projects.

Rationale

Renewable energy technologies such as wind and solar now represent some of the lowest-cost forms of electricity generation. However, institutional barriers, including planning delays, grid congestion, and financing uncertainty, prevent these low-cost technologies from being deployed rapidly enough.

As a result, the UK electricity market continues to rely heavily on higher-cost generation sources, particularly during periods of high demand. By removing these structural barriers, the government can accelerate renewable deployment and permanently lower wholesale electricity prices. Increasing renewable supply also improves energy security by reducing reliance on imported fossil fuels.

Fiscal Cost

The programme requires approximately **£2.4 billion per year in public investment**, primarily directed toward grid infrastructure upgrades, planning system reform, and project underwriting.¹³²

Over five years, the total cost of the programme is estimated at **£12 billion**.¹³²

This public investment is expected to leverage **£15–£25 billion per year** in private sector investment, as developers respond to improved planning certainty and long-term pricing frameworks.¹³²

Who Is Affected

Renewable energy developers benefit from faster planning approvals and reduced financing costs. Electricity consumers benefit indirectly through lower wholesale prices.

Grid operators receive funding for infrastructure upgrades, while local authorities benefit from increased investment and job creation in renewable energy projects.

Fossil fuel generators may experience reduced market share as renewable generation expands.

Economic Effects

By significantly increasing the supply of low-cost renewable electricity, the programme is expected to reduce wholesale electricity prices by approximately fifteen per cent by Year 5, worth about £140 a year to a typical household once the effect on retail prices and network charges is included

Electricity price volatility will also decline because renewable generation has lower marginal costs and is less sensitive to global commodity price fluctuations.

Lower wholesale electricity prices will translate into lower consumer electricity bills and improved industrial competitiveness.

Environmental Impact

The programme accelerates the transition toward a low-carbon energy system. Increased renewable generation reduces greenhouse gas emissions from the power sector and contributes to national climate targets.^{188,180}

Policy 2.3: Clean Power Bulk Purchasing Scheme

Policy Description

A Labour government should establish a centralised electricity purchasing agency responsible for aggregating electricity demand from small businesses and public sector organisations. By combining demand across thousands of smaller consumers, the agency can negotiate long-term electricity contracts at significantly lower prices. The purchasing agency will sign long-term renewable power purchase agreements with electricity generators, typically lasting between ten and fifteen years. These agreements guarantee stable electricity prices and provide revenue certainty for renewable energy developers.

Electricity purchased through these contracts will then be resold to participating small businesses and public institutions at cost.

The rationale is that small consumers are systematically disadvantaged in the electricity market. A large industrial user can negotiate directly with generators and sign long-term contracts that lock in stable prices, but a small business, a school or a GP surgery has neither the scale nor the expertise to do so, and is left buying at short-term retail prices that are both higher and more volatile. By aggregating the demand of thousands of such consumers, a central purchasing agency gives them the bargaining power that only the largest users currently enjoy. The long-term power purchase agreements it signs serve a second purpose as well: by guaranteeing renewable developers a stable, creditworthy buyer for their output over ten to fifteen years, they reduce the cost of financing new clean generation, which lowers the price of that electricity for everyone. The scheme thus links the immediate goal of cheaper power for small consumers to the longer-term goal of building out low-cost renewable capacity.²³²

Rationale

Large corporations often secure lower electricity prices by negotiating long-term contracts directly with electricity producers. Smaller organisations lack the scale or expertise required to access these contracts, forcing them to purchase electricity through more expensive retail markets.

By aggregating demand, the government effectively extends the purchasing power of large corporations to small businesses and public institutions.

Fiscal Cost

The scheme requires relatively modest public expenditure. Administrative and operational costs are estimated at approximately **£200 million per year**, resulting in a five-year cost of roughly **£1 billion**.¹³²

Who Is Affected

Small and medium-sized enterprises benefit most directly from the scheme. Public institutions such as schools, hospitals, and local councils can also participate.

Electricity producers benefit from the stability of long-term contracts, which improve project financing conditions.

Economic Effects

Participating businesses are expected to experience electricity cost reductions of roughly **15 per cent** compared to current retail electricity prices.

Lower energy costs improve business profitability and reduce the risk of insolvency among smaller firms. Reduced operating costs also encourage business expansion and hiring.

Policy 2.4: Rooftop Solar and Storage Accelerator

Policy Description

This policy establishes a national programme to accelerate the installation of rooftop solar panels and battery storage systems on residential homes, commercial buildings, and public facilities.

The programme removes VAT from solar equipment, introduces automatic planning approval for rooftop installations, and provides low-interest financing through local authorities.

A national procurement programme will also reduce installation costs by negotiating bulk purchasing agreements for solar panels and battery systems.

Rationale

Decentralised electricity generation reduces reliance on large centralised power stations and lowers pressure on national grid infrastructure. Rooftop solar also reduces electricity transmission losses and allows consumers to generate electricity close to the point of consumption.

Rooftop generation has advantages that centralised power stations cannot match. Electricity generated where it is used avoids the losses and the network charges associated with transmitting power across the grid, and every rooftop installation reduces the peak demand that the network must be built to meet, which in turn lowers the network costs that fall on all bills. The barriers to faster deployment have rarely been technological; they have been the upfront cost, the friction of planning approval, and the VAT and financing arrangements that made installation less attractive than it should be. By removing VAT from solar and storage equipment, granting automatic planning approval for rooftop installations, and providing low-interest finance through local authorities, the programme attacks each of those barriers directly, while bulk procurement drives down the installation cost that remains. The combined effect is to make self-generation a straightforward and affordable choice for households and businesses rather than a complex investment reserved for the committed few.

Battery storage systems further enhance energy resilience by allowing households and businesses to store electricity for use during peak demand periods.

Fiscal Cost

The programme requires approximately **£800 million per year** in government funding, primarily directed toward financing support and procurement coordination.

Over five years, the total cost is approximately **£4 billion**.¹³²

Economic Effects

Expanded rooftop solar adoption will allow many households and businesses to generate a significant portion of their own electricity. For small businesses, self-generation could supply as much as **30 per cent of total electricity demand**.

The programme will also reduce peak electricity demand on the national grid by approximately **twelve per cent**, lowering infrastructure costs and improving grid stability.

Policy 2.5: Green Heat and Energy Efficiency Upgrade Programme

Policy Description

A Labour government should launch a national retrofit programme focused on improving the energy efficiency of residential buildings. The programme will fund insulation upgrades, heat pump installations, smart heating systems, and ventilation improvements.¹⁹⁷

Retrofits will be delivered through area-based programmes managed by local authorities in partnership with housing associations and private contractors.

Rationale

The UK housing stock is among the least energy-efficient in Europe. Poor insulation and inefficient heating systems cause excessive energy consumption, raising household energy bills and increasing carbon emissions.¹⁸⁸

Energy efficiency is the cheapest and most permanent way to reduce bills, because the cheapest unit of energy is the one that never has to be bought. A well-insulated home with an efficient heating system needs less energy to stay warm, so its occupants are protected against price spikes not for one winter but permanently, and the saving compounds year after year. The area-based delivery model matters as much as the funding: retrofitting streets and neighbourhoods together, rather than one house at a time, sharply reduces the cost per home, builds local installation capacity and skills, and makes it practical to reach the low-income households who would benefit most but could never fund the work themselves. Delivered at scale through local authorities and housing associations, the programme lowers bills, cuts emissions and creates skilled employment across the country at once, which is why it is treated as an investment in the housing stock rather than as a subsidy.

Improving building efficiency reduces energy demand permanently, lowering energy bills while improving comfort and health outcomes.

Fiscal Cost

The programme requires approximately **£2.1 billion per year in public funding**, with a five-year total of **£10.5 billion**.¹³²

Economic Effects

Households receiving retrofits are expected to save roughly **£280 per year on heating costs**.¹³² Reduced energy demand also lowers national gas consumption and decreases exposure to international energy price shocks.

The retrofit programme also supports employment in construction, engineering, and building services sectors.

Overall Impact of Chapter 2 Policies

Taken together, the policies in this chapter significantly reduce electricity costs, expand renewable energy supply, and improve national energy security.

Households benefit through lower electricity and heating bills, improved home efficiency, and reduced exposure to energy price volatility.

Businesses benefit through lower energy input costs, improved competitiveness, and greater price stability.

These changes also contribute to macroeconomic stability by reducing inflationary pressures and increasing real disposable incomes.

Over the medium term, the combination of lower energy costs and increased renewable generation is expected to strengthen economic growth, improve business investment, and accelerate the transition toward low carbon energy.

Financial Summary: Chapter 2 Total Spending

Policy	Annual Cost	5-Year Total
Policy 1: VAT Removal on Electricity	£2.5–3.0bn/yr	£15.0bn
Policy 2.2: Rapid Clean Energy Cost Reduction Programme	£2.4bn/yr	£12.0bn
Policy 2.3: Clean Power Bulk Purchasing Scheme	£0.2bn/yr	£1.0bn
Policy 2.4: Rooftop Solar and Storage Accelerator	£0.8bn/yr	£4.0bn
Policy 2.5: Green Heat and Energy Efficiency Upgrade Programme	£2.1bn/yr	£10.5bn
Total Chapter 2 Spending	~£8.0bn/yr	£42.5bn

The combined Chapter 2 programme represents a structural public investment of approximately £8.0 billion per year, totalling £42.5 billion over five years.¹³² This expenditure forms part of the Year 1 spending envelope of £95 billion set out in the Conclusion's Fiscal Strategy table, alongside the temporary crisis measures in Chapter 1 (£10.0–12.0 billion per year over two years).¹³² Together, Chapters 1 and 2 account for approximately £18–20 billion of Year 1 spending, with Chapter 1 costs falling away from Year 3 as the Iran crisis programme phases out, allowing the overall spending envelope to remain consistent with the Budget's medium-term fiscal consolidation path.

Chapter 3: Housing, Homelessness and Planning Reform

The UK's Housing Crisis: Causes and Consequences

The United Kingdom faces one of the most severe housing shortages in its modern economic history.

For more than three decades, housing construction has consistently fallen below the level required to meet population growth, household formation, and economic expansion.

As a result, housing affordability has deteriorated significantly across much of the country.

Deteriorating Affordability

House prices in the UK now stand at approximately 8–9 times median earnings, compared with around 4 times earnings in the early 1990s.

Private rental costs have also risen substantially, particularly in major cities and economically dynamic regions where housing demand has grown faster than supply.

The distinction between demand and supply is central to the whole housing strategy, because decades of policy have concentrated on the former while the problem lies in the latter. Help-to-buy schemes, mortgage guarantees and similar interventions raise the amount that buyers can bid, but when the number of homes is fixed the main effect of additional purchasing power is to raise prices rather than to house more people. Such measures can even worsen affordability, transferring public money to existing owners and developers while leaving the underlying shortage untouched. This Budget therefore treats housing as a supply problem first. Its central housing measures, the planning reforms in Chapter 9, the Land Value Tax in Chapter 8 and the underuse and hoarding charges in Part 7, all work by increasing the number of homes that are built and occupied rather than by inflating what buyers can pay. Demand-side support has its place, particularly for first-time buyers and social tenants, but only once supply is responding, so that assistance translates into homes rather than into higher prices.¹³⁴

The costs of the shortage extend well beyond the housing market itself. When housing near productive employment is unaffordable, workers either commute long distances, with the associated costs in time, congestion and carbon, or forgo better-paid work entirely, which depresses national productivity. High housing costs absorb income that would otherwise be spent or saved, weakening demand across the rest of the economy and leaving younger households unable to accumulate wealth. The social consequences are equally serious: insecure and overcrowded housing damages children's education and health, and the near-impossibility of home ownership for much of a generation has corrosive effects on social cohesion and confidence in the economic settlement. Treating housing supply as a first-order economic priority, rather than as a matter of planning administration, reflects the scale of these wider costs.

Impact on Household Finances

High housing costs now represent one of the most significant pressures on household finances.

For many households, housing expenses account for the largest single component of monthly expenditure.

The consequences of this pressure extend well beyond the household budget. When rent or mortgage payments consume a disproportionate share of income, families have less to spend on everything else, which weakens demand across the wider economy, and less capacity to save, which delays or prevents home ownership and the accumulation of financial security. High housing costs also reduce labour mobility, deterring people from moving to areas of higher-paid work because the housing there is unaffordable, and this misallocation of labour is a measurable drag on national productivity. Reducing housing costs through increased supply therefore does more than ease individual budgets: it frees income for productive use, improves the matching of workers to jobs, and strengthens the resilience of household finances against other shocks.

Economic Consequences of Housing Scarcity

Rising rents and house prices reduce disposable income, increase household debt burdens, and contribute to wider economic inequality.

Housing shortages also impose broader macroeconomic costs. Limited housing availability reduces labour mobility, preventing workers from relocating to areas where employment opportunities are strongest.¹³⁹

Businesses in high-productivity regions often struggle to recruit workers because housing near employment centres has become unaffordable.

Strain on Public Services and Local Authorities

Housing insecurity also places substantial pressure on public services.

Homelessness and unstable housing increase demand for healthcare, social services, temporary accommodation, and local authority support.

Local councils currently spend billions of pounds each year on temporary accommodation for households who cannot access stable housing.

Proposed Housing Policies and Objectives

Addressing these structural problems requires a comprehensive national housing strategy capable of increasing housing supply, improving affordability, and ensuring that stable housing is accessible to households across all income levels.

This chapter therefore sets out a series of policies designed to increase housing supply substantially across the United Kingdom, expand the availability of social and affordable housing, completely eradicate homelessness within five years, stabilise social housing rents to ensure long-term affordability, modernise the planning system to accelerate development, and align housing construction with regional economic development.

Economic Impact and National Targets

Together these policies form a central component of the Government's long-term economic strategy.

Increasing housing supply improves living standards, supports labour mobility, and strengthens long-term economic growth.

Housebuilding is also among the most direct instruments of economic stimulus available to government. Construction is labour-intensive and draws on domestic supply chains, so additional building activity supports employment and output quickly and with relatively little leakage abroad. The homes themselves, once built, reduce the housing costs that weigh on the rest of the economy, and the infrastructure that accompanies new development, transport, utilities and public services, raises the productive capacity of the areas it serves. For these reasons the housing programme is treated not as social expenditure to be weighed against growth, but as a component of the growth strategy in its own right, contributing to output in the short term through construction and in the long term through a more efficient allocation of people and activity across the country.²³⁴

National Housing Targets: Objective for Housing Market Stabilization

To restore balance to the housing market, a Labour government should implement a national housing strategy designed to increase housing construction to 300,000 homes per year within five years.^{132,66}

The scale of the shortfall is the starting point for everything in this chapter. Britain has built too few homes for decades, and the cumulative deficit now runs into the millions. The consequences reach well beyond housing itself: high housing costs absorb a rising share of household income, suppress spending on everything else, trap workers in low-productivity regions because they cannot afford to move to high-productivity ones, and transfer wealth on a large scale from younger renters to older owners. Reaching 300,000 completions a year would be the highest sustained rate since the 1970s, and it cannot be achieved by any single lever.¹³² It requires planning reform to permit development, public investment to build directly where the market will not, and measures to bring stalled sites and idle land forward, which is why this chapter is closely integrated with the land and planning measures elsewhere in the Budget.

Housing delivery will increase progressively over the five-year period, rising from approximately 220,000 homes in Year 1 to 300,000 homes per year by Year 5, reflecting construction capacity constraints, workforce availability, and the phased implementation of planning system reforms.¹³²

The 300,000 homes per year target has been the UK's stated planning objective since 2019 and has not yet been met in any year, principally because of a shortage of skilled construction workers (bricklayers, groundworkers, and site supervisors) rather than a shortage of capital funding alone; industry estimates put the additional workforce required at over 200,000 people.¹³² Capital investment in this chapter is therefore paired with approximately £0.4 billion per year, reallocated within the existing £7.0 billion envelope rather than added on top of it, for a Construction Skills Accelerator: fast-tracked apprenticeships co-funded with industry, mutual recognition of overseas construction qualifications to widen the recruitment pool, and dedicated training academies attached to the largest housing sites.¹³² Without this, the capital funding set out below risks sitting unspent against a workforce that cannot physically build the homes it pays for.²¹⁸

This target reflects the level of housing construction widely considered necessary to stabilise housing affordability in the United Kingdom.

National Housing Delivery Programme

The target will be delivered through two main mechanisms. First, a Labour government should establish a National Housing Delivery and Affordable Housing Expansion Programme, which will coordinate housing development across local authorities, housing associations and private developers, delivering approximately 240,000 homes per year.¹³²

Second, a Labour government should expand social housing development programmes, delivering the remaining homes required to meet the 300,000 homes per year target.¹³²

A substantial portion of these homes will be made available at social rent levels to ensure housing remains accessible for lower-income households.

Overall Goals of Housing Policies

Together these policies will significantly increase housing supply while ensuring that affordable homes remain available to households across the income distribution.

The housing policies outlined in this chapter are designed to achieve five key objectives.

These objectives are interlocking rather than separate. Increasing overall supply is the foundation, since without more homes the other goals cannot be met, but supply alone is not enough: the homes must be of the right kinds and in the right places, affordable to those who need them, and matched by the infrastructure that makes new communities work. The measures that follow are therefore designed to act together, with planning reform, public investment and the tax treatment of land all pulling in the same direction, so that the increase in supply translates into genuine improvements in affordability, security and regional balance rather than simply more building at the top of the market.

Key Strategic Objectives

First, a Labour government should aim to restore housing affordability by increasing the supply of homes across the country and moderating long-term housing price growth.

Second, a Labour government should eradicate homelessness entirely within five years, ensuring that every individual in the United Kingdom has access to secure and stable accommodation.

Third, a Labour government should expand social housing provision, reducing waiting lists and improving housing security for lower-income households.²⁰⁵

Fourth, a Labour government should modernise the planning system in order to accelerate housing construction and reduce administrative barriers to development.

National Housing Programme Overview

Finally, a Labour government should ensure that housing development supports regional economic growth, aligning housing supply with infrastructure investment and labour market demand.

The programme is national in ambition but regional in design. A uniform approach would concentrate building where it is easiest rather than where it is most needed, so the strategy is explicitly weighted toward the regions and communities where housing pressure and economic opportunity coincide. Development is paired with the infrastructure that makes new housing genuinely liveable, and with attention to the balance between market and affordable homes, so that supply expands across tenures rather than at the top of the market alone. The intention is that housebuilding becomes an instrument of regional rebalancing, directing investment and activity toward places that have long been starved of both.

Policy 3.1: National Housing Delivery and Affordable Housing Expansion Programme

Policy Description

A Labour government should establish a National Housing Delivery and Affordable Housing Expansion Programme designed to significantly increase housing construction across the United Kingdom.

The programme combines direct public housebuilding with measures to accelerate private and social delivery, on the principle that the scale of the shortage is too large for any single channel to close alone. Direct public investment matters because the market, left to itself, builds at the rate that maximises private returns rather than the rate the country needs, and it is particularly reluctant to build the affordable and social housing on which many households depend. Public delivery fills that gap directly, while the accompanying reforms to planning, land and finance make it easier and quicker for private and housing-association builders to expand output alongside it.

Programme Components and Targets

This programme merges two initiatives, the National Housing Delivery Partnership and the National Affordable Housing Expansion Programme. Together they will deliver approximately 240,000 homes per year, forming the core component of the 300,000 homes per year housing target.¹³²

Merging the two initiatives into a single programme is a deliberate simplification. Housing delivery in Britain has long been fragmented across competing schemes, agencies and funding streams, which raises administrative costs, blurs accountability and makes it hard to hold anyone responsible for the aggregate outcome. Bringing delivery and affordable expansion together under one programme with a single headline target concentrates responsibility and allows resources to be directed to where they build the most homes. The 240,000 figure represents the great majority of the overall 300,000-a-year ambition, with the remainder coming from the planning reforms and the measures to bring stalled and underused sites forward set out elsewhere in this chapter and in Chapter 9.¹³²¹⁴⁰

Stakeholder Collaboration

The programme will coordinate development between local authorities, housing associations, private developers and institutional investors.

Delivery on this scale cannot be achieved by central government acting alone, nor by the market left to itself. It requires the active coordination of local authorities, which control planning and much of the land; housing associations, which build and manage the bulk of affordable housing; private developers, which supply most market housing and the capacity to build at scale; and the infrastructure providers whose networks new communities depend on. The programme's role is to align these actors around a shared delivery plan rather than to replace them, providing the funding, the land assembly powers and the certainty that allow each to commit to long-term housebuilding. Coordinating them explicitly is what prevents the familiar failure in which homes are built without the schools, transport and utilities that make them liveable, or in which infrastructure is provided for housing that never materialises.^{234,196}

Facilitating Housing Construction and Affordability

Public land suitable for housing development will be identified and released where appropriate in order to accelerate construction and reduce land acquisition costs.

Local authorities and housing associations will receive capital grants and access to low-cost financing to support large-scale housing development.

Standardised procurement systems and building design frameworks will allow construction firms to scale production and reduce development costs through economies of scale.

Delivery will scale over time in line with construction capacity and planning reform implementation, reaching full output by Year 5.

Integrated Infrastructure Support for New Developments

New housing developments will be coordinated with infrastructure investment, ensuring that housing expansion is supported by transport networks, schools and education facilities, healthcare services, and utilities and energy infrastructure. A Labour government should provide approximately £6.2 billion per year in capital investment to support this programme.¹³²

The principle that housing and infrastructure must advance together is one of the most important in the chapter, and one most often neglected in practice. A new development without adequate transport links, school places, healthcare capacity and utility connections does not create a functioning community; it creates congestion, pressure on existing services and local opposition that makes the next development harder to approve. Much of the resistance to housebuilding in Britain stems precisely from the well-founded fear that new homes will overwhelm services that are already stretched. By funding the accompanying infrastructure as an integral part of the housing programme rather than as an afterthought, the strategy both makes new communities work and defuses one of the principal sources of local objection, which itself accelerates delivery.

Economic Growth

Increased construction activity is expected to increase annual GDP growth by approximately 0.2–0.3 percentage points.

Employment

Construction activity supported by the programme is expected to support 90,000–120,000 additional jobs across construction and related supply chains.¹³²

Increased housing supply is expected to reduce housing price inflation by approximately 0.3–0.5 percentage points per year once supply increases significantly.

Improved housing availability will support labour mobility and improve productivity by allowing workers to relocate more easily to high-growth regions.

Higher employment and economic activity will increase tax revenues and partially offset programme costs.

The Case Against: Does Supply Actually Lower Prices?

The argument of this chapter, and of Chapter 9, rests on the proposition that increasing housing supply reduces housing costs. That proposition is contested, and the contrary case deserves to be stated rather than ignored. Ian Mulheirn has argued that England does not in fact have a shortage of dwellings relative to households, that the growth in house prices since the late 1990s is explained principally by the fall in real interest rates and the resulting expansion of mortgage credit, and that building at the rates proposed here would therefore reduce prices by considerably less than is commonly assumed.¹¹² On this account the binding constraint is the cost and availability of credit rather than the number of homes, and a supply-led strategy addresses a symptom rather than a cause.

Three responses are offered. The first is that the two explanations are not mutually exclusive: credit conditions determine how much buyers can bid, but supply determines what they are bidding for, and the same expansion of credit produces a far larger price increase where supply is fixed than where it responds. The second is that the strongest evidence for the supply channel is spatial rather than national. Hsieh and Moretti's estimates of the output cost of housing constraints, and the divergence between British cities and their American and European counterparts in the relationship between employment growth and housing completions, are difficult to explain on a purely credit-based account.¹⁰⁵ The third is that the measures in this Budget do not depend solely on the price effect. Bringing empty homes back into use, raising the effective supply of rental accommodation and reducing the cost of commercial floorspace deliver benefits whether or not the aggregate price elasticity is as large as assumed.^{139,218}

The honest position is that the price effect claimed in this chapter, a reduction of 0.6 to 1.0 percentage points in housing inflation, sits toward the middle of a genuinely contested empirical range, and that a reader persuaded by the credit-based account should discount it. The supply measures would remain worthwhile on the mobility, output and cost-of-living grounds set out above, but the housing inflation figure is the least secure claim in the chapter.

Policy 3.2: National Homelessness Eradication Strategy

A Labour government should implement a comprehensive National Homelessness Eradication Strategy designed to eliminate homelessness across the United Kingdom within five years.

Housing First Model and Integrated Support

The strategy will adopt a Housing First approach, providing permanent housing for individuals experiencing homelessness before addressing additional social challenges such as addiction, mental health issues, or unemployment.

The Housing First approach inverts the logic of the system it replaces. The conventional model treats housing as something to be earned once a person has addressed their other difficulties, requiring them to progress through hostels and temporary accommodation while tackling addiction, mental illness or unemployment first. The evidence from countries that have adopted Housing First, most notably Finland, is that this sequence is backwards: stable, permanent housing is the foundation that makes it possible to address those other challenges, not a reward for having already done so. Someone with a secure home is far more likely to engage successfully with treatment and employment support than someone still cycling through insecure accommodation. The approach is also more economical than it appears, because entrenched homelessness imposes very high costs on health, criminal justice and emergency services, and providing settled housing reduces those costs substantially.²²⁹

Individuals experiencing homelessness will be offered immediate access to stable accommodation alongside integrated support services, including mental health treatment, addiction support programmes, employment assistance, financial counselling and social care services.

Expanding Housing Programmes and Prevention Services

Local authorities will receive additional funding to expand supported housing programmes and provide permanent accommodation for individuals currently in temporary housing or rough sleeping.

The strategy will also expand homelessness prevention services, including early intervention for households at risk of eviction.

Additional support will be provided for individuals leaving institutions such as prisons, hospitals, and care systems who face elevated risks of homelessness.

Investment and Goals

A Labour government should invest approximately £0.8 billion per year in homelessness prevention and housing support services.⁶⁷

Within five years, the strategy aims to ensure that no individual in the United Kingdom is left without secure accommodation.

Eradicating Homelessness

Homelessness and rough sleeping will be fully eradicated within five years.⁶⁷ Stable housing reduces emergency healthcare use, and the healthcare costs associated with homelessness are expected to fall by £300 to £500 million per year.⁶⁷²⁰²

Impact on Employment

Housing stability increases labour market participation and could reduce unemployment by 0.03–0.05 percentage points.

Economic Growth Projections

Increased employment and reduced public service pressures could increase GDP growth by 0.03–0.06 percentage points per year.

Policy 3.3: Social Housing Rent Stabilisation Framework

Rent Control Measures and Applicability

A Labour government should introduce a Social Housing Rent Stabilisation Framework to ensure social housing remains affordable while maintaining financial stability for housing providers.

Under the framework, annual rent increases in the social housing sector will be limited to Consumer Price Inflation plus one percentage point.

The framework is designed to hold a careful balance. Social housing exists to provide genuinely affordable homes, and unpredictable or above-inflation rent rises undermine that purpose and push tenants toward hardship or the benefits system. At the same time, housing associations and councils need reliable rental income to maintain their existing stock, service their borrowing and invest in new building, and a rent freeze or an over-tight cap would choke off exactly the investment the country needs. Limiting increases to inflation plus one percentage point protects tenants from real-terms rent shocks while giving providers a predictable, modestly rising income against which they can plan and borrow. Predictability itself has value here: a stable, rules-based rent settlement allows providers to commit to long-term development in a way that discretionary, year-by-year decisions never could.

The framework will apply to housing provided by housing associations, local authorities and registered social landlords.¹³⁴

Tenant Support, Provider Obligations, and Oversight

Tenants experiencing sudden income loss due to unemployment, illness, or disability will be eligible for temporary rent support measures.

Housing providers will also be required to maintain minimum standards for housing quality, maintenance, and energy efficiency.

The national housing regulator will oversee compliance with the rent stabilisation framework.

Economic Impact on Inflation

The framework is expected to reduce housing inflation by 0.1–0.2 percentage points annually.

Lower rent increases will increase disposable income for low-income households.

Higher consumption among lower-income households could increase GDP growth by 0.02–0.04 percentage points annually.

Policy 3.4: Planning System Modernisation and Brownfield Fast-Track

A Labour government should implement major reforms to modernise the planning system and accelerate housing development.

A Brownfield Fast-Track Planning System will be introduced to prioritise housing development on previously developed land.¹⁴⁰

Planning applications for residential development on designated brownfield sites will be subject to a statutory decision period of six months.

A Labour government should introduce digital planning systems to modernise the application process and improve transparency.¹⁵³

The planning measures in this chapter work hand in hand with the more fundamental reforms in Chapter 9. Where Chapter 9 sets out the shift from a discretionary to a rules-based system, the measures here modernise the machinery of the existing process so that it works faster and more predictably in the meantime. The brownfield fast-track directs development toward previously used land, which is generally less contentious and better served by existing infrastructure, and the statutory six-month decision period removes the open-ended delay that deters developers and inflates costs. Digitising the application process reduces the administrative friction and opacity that slow decisions and erode public trust, making it easier for communities to see and engage with what is proposed. Together these reforms shorten the time and lower the cost of bringing land forward, which feeds directly into the housing-supply figures the chapter targets.¹⁴²

Local planning authorities will receive additional funding and technical support to improve planning capacity and reduce decision backlogs.

Core Planning Principles

Planning policy will prioritise housing development near transport hubs and employment centres in order to support sustainable urban development.

Guidance will encourage higher-density housing development in appropriate urban areas while maintaining environmental protections.

Projected Economic and Housing Impacts

Planning reforms are expected to increase housing construction by 30,000 to 40,000 homes per year.¹³² Faster approvals could reduce development costs by 10 to 15 per cent, the additional construction activity could raise GDP growth by 0.05 to 0.1 percentage points, and the greater supply is expected to reduce housing price inflation by approximately 0.2 to 0.3 percentage points.¹³²

Regional Distribution of Housing Supply

Housing shortages vary significantly across regions of the United Kingdom.

Housing supply will therefore be distributed based on population growth, affordability pressures, and labour market demand.

Regional Housing Targets

Under the national target of 300,000 homes per year, housing delivery will broadly include 90,000 homes per year in London and the South East, 70,000 in the Midlands, 60,000 in the North of England, 35,000 in the South West and East of England, 30,000 across Scotland, Wales and Northern Ireland, and 15,000 in smaller towns and rural communities.¹³²

Infrastructure Integration

Housing development will be coordinated with infrastructure investment to ensure that new housing is supported by transport, schools, healthcare facilities, and utilities.

Impact on Affordability

The policies in this chapter will benefit households across the income distribution, with the largest benefits accruing to renters and lower-income households.

Increased housing supply will moderate house price growth and rental inflation, improving affordability for first-time buyers and renters.¹³⁴

Socio-Economic Benefits of Housing Policies

Expansion of social housing will reduce waiting lists and improve housing stability for low-income households.

The National Homelessness Eradication Strategy will provide stable housing and support services for individuals currently experiencing homelessness, significantly improving long-term health and employment outcomes.

Construction expansion will also create employment opportunities across construction, engineering, and related sectors.

Overall, these policies will reduce housing inequality, improve living standards, and strengthen economic mobility.

Chapter 3: Projected Outcomes and Targets

Within five years the policies in this chapter are expected to deliver 300,000 homes per year, of which 240,000 annually through the National Housing Delivery Programme, to completely eradicate homelessness, to reduce housing inflation by 0.6 to 1.0 percentage points, to increase GDP growth by 0.3 to 0.5 percentage points, and to support 90,000 to 120,000 jobs across construction and related sectors.

Strategic Significance

Together these policies represent one of the most ambitious housing strategies implemented in modern British economic policy.

Financial Summary: Chapter 3 Total Spending

Policy	Annual Cost	5-Year Total
Policy 3.1: National Housing Delivery Programme	£6.2bn/yr	£31.0bn
Policy 3.2: National Homelessness Eradication Strategy	£0.8bn/yr	£4.0bn
Total Chapter 3 Spending	~£7.0bn/yr	£35.0bn

Chapter 3 represents a total public investment of approximately £7.0 billion per year, scaling to £35.0 billion over five years.¹³² The Year 1 figure of £6.2 billion for the National Housing Delivery Programme reflects the phased ramp-up from 220,000 homes in Year 1, with capital investment rising as construction capacity and planning reform delivery mature.¹³² This spending envelope is consistent with the Budget's Year 1 total spending of £95 billion set out in the Conclusion's Fiscal Strategy table.

Chapter 4: Business, Industry & Innovation

Industrial and technological development is a critical driver of long-term economic growth, productivity, and competitiveness.

The United Kingdom faces several structural challenges in its business and industrial sectors, including high fixed costs for small and medium enterprises (SMEs), a reliance on overseas supply chains, uneven adoption of advanced manufacturing technologies, and limited capacity for high-end innovation.

This chapter outlines a comprehensive programme designed to strengthen the industrial base, stimulate innovation, and improve productivity across the economy.

Comprehensive Business Support Strategy

The programme combines cost relief, targeted investment, research and development (R&D) incentives, and policy reforms aimed at creating a supportive environment for both established companies and emerging businesses.

The United Kingdom's productivity problem is, at its core, a business-investment problem. Business investment as a share of the economy has lagged behind comparable countries for much of the past two decades, and the gap compounds over time: firms that do not invest in new equipment, processes and skills fall progressively further behind international competitors, and the effect accumulates across the whole economy into the persistent productivity shortfall that constrains wages and living standards. This underinvestment is not primarily a failure of ambition on the part of British business but a product of specific, addressable conditions: a high cost of capital for smaller firms, short-termism in financial markets, gaps in the supply of patient growth capital, and an innovation system that generates world-class research but struggles to translate it into scaled domestic industry.¹⁸⁴

The measures in this chapter are designed to address those conditions directly rather than to subsidise business in general. Each targets a specific market failure, an area where the private return to an individual firm falls short of the return to the economy as a whole, which is the classic justification for public action. Support for advanced manufacturing rebuilds the industrial clusters and supply chains from which all firms in a region benefit; the digital and AI fund accelerates the diffusion of proven technology into firms that would otherwise adopt it too slowly; and the creative-industries credit sustains a mobile, high-growth export sector that would otherwise migrate to jurisdictions offering better terms. Throughout, the aim is to raise the private incentive to invest to the level the national interest requires, and then to let the market allocate that investment, rather than to substitute government judgement for commercial judgement.²¹⁶

The chapter's measures are designed to work together rather than in isolation. The Advanced Manufacturing Strategy rebuilds the industrial base and the supply chains that depend on it; the AI and Digital Expansion Fund spreads productivity-raising technology through the wider economy; and the Creative Industries Tax Credit supports one of the country's fastest-growing export sectors. Each is directed at a different part of the economy, but all share the same purpose: to raise business investment, lift productivity and create high-value, well-paid jobs across every region rather than in a few already-prosperous places. Taken together they form a coherent programme for a more productive, more resilient and more balanced economy.²¹⁶

The rationale for an active industrial strategy is that several of the barriers holding British business back are ones the market cannot resolve on its own. Investment in research, skills and shared infrastructure produces benefits that spill over to other firms, so each individual business invests less than would be best for the economy as a whole. Access to growth capital is uneven, with promising firms often unable to fund the leap from a proven product to national or international scale. And decades of short-term decision-making have left the United Kingdom with lower business investment than most comparable economies, a gap that shows up directly in weaker productivity. A well-designed strategy does not attempt to replace the market or pick winners; it corrects these specific failures, lowering the cost and risk of the investment, innovation and scaling that a competitive economy depends on, and concentrating support where Britain has genuine strengths and where global demand is growing.

Policy 4.1: Advanced Manufacturing Strategy

The UK's manufacturing sector has faced challenges related to offshoring, ageing capital stock, and uneven adoption of automation technologies.

Strategic Initiatives for Domestic Production

Reshoring advanced manufacturing and creating industrial clusters is essential for supply chain resilience and export growth.

The Advanced Manufacturing Strategy introduces capital grants, co-investment facilities, and the development of regional industrial clusters to encourage domestic production.

Grants will be targeted to high-value sectors such as semiconductors, green technology manufacturing, advanced robotics, and pharmaceuticals.

Shared facilities will allow smaller firms to access expensive machinery and research infrastructure.

Reshoring is not pursued for its own sake but for the resilience and value it brings. The disruptions of recent years exposed the fragility of extended global supply chains, and the ability to manufacture critical goods domestically, from semiconductors to medicines, has become a matter of economic security as well as efficiency. Bringing high-value production back to Britain also captures more of the value chain at home, since the largest returns in modern manufacturing accrue to design, advanced production and specialised components rather than to low-cost assembly. The strategy is careful to target the activities where domestic production is genuinely competitive rather than attempting to reshore everything, which would be neither achievable nor desirable.

The case for an active manufacturing strategy rests on a set of market failures that the sector cannot overcome alone. Individual firms underinvest in the shared infrastructure, skills and supply chains from which the whole sector benefits, because no single firm captures the full return; decades of underinvestment in capital equipment have left much of British industry working with ageing plant that is less productive than international rivals; and the clustering of specialist suppliers, skilled labour and research that makes manufacturing regions competitive is difficult to recreate once it has been lost. The strategy addresses each of these directly. Capital grants and co-investment lower the cost of modernising plant and adopting automation, which raises productivity and helps close the gap with international competitors. Regional industrial clusters rebuild the dense networks of suppliers and skills on which advanced manufacturing depends, and the focus on high-value sectors such as semiconductors, green technology, robotics and pharmaceuticals concentrates support where the United Kingdom has genuine strengths and where global demand is growing fastest.

Impact and Scope of the Policy

The policy focuses on reshoring production, increasing automation, and improving global competitiveness.

It will directly affect manufacturers and SMEs engaged in high-tech production, while traditional low-margin industries are less affected but benefit indirectly through a stronger supply chain.

Implementation Mechanisms

Mechanism: matching grants, co-investment in regional industrial parks, and provision of shared innovation infrastructure.

Economic Benefits and Programme Projections

The policy is expected to cost £1.8 billion per year.¹³² Its impacts include an estimated 12 per cent increase in exports, improved supply chain resilience, and increased adoption of advanced manufacturing techniques.^{77,73}

Policy 4.2: The AI & Digital Expansion Fund

Digital innovation, AI deployment, and frontier R&D are essential for maintaining productivity growth.

Many firms face high costs in adopting AI infrastructure, such as cloud compute, data management, and regulatory compliance for testing new products.

AI & Digital Expansion Fund Initiatives

The AI & Digital Expansion Fund provides compute credits, R&D grants, and access to regulatory sandboxes for emerging and established companies in high-tech sectors. This fund supports adoption of AI tools by companies outside the AI sector itself, for example, a hospital trust or logistics firm using AI to improve existing operations, and is distinct from the AI-sector company development funding in Chapter 6.1 and 6.3, which supports firms whose core business is building AI products. A single project cannot draw on both; where a company's activity could plausibly fall under either, it is classified by its core business, not by its use of AI tools.

The economic rationale for this fund is that the largest productivity gains from digital technology come not from the firms that build it but from its adoption across the wider economy, and that adoption is held back by barriers that public support can lower. A logistics company, a manufacturer or a hospital trust that could raise its productivity substantially by deploying existing AI tools often does not, because the upfront costs of compute, data infrastructure and the expertise to implement them are high and the returns uncertain. This is a classic diffusion problem: the technology exists and is proven, but its spread through the economy is slow and uneven, concentrated among large firms with the resources to experiment while smaller and traditional businesses fall behind. By providing compute credits, implementation grants and access to regulatory sandboxes, the fund lowers the cost and risk of adoption for exactly the firms that would otherwise be left behind, accelerating the diffusion on which economy-wide productivity growth depends and helping to close the widening gap between the most and least digitally advanced firms.

The fund focuses on frontier productivity and aims to accelerate AI adoption in sectors like healthcare, finance, manufacturing, and logistics.

AI Adoption and Economic Growth Fund

This policy will primarily affect technology startups, SMEs seeking to adopt AI, and large companies exploring AI-based automation.

Non-tech traditional sectors will be indirectly affected through competitive pressures.

Mechanism: public cloud credits for qualifying firms, grants for AI R&D, and the creation of testbeds and sandboxes to safely deploy experimental AI applications.

The fund is expected to cost £1.3 billion per year, and to contribute an estimated 0.4 percentage points to productivity growth, alongside faster AI adoption across the wider economy.^{132,108}

Policy 4.3: Creative Industries Tax Credit

The creative sector contributes significantly to the UK economy, both domestically and through cultural exports.

However, investment in films, TV, gaming, and digital content faces high upfront costs and revenue uncertainty.

A Labour government should introduce a 40% refundable tax credit for creative production.¹³²

Scope and Benefits of the Production Credit

This credit will apply to qualifying production expenses for film, television, music, gaming, and digital media content.

Refundable credits mean that even firms without immediate taxable profits can benefit, ensuring startups and smaller companies receive meaningful support.

The creative industries are among the United Kingdom's genuine competitive strengths, a sector in which the country punches well above its weight internationally and which generates substantial cultural exports alongside its direct economic contribution. They are also unusually mobile: film, television and games production can be located almost anywhere, and studios make location decisions substantially on the basis of the tax treatment different countries offer, which is why most of Britain's competitors operate production incentives of this kind. A refundable credit matters particularly because so many creative firms are young and pre-profit; a non-refundable credit would be worthless to a startup studio with no tax liability against which to set it, whereas a refundable one delivers real support to exactly the small and emerging companies where much of the sector's growth and innovation originates. The wider return is larger than the production activity itself, because a thriving creative sector supports tourism, retains and attracts skilled talent, and sustains a broad ecosystem of suppliers and freelancers, so the credit should be understood as an investment in a high-growth export industry rather than as a subsidy to culture.

Policy Objectives and Affected Parties

Policy rationale: encourage domestic production, retain talent in the UK, and increase cultural exports while supporting tourism and associated industries.

This policy will primarily affect companies in the creative industries, including production studios, game developers, and content creators.

Traditional industries and individuals outside creative production are not affected.

Financial Projections and Anticipated Outcomes

The credit is expected to cost £0.75 billion per year, with impacts including increased cultural exports, higher international production activity in the United Kingdom, and stronger retention of creative talent.¹³²

Industrial and Regional Impact

Collectively, these policies aim to strengthen both the UK's industrial base and regional economies.

Targeted Sectoral Investments

Manufacturing clusters will target the North and Midlands, where traditional industries have been underperforming.

AI and digital funds will concentrate in urban hubs with high-skilled labour pools, supporting innovation in cities such as London, Manchester, and Cambridge.

Creative industries tax credits will support regional studios, attracting projects to cities outside the capital.

Economic Objectives and Outcomes

Overall, the combined policies are designed to reduce fixed costs, increase investment, improve productivity, and ensure long-term competitiveness.

By strategically focusing support on sectors with high growth and spillover potential, the UK can achieve balanced economic expansion while improving employment opportunities and innovation capacity across the country.

Financial Summary: Chapter 4 Total Spending

Policy	Annual Cost	5-Year Total
Policy 4.1: Advanced Manufacturing Strategy	£1.8bn/yr	£9.0bn
Policy 4.2: AI & Digital Expansion Fund	£1.3bn/yr	£6.5bn
Policy 4.3: Creative Industries Tax Credit	£0.75bn/yr	£3.75bn
Total Chapter 4 Spending	~£3.85bn/yr	£19.25bn

Chapter 4 represents a total public investment of approximately £3.85 billion per year, totalling £19.25 billion over five years.¹³² Policy costs reflect Year 1 deployment rates: the Advanced Manufacturing grants and AI fund ramp up as industrial partnerships and application pipelines mature, while the Creative Industries Tax Credit scales with qualifying production volumes. Together these figures are consistent with the Budget's overall Year 1 spending envelope of £95 billion as set out in the Conclusion's Fiscal Strategy table.¹³³

Chapter 5: Enhancing Public Services and State Capacity

Overview

High-quality public services underpin economic growth, social stability, and public confidence in the state.

Over the past decade, rising demand, demographic pressures, and underinvestment in key areas, including healthcare, education, defence, justice, and immigration systems, have limited both public service outcomes and wider economic potential.²²⁹

Proposed Programme of Investment and Reform

This chapter sets out a programme of targeted investment and reform, designed to improve efficiency, expand capacity, and strengthen outcomes across public services.

Funding is allocated strategically, focusing on areas where interventions yield the largest returns in social, economic, and fiscal terms.

The framing of public services as a source of economic return, rather than solely as a cost, runs through the whole chapter. A health service that clears its backlog returns people to work and reduces the benefits bill; an education system that raises skills lifts long-run productivity and wages; a functioning justice and asylum system reduces the large hidden costs that delay and dysfunction impose elsewhere. This is not an argument that all spending pays for itself, and the chapter does not claim that it does. It is an argument for prioritising the areas where the social and fiscal returns are highest and most measurable, and for treating investment in state capacity as part of the growth strategy rather than as a residual to be minimised.²²⁹

The key areas for investment are reducing NHS waiting lists and improving healthcare outcomes, lowering class sizes and increasing skills in education, strengthening national defence capability and technological readiness, enhancing border security, asylum processing and human trafficking enforcement, improving efficiency in the justice system, and upgrading transport and local government capacity.²⁰⁵

Anticipated Economic and Social Benefits

Investment in these areas is expected to support sustainable GDP growth, improve productivity, reduce unemployment, and enhance public confidence.

The sequencing of that investment matters as much as its scale. Capacity that takes years to build, such as training additional clinicians or expanding the further-education estate, must be commissioned early even though its returns arrive late, while measures that can relieve immediate pressure, such as contracting spare diagnostic capacity or funding overtime to clear backlogs, can be deployed at once. The chapter is structured around that distinction, front-loading the interventions that shorten waiting times and return people to work quickly, because those carry the fastest fiscal payback, while also making the slower-maturing investments in workforce and infrastructure on which the long-run improvement in productivity depends. Throughout, the emphasis is on capacity and reform together: additional funding is tied to changes in how services are delivered, so that the money buys more output rather than simply absorbing higher costs.^{223,205}

Policy 5.1: NHS Capacity and Productivity Expansion

Policy Description

A Labour government should provide a targeted increase in NHS funding of £5.4 billion per year, building on existing NHS budgets to expand service capacity and improve efficiency.¹³²

The key components include the expansion of elective care capacity, including additional operating hours at weekends and in the evenings, and increased diagnostic capacity, such as MRI scanners and testing laboratories, to reduce delays in treatment.

Key Policy Initiatives

Alongside these, the programme funds workforce retention measures, including targeted pay support, training and improved working conditions; the digitisation of administrative systems to reduce bureaucracy and improve patient flow; the expansion of preventative healthcare programmes to reduce long-term treatment costs; and greater reliance on community-based care to relieve pressure on hospitals.

Addressing Systemic Issues and Long-Term Sustainability

This policy directly addresses capacity constraints that currently produce long waiting lists and reduce effective labour participation.²⁰⁵

Long NHS waiting lists prevent individuals from participating fully in the labour market and can exacerbate health inequalities.¹⁹⁹

Delayed care often increases costs in the long term due to more complex treatment requirements.

By improving productivity and throughput, the NHS can deliver higher-quality care without unsustainable long-term cost growth.

The design reflects a specific diagnosis of what has gone wrong. Much of the recent deterioration in NHS performance is not simply a matter of too little money but of capital starvation and workforce attrition: too few scanners, theatres and beds for the staff to work with, and too many experienced clinicians leaving faster than new ones can be trained. Additional funding that merely raised activity within the existing constraints would quickly hit those bottlenecks. The allocation here is therefore weighted toward the binding constraints, diagnostic equipment, elective capacity and retention of existing staff, because relieving them yields more additional treatment per pound than a general uplift would. The explicit link to labour-market participation is central: every person kept out of work by an untreated condition represents both a human cost and a fiscal one, in lost tax receipts and higher benefit spending, so measures that return people to health are among the highest-return uses of public money available.²⁰⁵

Stakeholder Impact

The beneficiaries are NHS patients and staff, and employers through reduced absenteeism.

Economic and Financial Implications

The policy is estimated to raise GDP growth by 0.1 to 0.2 percentage points a year through higher labour participation, to reduce unemployment by 0.05 to 0.1 percentage points, and to exert slight downward pressure on inflation of around 0.05 percentage points through increased labour supply, while delivering medium-term savings in the public finances from reduced emergency and advanced care requirements.¹⁴⁵

Policy 5.2: Education Investment and Class Size Reduction

Education funding will be increased by **£3.2 billion per year** to reduce class sizes, expand school capacity, and improve skills outcomes.¹³²

The key measures are the recruitment of additional teachers to lower average class sizes, the expansion of school infrastructure in high-demand areas, funding for further education, technical colleges and lifelong learning initiatives, and targeted support for disadvantaged students to close attainment gaps.

Benefits of Educational Reforms

Smaller class sizes and targeted investment in skills are strongly correlated with improved educational outcomes and long-term productivity.

These reforms ensure the future workforce is more skilled and capable, benefiting both social outcomes and economic performance.^{163,162}

The evidence on class size is nuanced, and the policy is designed with that nuance in mind rather than against it. Reductions in class size produce the clearest gains in the earliest years of schooling and for disadvantaged pupils, which is why the additional teaching resource is weighted toward primary education and toward schools serving the most deprived intakes, rather than spread thinly across the whole system. The parallel emphasis on further education and technical training reflects a long-standing imbalance in British skills policy, which has historically channelled resource toward the academic route while under-investing in the vocational and technical qualifications on which much of the economy depends. Correcting that imbalance is one of the more cost-effective supply-side measures available, because technical skills shortages are among the most persistent constraints on productivity in manufacturing, construction and the trades, and because lifelong learning allows the existing workforce, not only new entrants, to move into higher-value work.

Stakeholders and Financial Implications

The beneficiaries are students, teachers and employers seeking skilled labour. There are no changes to tuition fees or direct taxation.

Projected Economic and Social Impacts

The reforms are estimated to raise GDP growth by 0.05 to 0.1 percentage points annually over the medium term and productivity by 0.2 to 0.4 percentage points, while reducing educational attainment gaps. The effect on inflation is neutral.

Policy 5.3: Border Security, Migration Reform, and Asylum System Capacity

Funding will increase by **£2.5–3 billion per year** to improve border security, human trafficking enforcement, legal migration channels, and asylum processing.⁷⁰

The approach rests on a distinction that is often lost in the political debate: between managing migration effectively and simply reducing it. A system that cannot process asylum claims promptly is both more expensive and less humane than one that can, because applicants languish for years in taxpayer-funded accommodation, unable to work and contribute, while genuine cases and unfounded ones alike remain unresolved. Investment in faster processing therefore pays for itself by reducing the accommodation costs that dominate the current asylum bill, while allowing those with a right to remain to begin contributing sooner and those without one to be returned more quickly. Enforcement against trafficking and smuggling networks addresses the criminal exploitation that drives much irregular migration, and the creation of properly managed legal routes reduces the demand for dangerous irregular crossings, which is both a humanitarian gain and the most effective way to undercut the smugglers' business model.

Migration Management Initiatives

The initiatives comprise enforcement against human trafficking and people-smuggling networks, the expansion of intelligence capabilities for irregular migration detection, the creation of additional legal migration routes to reduce irregular flows, bilateral returns agreements including “one in, one out” mechanisms, and the expansion of staff and digital systems to accelerate asylum case processing.

Rationale for Asylum Processing Improvements

Current asylum processing delays are costly and reduce public confidence, while faster processing and more effective enforcement reduce both fiscal costs and irregular migration.⁷⁰

Stakeholders in Migration Policies

The beneficiaries are legitimate asylum seekers, taxpayers and local communities. Those affected are individuals engaged in illegal trafficking or irregular migration.

Projected Economic and State Impacts

The policy is estimated to raise GDP growth by 0.02 to 0.05 percentage points through improved labour allocation, to reduce long-term accommodation costs in the public finances, and to improve the efficiency and responsiveness of the state, with a neutral effect on inflation.

Policy 5.4: Justice System Recovery and Reform

Key Reforms and Investments for Court Backlog Reduction

Funding will increase by **£2 billion per year**, alongside structural reforms to reduce court backlogs.⁷¹

The key measures are the recruitment of additional judges and court staff, the expansion of court infrastructure and operating hours, the digitisation of legal processes, increased funding for legal aid, and the modernisation of prison facilities.

Justification for Systemic Improvements

Court backlogs delay justice, reduce economic activity and erode public trust.⁷¹

The economic dimension of justice is easily overlooked but real. A functioning court system is part of the infrastructure on which a market economy depends: businesses need to be able to enforce contracts and resolve disputes promptly, and long delays impose direct costs on commerce as well as on individuals waiting for their cases to be heard. The backlog that has built up in recent years means victims wait years for trials, defendants remain in limbo, and confidence in the system as a whole erodes. Clearing it requires both capacity and reform: more judges, staff and court time to work through the accumulated cases, and digitisation to make the process more efficient so that the backlog does not simply rebuild. Restoring legal aid matters for the same reason, since a system in which people cannot obtain representation is both unjust and, in practice, slower, as unrepresented parties take longer to process. The return on this spending is a justice system that once again delivers timely outcomes, with benefits that extend well beyond the courts themselves.

Faster, more efficient justice systems promote contract enforcement, business confidence, and social stability.

Stakeholder Impact Analysis

The beneficiaries are victims, businesses and legal professionals. Taxpayers are not subject to any specific new levies.

Projected Economic and Financial Outcomes

The reforms are estimated to raise GDP growth by 0.03 to 0.06 percentage points and to increase business confidence through better legal enforcement, with a slight reduction in unemployment via improved economic functioning and long-term savings in the public finances through reduced delays and court costs.

Policy 5.5: Transport and Local Government Capacity

An additional £2.8 billion per year will be invested to strengthen transport networks and local authority capacity.¹³²

The measures include the expansion of bus services and urban transit, rail electrification and station upgrades, increased local authority funding to deliver essential services, and investment in local infrastructure to support housing, education and healthcare.¹⁹⁴

Justification for Investment

Transport infrastructure supports labour mobility and productivity, and well-resourced local authorities improve public service delivery and economic efficiency.

Transport and local government capacity underpin much of the rest of this Budget. The housing programme depends on local authorities that can process planning applications and deliver the accompanying infrastructure; the productivity gains from a better-matched labour market depend on transport that lets people reach a wider range of jobs; and the wider improvement in public services depends on councils with the capacity to deliver them. Years of constrained local funding have left many authorities able to meet only their statutory obligations, with little capacity for the investment and planning that growth requires. Restoring that capacity, alongside targeted investment in buses, urban transit and rail, addresses a binding constraint on both housing delivery and regional economic performance, and it does so in a way that is felt directly in the daily experience of the communities it serves.

Stakeholder Impact Analysis

The beneficiaries are commuters, local residents and businesses reliant on transport. No new taxes or levies are linked directly to this policy.

Projected Economic Effects

The policy is estimated to raise GDP growth by 0.05 to 0.1 percentage points and to exert slight downward pressure on inflation through lower transport costs, while supporting balanced growth across regions.

Chapter 5 Summary

This programme of investment and reform across public services, security and state capacity will reduce NHS waiting lists and improve healthcare outcomes, reduce class sizes and improve educational attainment, improve asylum processing, border security and human trafficking enforcement, reduce justice system backlogs and increase efficiency, and enhance transport infrastructure and local government capacity.

Projected Macroeconomic Effects

Overall, the programme is estimated to raise GDP growth by 0.4 to 0.7 percentage points and to reduce unemployment by 0.1 to 0.2 percentage points, with slight downward pressure on inflation and improved long-term sustainability of the public finances through higher productivity, greater efficiency and targeted spending.

Financial Summary: Chapter 5 Total Spending

Policy	Annual Cost	5-Year Total
Policy 5.1: NHS Capacity and Productivity Expansion	£5.4bn/yr	£27.0bn
Policy 5.2: Education Investment and Class Size Reduction	£3.2bn/yr	£16.0bn
Policy 5.3: Border Security, Migration Reform and Asylum	£2.5–3.0bn/yr	£12.5–15.0bn
Policy 5.4: Justice System Recovery and Reform	£2.0bn/yr	£10.0bn
Policy 5.5: Transport and Local Government Capacity	£2.8bn/yr	£14.0bn
Total Chapter 5 Spending	~£15.9–16.4bn/yr	~£79.5–82.0bn

Chapter 5 represents public service investment of approximately £15.9–16.4 billion per year, covering the NHS, education, border security and the justice system.⁷⁰ Defence spending is set out separately in Chapter 5C, reflecting its distinct procurement cycles and alliance commitments. At the midpoint of approximately £16.6 billion per year, Chapter 5 forms part of the Year 1 spending envelope of £95 billion, consistent with the Conclusion's Fiscal Strategy table.⁷⁰ NHS and education spending are fixed-rate commitments; this is a more realistic assumption for these two areas than it would be for, say, housing construction, since the NHS increase is delivered mainly through additional hours from existing staff and equipment procurement (scanners, testing capacity) rather than training an entirely new clinical workforce, and class size reduction depends on existing teacher recruitment pipelines rather than a new skilled trade. Border and justice reforms scale with caseload efficiencies realised from Year 2 onwards.²⁰⁶

Chapter 5B: A Fair and Sustainable Welfare State

Britain's welfare system has become confusing, slow, and inconsistent.⁷² Claimants with fluctuating health conditions, unpaid carers, and people in low-paid work are too often treated with suspicion rather than respect, while the system simultaneously allows a small minority to claim fraudulently or to receive support they do not need. Nine overlapping legacy elements create duplicated assessment processes, conflicting eligibility rules, and unnecessary administrative cost.²⁰⁰

This chapter sets out a reform to simplify entitlement into a single coherent structure, reduce the financial penalty on moving into work, and redirect Jobcentres from a compliance function into an active employment service, while guaranteeing that no one currently entitled to support sees their award fall in real terms as a result of these reforms.⁵⁰ Savings are generated through better administration, stronger fraud and error controls, and more people moving into sustained work, not through reducing what any current claimant receives.

5B.1 A Simplified Tiered Structure

The current system spreads working-age and pension-age support across Universal Credit, Personal Independence Payment, Carer's Allowance, Attendance Allowance, the State Pension, Pension Credit, Council Tax Support, the Warm Home Discount, and the Winter Fuel Payment, each with its own claims process, assessment criteria, and review cycle.⁷² This reform consolidates entitlement into eight tiers, each with a clear purpose and a single point of access:

Tier	Group	Core Principle
Tier 0	Pensioners	Triple-locked State Pension; universal Winter Fuel Payment with no clawback.
Tier 1	Not currently seeking work	Basic income and housing support, with regular voluntary engagement offered, not mandated.
Tier 2	Jobseekers	Financial support paired with active job-matching through Employment Hubs.
Tier 3	Low-income workers	Earnings-tapered support at a reformed 40% taper, plus housing assistance.
Tier 4	Full-time carers	Unconditional support, indexed in line with inflation.
Tier 5	Disabled, not able to work	Comprehensive support including care and housing allowances, indexed in line with inflation.
Tier 6	Disabled, able to work	Tailored, flexible support with a personalised employment plan and no conditionality cliff-edge.
Tier 7	Discretionary and emergency	A funded contingency for complex cases that do not fit neatly into the other tiers.

Existing add-on support, the Warm Home Discount, Council Tax Support, and housing-related allowances, continues in full for everyone currently entitled to it. The reform changes how entitlement is administered, not the underlying protections people rely on.

5B.2 The Work Guarantee: No Current Claimant Receives Less

This reform is built around a single binding commitment: no individual currently entitled to support under the present system will see their real-terms award reduced as a direct result of moving to the new tiered structure. This is enforced through three mechanisms:

- **Transitional Top-Ups:** anyone whose calculated entitlement under the new tiers is lower than their current award receives an automatic, inflation-linked top-up for a minimum of two years, with a case-by-case extension where a claimant's circumstances have not changed.⁷²
- **A Welfare Ombudsman:** a new, legally independent body to handle disputes, investigate systemic errors, and publish an annual report on transition outcomes, sitting outside DWP's own management chain.
- **Automatic Migration:** claimants are moved to their new tier automatically based on existing DWP records, removing the burden of re-applying that caused hardship during the Universal Credit migration.

The only people who receive less under this reform are those who should never have qualified in the first place: confirmed fraudulent claims, and the small minority of high-income pensioners who, under the current Winter Fuel Payment clawback, already see part of their payment reclaimed by HMRC above £35,000 of individual income. This reform goes further by replacing the administratively complex clawback with a simpler high-income opt-out, while preserving full universal entitlement for everyone else.

5B.3 Reforming the Taper: Work Should Always Pay

Universal Credit currently withdraws benefit at 55p for every £1 earned above the work allowance.⁷² Once income tax and National Insurance are added on top, claimants moving into work or increasing their hours can face an effective marginal deduction rate of 67–75%, among the highest in the UK tax and benefit system.⁷² This reform reduces the Universal Credit taper from 55% to 40%, bringing the effective marginal deduction rate down to approximately 55–60% once tax and National Insurance are included, a meaningful and credible improvement in the incentive to take on additional hours or a better-paid role.¹³²

This is a deliberately calibrated change rather than an attempt to remove the taper altogether. The 2021 reduction from 63% to 55% cost approximately £2 billion per year and took around four years to generate any measurable net saving, as the employment response builds gradually rather than immediately.⁷² A reduction of this scale, applied responsibly, is expected to follow the same pattern: a real cost in the early years, with savings emerging from Year 3 onwards as more claimants move into sustained, higher-paid work.

Pensioners, full-time carers, and individuals assessed as unable to work due to disability are exempt from any taper, consistent with the unconditional nature of their support.

5B.4 Employment Hubs: From Gatekeeping to Active Support

Jobcentres will be reformed into Employment Hubs, shifting their primary purpose from monitoring compliance to actively matching claimants with employers and supporting sustained returns to work. This builds on the National Jobs and Careers Service, which brings Jobcentre Plus and the National Careers Service together into a single service from October 2026, and goes further by guaranteeing every claimant a structured, named-adviser route into work rather than the variable offer that exists today. Each Employment Hub will provide:

- One-to-one careers advice from a named adviser, who builds a personalised employment plan around the claimant's existing skills, experience, and the realistic opportunities in their local labour market, rather than directing everyone toward the same generic vacancies.
- Practical CV and application support, including one-to-one CV writing help, interview coaching and mock interviews, and guidance on tailoring applications to specific roles, recognising that this single piece of practical support is often the most immediate barrier between a claimant and their next interview.
- Active job search support, with advisers identifying and proposing specific, suitable vacancies rather than requiring claimants to demonstrate generic job-search activity, and direct referral into interviews wherever a Hub's employer partnerships allow it.
- Training courses mapped to a specific career path, identified jointly by the claimant and their adviser, including fully funded adult qualifications in high-demand fields such as construction, engineering, digital, and care, delivered through colleges and training providers rather than as generic, disconnected modules.
- Sector-based work academy placements of up to six weeks, combining short pre-employment training with a real work placement and, on completion, a guaranteed interview with the partner employer, building on the existing Sector-based Work Academy Programme model and extending its availability to all Hubs.
- A dedicated, flexible employment pathway for Tier 6 (disabled, able to work) claimants, recognising that conditionality designed for jobseekers is often unsuitable for this group.
- Financial and non-financial incentives for sustained employment outcomes, paid to claimants and, where appropriate, to delivery partners.

Delivering this requires lower adviser-to-claimant ratios than Jobcentres operate today, and formal partnerships with local employers and training providers so that reserved work placement and apprenticeship routes are genuinely available, not just notionally offered. This model follows the principle behind the current Pathways to Work programme and the Sector-based Work Academy Programme, but extends both into a universal service available to all claimants capable of work, rather than a targeted intervention for a subset of the caseload. The test of success for an Employment Hub is not how closely a claimant has complied with reporting requirements, but whether they have moved into work that they are able to sustain.

5B.5 Up-rating: Protecting Value Without Uncontrolled Growth

The State Pension continues to be indexed using the triple lock (the highest of inflation, average earnings growth, or 2.5%).⁷² Carer's Allowance and support for those assessed as unable to work due to disability are indexed to inflation, consistent with current policy. Jobseeker and low-income worker support is also indexed to inflation, consistent with the principle that conditional, work-focused support should track the cost of living. Housing and Council Tax Support continue to be adjusted regionally to reflect local cost variation.

Because Carer's Allowance and disability support continue to be indexed to inflation, as is currently the case, this reform introduces no additional up-rating cost beyond the baseline forecast already built into the public finances. The financial summary below therefore reflects only the costs and savings of the structural reforms described elsewhere in this chapter, not any change in how these payments are up-rated.

5B.6 Fraud, Error, and Administrative Simplification

DWP's own published target is to reduce fraud and error by £9.6 billion cumulatively by 2030 through a dedicated crackdown.¹³² This reform supports that ambition directly: a single tiered structure with one identity-verification and case-tracking system, replacing nine overlapping legacy processes, makes both errors and fraudulent claims significantly harder to sustain. The identity-verification and data-matching system is rolled out across all eight tiers from Year 1, rather than phased in gradually by tier, bringing forward savings that would otherwise have taken longer to build. This accelerated timeline is judged deliverable because the underlying technology mirrors digital tax systems already proven in comparable jurisdictions, reducing the design and testing lead time that would normally apply to a new system built from scratch.

5B.7 Financial Summary

The reform carries a net cost in Years 1 to 3, as transition costs and the taper reduction precede the employment, administrative, and fraud and error savings that build over time. The programme crosses into net saving during Year 4 and reaches a saving of approximately £5.00 billion per year by Year 5, consistent with the real-world precedent of the 2021 Universal Credit taper reduction and the Government's own published fraud and error reduction target of £9.6 billion cumulatively by 2030.⁷² Fraud and error savings are phased in faster than the Government's published timetable, reflecting an accelerated rollout of the single identity-verification and data-matching system across all eight tiers from Year 1.

Policy / Measure	Year 1	Year 2	Year 3	Year 4	Year 5
5B.2/5B.6 Transition and admin simplification (net)	+£0.3bn cost	+£0.1bn cost	–£0.3bn saving	–£0.8bn saving	–£1.5bn saving
5B.3 Taper reduction to 40% (gross cost)	+£3.5bn cost	+£3.4bn cost	+£3.3bn cost	+£3.25bn cost	+£3.2bn cost
5B.3 Taper reduction, employment response	,	–£0.2bn saving	–£0.5bn saving	–£0.8bn saving	–£1.3bn saving
5B.4 Employment Hubs (gross cost)	+£2.5bn cost	+£2.5bn cost	+£2.5bn cost	+£2.5bn cost	+£2.5bn cost
5B.4 Employment Hubs, employment response	–£0.5bn saving	–£1.5bn saving	–£2.7bn saving	–£3.6bn saving	–£4.5bn saving
5B.6 Fraud and error reduction	–£1.3bn saving	–£2.0bn saving	–£2.6bn saving	–£3.2bn saving	–£3.8bn saving
Universal Winter Fuel Payment (remove clawback)	+£0.35bn cost	+£0.37bn cost	+£0.38bn cost	+£0.39bn cost	+£0.4bn cost
Net Annual Effect	+£4.85bn net cost	+£2.65bn net cost	+£0.10bn net cost	–£2.25bn net saving	–£5.00bn net saving

These figures are included in the Budget's overall Year 1 spending envelope of £95 billion and the growth and welfare gains that build through to Year 5, set out in the Conclusion's Fiscal Strategy table.⁷² No figure in this table is achieved by reducing any current claimant's entitlement; all savings come from administrative efficiency, fraud and error reduction, and people moving into sustained work on better terms than before.

5B.8 Distributional Impact

This reform is progressive by design. The taper reduction and Employment Hub investment benefit low and middle-income working-age households disproportionately, since these are the groups whose effective marginal tax rates are currently highest. Pensioners retain full triple-lock protection and universal Winter Fuel Payment access. Carers and disabled people unable to work retain unconditional, inflation-protected support, consistent with current policy. The only households who see a reduction in support are those engaged in confirmed fraud, and the small number of very high-income pensioners affected by the high-income opt-out, who were already losing part of their Winter Fuel Payment under the existing clawback.

Taken together with the housing supply measures in Chapter 3 and the labour market effects of Chapter 6, this reform is expected to make a measurable contribution to reducing the Gini coefficient for disposable income over the five-year period, consistent with the inequality analysis set out in the Conclusion.

5B.9 Wider Economic Effects

As set out in the Financial Summary, this chapter is in net cost during Years 1 to 3 and reaches a net saving of approximately £5.00 billion per year by Year 5, an improvement to the fiscal position that builds gradually as the taper reduction, Employment Hub investment, and accelerated fraud and error reduction take effect.¹³² This pattern mirrors the real-world precedent of the 2021 Universal Credit taper reduction, which took around four years to generate a measurable net saving.

Employment: the taper reduction strengthens the incentive to work additional hours for the several million Universal Credit claimants who are already in part-time or low-paid work, since each additional pound earned is now withdrawn at 40% rather than 55%.⁶¹ Most of the chapter's combined £5.0 billion annual saving from employment response by Year 5 reflects this intensive-margin effect, existing claimants working more hours and earning more, rather than people newly entering the labour market.¹³² Alongside this, the combination of the taper reduction and the Employment Hubs' active job-matching model is estimated to move an additional 40,000–70,000 people from unemployment into sustained work by Year 5.⁶¹

Unemployment: this extensive-margin effect is estimated to reduce headline unemployment by approximately 0.1–0.2 percentage points by Year 5, a modest but real contribution to the Budget's overall unemployment target of 4.1%, alongside larger contributions from the housing, business investment, and industrial strategy chapters.¹³²

Growth: the combined effect of higher earnings among existing claimants, additional people in work, and reduced administrative drag on the labour market is estimated to add approximately 0.05–0.15 percentage points to annual GDP growth from Year 3 onwards, once the employment response has had time to build. This is a smaller contribution than the Budget's capital-investment-driven measures, since this chapter operates primarily through labour supply and work incentives rather than new capital spending.

Inflation: this chapter is not expected to have a material independent effect on inflation. Its net spending in the early years (£4.85 billion in Year 1, falling to a net saving by Year 4) is too small relative to the size of the economy to move inflation on its own, and its effect on labour supply, drawing more people into work and increasing the hours of existing low-paid workers, modestly eases wage pressure in low-pay sectors, broadly consistent with, rather than working against, the Budget's wider disinflationary path.¹³²

Chapter 5C: Defence, Security and National Resilience

5C.1 Strategic Context

The security environment facing the United Kingdom has deteriorated materially since 2022.⁶⁵ Russia's war in Ukraine has become a prolonged industrial conflict, testing munitions stockpiles and production capacity rather than peacetime readiness alone. The conflict between Israel, the United States and Iran in early 2026 demonstrated how quickly regional escalation can disrupt global energy markets and shipping routes with direct consequences for UK households, as set out in Chapter 1. Attacks on undersea cables, satellite systems and critical national infrastructure have become routine features of grey-zone competition rather than exceptional events.

Defence spending in this Budget is therefore treated as a distinct chapter rather than a component of general public service provision. Defence procurement operates on ten to thirty year cycles, depends on industrial capacity that cannot be created at short notice, and is subject to alliance commitments that extend well beyond the five-year window of this Budget. Setting it out separately allows both the near-term funding position and the longer trajectory to 2035 to be examined honestly.²²⁴

5C.2 Position on the Defence Investment Plan

We support the Defence Investment Plan published in June 2026, which set out a £298 billion programme covering 2026/27 to 2029/30 and a headline £15 billion uplift on the 2025 Spending Review settlement.⁶⁴ Its capability priorities are broadly the right ones, and its emphasis on munitions resilience and industrial capacity reflects the lessons of the war in Ukraine.

Our disagreement is with its financing rather than its content. Independent analysis by the International Institute for Strategic Studies concluded that only around £11.5 billion of the £15 billion headline uplift represented genuinely new money, of which the Treasury had confirmed £10.3 billion.^{64,132} The remaining £4.7 billion was left unresolved and marked in the plan's own documentation as to be funded at Budget 2026, including £1.8 billion required in the first year.¹³² Defence chiefs separately assessed that fully closing the capability gap required approximately £28 billion, some £13 billion more than the plan delivered.

A plan whose own financing is incomplete is not a settled commitment. This Budget would fund the £4.7 billion shortfall in full and adds substantial further investment on top of it.¹³²

5C.3 Additional Investment in This Budget

This Budget would commit the following additional resources above the Defence Investment Plan baseline:

Shortfall closure: £1.8 billion in Year 1, £1.5 billion in Year 2 and £1.4 billion in Year 3, totalling £4.7 billion, closing the unfunded element of the existing plan so that its stated capability targets are actually financed.¹³²

Core defence uplift: £8.0 billion in Year 1 rising to £10.0 billion by Year 5, directed at personnel, readiness, maintenance and the equipment programme.¹³²

Next-Generation Defence Capabilities Programme: £2.5 billion in Year 1 rising to £8.3 billion by Year 5, funding the ten priority areas set out in Section 5C.5.¹³² The programme is deliberately back-loaded: industrial capacity, skilled labour and production lines cannot absorb large sums immediately, and the steeper increases in Years 3 to 5 follow the lead times required to expand manufacturing capability.

Combined, this represents additional defence investment of £12.3 billion in Year 1 rising to £18.3 billion in Year 5, or £75.45 billion over the five-year period.¹³³ Taken together with the Defence Investment Plan baseline, total core defence expenditure rises from approximately £83 billion in Year 1 to £102.6 billion in Year 5, reaching 3.0 per cent of GDP.^{64,65}

5C.4 How the £4.7 Billion Shortfall Is Funded

The shortfall is funded from the general revenue package set out in Chapters 7A to 8, not from borrowing and not from reductions elsewhere in this Budget. Its cost is carried in the Conclusion's Fiscal Strategy table: the Year 1 net fiscal improvement is £2 billion, where without the defence commitments in this chapter it would have been approximately £6 billion.¹³² We have not attempted to present this spending as free.

Three revenue sources in particular carry this cost, chosen because their receipts arrive early and are comparatively insensitive to behavioural response:

The Share Buyback Tax (Chapter 7B): approximately £0.8 billion in Year 1 rising to £1.0 billion thereafter.¹³² Because it is levied on the corporate transaction rather than on shareholder residence, it cannot be avoided through personal relocation, making it a reliable base for a standing commitment.

Accelerated fraud and error reduction (Chapter 5B): £1.3 billion in Year 1 rising to £3.8 billion by Year 5.¹³² Bringing this programme forward releases approximately £0.4 billion in Year 1 and £0.6 billion in Year 2 towards the shortfall.¹³²

The Infrastructure Uplift Capture Levy (Chapter 7H): the shortfall is part-funded through this levy, which yields approximately £0.6 billion per year in receipts.¹³²

These three sources together cover the Year 1 requirement of £1.8 billion with a modest margin, and the Year 2 and Year 3 requirements of £1.5 billion and £1.4 billion comfortably.¹³² From Year 4 the shortfall closure is complete and these receipts revert to the general envelope.

Reaching 2.90 per cent of GDP by Year 5 requires a further £9 billion above the profile set out in Section 5C.3, arising as £1.3 billion in Year 3, £3.4 billion in Year 4 and £4.3 billion in Year 5.¹³² This is funded by three additional revenue measures introduced in Year 3, timed to coincide with the step-up in the capability programme. Each is offset pound for pound against the additional spending, so that the net fiscal improvement in Years 3 to 5, and therefore the path to a 90 per cent debt-to-GDP ratio, is unchanged. None involves an increase in income tax, National Insurance or VAT.

Tax gap reduction and HMRC compliance capacity: £0.8 billion in Year 3, rising to £2.0 billion in Year 4 and £2.6 billion in Year 5, stated net of programme costs.¹³² The UK tax gap is estimated at approximately £40 billion per year, and additional compliance capacity is among the highest-yielding uses of public expenditure available.¹³² This measure is pro-growth in a direct sense: businesses that pay what they owe currently compete against those that do not, and closing that gap raises the return to compliant investment rather than taxing it. Funding is provided for additional HMRC compliance and investigation staff, expanded data-matching against third-party information, and enforcement against organised VAT, excise and payroll fraud. No rate is increased and no new liability is created for any compliant business.

Carbon Border Adjustment Mechanism extension: £0.5 billion in Year 3, rising to £0.6 billion in Year 4 and £0.7 billion in Year 5.¹³² The UK Carbon Border Adjustment Mechanism, which took effect in January 2027, applies a carbon price to imports of aluminium, cement, fertiliser, hydrogen, iron and steel. Glass and ceramics were left out of the initial scope, and indirect emissions were deferred to 2029 at the earliest. This Budget completes the mechanism by extending coverage to glass, ceramics and downstream derivative products, and by bringing indirect emissions into scope from Year 3. This measure is pro-growth by construction. It removes the competitive penalty that UK manufacturers currently face against imports produced without an equivalent carbon price, which raises the return on domestic industrial investment rather than reducing it, and it reinforces the decarbonisation programme in Chapter 2 and the advanced manufacturing strategy in Chapter 6. The revenue is raised from imports that displace UK production, not from UK production itself.¹⁹⁰

Private Aviation and Premium Cabin Duty (Chapter 7E): £0.8 billion in Year 4 and £1.0 billion in Year 5.¹³² A reformed rate structure applying substantially higher duty to private and business aviation and to first and business class travel, consistent with the treatment of other luxury consumption in Chapter 7E. Economy travel rates are unchanged.

Taken together these measures raise £1.3 billion in Year 3, £3.4 billion in Year 4 and £4.3 billion in Year 5, exactly matching the additional defence requirement.¹³² Year 1 and Year 2 revenue is unaffected, and the Year 1 new revenue envelope remains £80 billion.¹³²

5C.5 Capability Priorities

The Next-Generation Defence Capabilities Programme is directed at ten areas, prioritised on the basis of where the existing plan is thinnest relative to assessed threat.

Allocation across the ten areas is set out below. Figures are in billions of pounds per year and represent the Next-Generation Defence Capabilities Programme only; they are additional to the Defence Investment Plan baseline and to the core defence uplift described in Section 5C.3.

Capability area (£bn)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
1. Air and missile defence	0.45	0.55	0.85	1.30	1.50	4.65
2. Drone warfare	0.35	0.40	0.60	0.85	0.95	3.15
3. Munitions and autonomous systems	0.50	0.60	0.90	1.25	1.40	4.65
4. Royal Navy	0.35	0.45	0.75	1.15	1.40	4.10
5. Cyber and electronic warfare	0.25	0.30	0.45	0.65	0.75	2.40
6. Space	0.15	0.20	0.30	0.45	0.55	1.65
7. Army modernisation	0.20	0.25	0.45	0.75	0.90	2.55
8. Nuclear enterprise	0.10	0.10	0.20	0.35	0.40	1.15
9. Industrial resilience	0.10	0.10	0.20	0.30	0.35	1.05
10. Artificial intelligence	0.05	0.05	0.10	0.10	0.10	0.40
Total programme	2.50	3.00	4.80	7.15	8.30	25.75

The profile reflects three judgements. First, air and missile defence and munitions production receive the largest shares, because these are the areas where the existing plan is most clearly inadequate relative to assessed threat. Second, allocations rise steeply from Year 3 because industrial capacity, not funding, is the binding constraint in the early years; committing more money in Years 1 and 2 than the supply base can absorb would raise prices rather than output. Third, artificial intelligence receives a comparatively small allocation within this chapter because the substantive national investment sits in Chapter 6, and what is funded here is defence-specific application rather than underlying capability.

1. Air and missile defence. The Defence Investment Plan allocated approximately £790 million to homeland air and missile defence across the whole of defence over four years, which is not proportionate to the threat demonstrated by sustained drone and missile attacks on European infrastructure. This Budget would fund the transition of DragonFire, the Royal Navy's directed energy weapon, from demonstrator to operational service by the end of 2026, a timeline the programme is already close to meeting. Directed energy is strategically significant because its marginal cost per engagement is measured in pounds rather than the hundreds of thousands of pounds required for a conventional interceptor, which reverses the cost asymmetry that currently favours the attacker in drone warfare. Alongside this, additional CAMM and Aster interceptor stocks are procured to restore depth of magazine, and ground-based radar coverage is expanded and integrated into a single air picture covering critical national infrastructure, ports and airbases rather than deployed forces alone.

2. Drone warfare. Ukraine's experience indicates consumption rates in the region of ten thousand small uninhabited aerial systems per month in sustained operations, a scale that cannot be met through conventional procurement cycles. This Budget would fund mass production capacity for reconnaissance and one-way attack drones built around commercially available components and open architectures, with deliberately short design lives and rapid refresh cycles rather than gold-plated specifications. Counter-drone capability is funded in parallel and layered: electronic warfare and jamming for volume threats, directed energy for saturation attacks, and kinetic interceptors reserved for high-value targets. Both capabilities are procured with an explicit expectation of iteration in months rather than years.

3. Autonomous systems and munitions production. Artillery ammunition consumption in Ukraine has at times exceeded European annual production within weeks. This Budget would fund expansion of UK production capacity for 155mm artillery shells, complex weapons and energetic materials, including the propellant and explosive precursor supply chains that have proved the binding constraint on European output. Capacity is contracted on a minimum sustained volume basis rather than through order-by-order procurement, because production lines that are switched off cannot be restarted quickly. Strategic stockpiles are rebuilt to a level consistent with sustained high-intensity operations rather than short expeditionary deployments, and stockholding targets are set as a matter of published policy.

4. Royal Navy. The Type 26 and Type 31 frigate programmes are accelerated, with build rates increased at Govan, Scotstoun and Rosyth. The cancellation of the Type 83 destroyer programme without a funded successor leaves a capability gap in area air defence at sea from the late 2030s; this Budget funds the design and early development of a replacement rather than deferring the decision. Investment in autonomous surface and underwater vessels is expanded, particularly for mine countermeasures and persistent surveillance, where uncrewed platforms can substitute for high-value crewed hulls at materially lower cost. Anti-submarine warfare capability is expanded in response to sustained Russian submarine activity in the North Atlantic and around undersea cable and pipeline infrastructure.

5. Cyber and electronic warfare. Funding covers both defensive and offensive capability. On the defensive side, this includes hardening of military and critical national infrastructure networks and expansion of the National Cyber Force's operational capacity. On electronic warfare, the priority is resilience to GPS denial and spoofing, which is now routine in the Baltic and Eastern Mediterranean, through alternative positioning, navigation and timing systems that do not depend on satellite signals. Electronic attack capability is funded as an integral part of the force rather than a specialist niche.

6. Space. Military satellite communications capacity is expanded, with an emphasis on resilient, proliferated constellations rather than small numbers of high-value satellites that present concentrated targets. Earth observation and missile warning capability is funded to reduce dependence on allied systems for indications and warning. Space domain awareness is expanded so that the UK can attribute interference with its own and allied satellites, which is a precondition for any meaningful deterrence in the domain.

7. Army modernisation. The British Army's principal deficiencies are in long-range precision fires, ground-based air defence and the ability to sustain losses. This Budget would fund deep precision fires capable of holding targets at risk at operational depth, layered air defence organic to land formations rather than concentrated in a small number of specialist units, loitering munitions procured at scale and treated as consumable, and continued armoured vehicle modernisation. Provision is made for combat replacement stocks, on the basis that a force which cannot absorb attrition is not credible in sustained operations.

8. Nuclear enterprise. The Dreadnought programme is maintained on schedule as the foundation of the continuous at-sea deterrent. Funding is provided for the supporting infrastructure at Barrow, Derby and Aldermaston, where facility condition and skills retention rather than headline programme funding have been the practical constraint. Resilience of the warhead and propulsion supply chains is treated as a national security requirement in its own right.

9. Industrial resilience. Defence production capacity is treated as a strategic asset rather than a procurement input. This Budget would fund expansion of UK shipbuilding capacity, machine tooling and skilled workforce development, coordinated with the Construction Skills Accelerator in Chapter 3 and the industrial strategy in Chapter 6. Critical component supply chains, including energetics, semiconductors, rare earth processing and castings and forgings, are mapped and where necessary reshored or secured through allied agreements. Multi-year contracting replaces annual order cycles so that suppliers can invest in capacity with confidence.

10. Artificial intelligence. AI is funded where it addresses genuine capacity constraints rather than as a general technology programme. Priority applications are intelligence analysis, where the volume of collected data substantially exceeds analytical capacity; autonomous logistics and predictive maintenance, which directly improve availability rates of existing platforms; and decision support and targeting, subject to meaningful human control over the use of lethal force. This investment is coordinated with the AI development funding in Chapter 6, with the boundary being that Chapter 6 funds the underlying national AI capability while this chapter funds defence-specific application.

5C.6 Assessment Against the NATO 2035 Targets

At the Hague Summit in June 2025, NATO members committed to spending 5 per cent of GDP annually on defence and security by 2035, comprising at least 3.5 per cent of GDP on core defence requirements and up to 1.5 per cent on security-related expenditure including cyber defence, supply chain resilience, critical infrastructure, logistics, civil preparedness and the defence industrial base.⁶⁵ Progress is to be reviewed collectively in 2029.²²⁴

This Budget would commit to meeting the NATO core defence target of 3.5 per cent of GDP by 2035, and to reaching 3.0 per cent by 2031.¹³² The measures set out here deliver that 2.90 per cent of GDP by Year 5 and establish a credible incremental path to 3.5 per cent by 2035, which is what the Hague declaration requires members to demonstrate through annual plans.⁶⁵¹⁷⁵

Core defence expenditure under this Budget rises as follows, against nominal GDP projected on the growth and inflation assumptions set out in the Introduction:³¹

Year	Core defence spending	Share of GDP
Year 1	£83.3bn	2.79%
Year 2	£87.0bn	2.81%
Year 3	£91.2bn	3.00%
Year 4	£95.7bn	2.84%
Year 5	£100.3bn	3.00%

Without the measures in this chapter, the Defence Investment Plan baseline alone would deliver approximately 2.45 per cent of GDP in Year 1, declining to around 2.37 per cent by Year 5 as nominal GDP outpaces the cash settlement.¹³² This Budget therefore raises core defence spending by roughly 0.53 percentage points of GDP by Year 5 and, more importantly, reverses the drift downwards, holding the share broadly flat in the early years and rising thereafter. Reaching 3.5 per cent by Year 5 would instead require approximately £121 billion of core defence spending, some £21 billion per year above the level set out here, which is not compatible with the 90 per cent debt-to-GDP target within the same five-year window.¹³²³¹

5C.7 Path to 3.5 Per Cent by 2035

Meeting the core defence target requires continued growth beyond the window of this Budget. The trajectory below reaches 3.5 per cent of GDP in 2035/36 through steady annual increments rather than a step change, which is also the only realistic approach given industrial absorption capacity.¹³²

Year	Target share of GDP	Core defence spending
Year 5 (2030/31)	3.00%	£100bn
Year 6 (2031/32)	3.02%	£109bn
Year 7 (2032/33)	3.14%	£119bn
Year 8 (2033/34)	3.26%	£129bn
Year 9 (2034/35)	3.38%	£139bn
Year 10 (2035/36)	3.50%	£151bn

This requires annual increments of approximately £5 billion in Year 6 rising to £13 billion in Year 10, above the Year 5 baseline of £100 billion.¹³² These are large sums, but they fall outside the five-year fiscal envelope of this Budget and are therefore presented as a trajectory rather than a costed commitment. The 2029 NATO review point falls in Year 4 of this Budget, by which time the UK would be at approximately 2.84 per cent with a published path to 3.5 per cent, which is a defensible position within the alliance.⁶⁴

5C.8 The 1.5 Per Cent Security-Related Target

The second component of the Hague commitment, up to 1.5 per cent of GDP on security-related expenditure, reflects a strategic priority we strongly support: investing in the foundations of national security beyond the armed forces alone.⁶⁵ NATO's definition covers critical infrastructure protection, cyber defence, civil preparedness and resilience, logistics and military mobility, dual-use infrastructure, and the defence industrial base and innovation.

The 1.5 per cent component was deliberately drawn to cover national resilience rather than military capability alone, in recognition that modern security depends on energy supply, industrial capacity, secure infrastructure and civil preparedness as much as on armed forces.¹³² We support treating national resilience as an integral part of the country's defence rather than an afterthought, backed by real investment across several chapters of this Budget:

Energy security and grid resilience (Chapter 2): transmission network reinforcement and generation security investment, which NATO treats as dual-use critical infrastructure.

Industrial strategy, semiconductors and AI (Chapter 6): the innovation and industrial base elements of the definition, including advanced manufacturing and compute capacity.

Transport and logistics infrastructure (Chapter 3): the portion of road, rail and port investment supporting military mobility and dual-use logistics.

Cyber, borders and civil resilience (Chapter 5): non-military cyber defence, border security systems and civil contingency capacity.

Together these commitments take the United Kingdom's security-related investment to the region of 0.9 to 1.1 per cent of GDP by Year 5, and we support going further.¹³² We back raising that investment towards the full 1.5 per cent by 2035, through additional dedicated funding for civil preparedness, national stockpiles and infrastructure hardening of roughly 0.4 per cent of GDP, equivalent to approximately £17 billion per year at 2035 GDP.¹³² This is a materially smaller undertaking than the core defence increment, it is deliverable within normal spending review cycles, and we support seeing it delivered in full.

5C.9 Reconciliation with the Debt Target

Every commitment in this chapter is funded. The £4.7 billion shortfall closure is met from the revenue sources set out in Section 5C.4, and the £9 billion required over Years 3 to 5 to reach 2.9 per cent of GDP is offset pound for pound by the additional measures introduced in Year 3.¹³² The net fiscal improvement recorded in the Conclusion's Fiscal Strategy table is therefore unaffected by the defence programme, and public debt falls to 90 per cent of GDP by Year 5.¹³²

Funding defence commitments in full, rather than announcing capability and leaving its financing to a future fiscal event, is a deliberate feature of this Budget. Procurement decisions carry consequences over twenty and thirty year horizons, and industry cannot invest in production capacity, tooling or skilled workforce against commitments whose financing is unresolved. Certainty about the money is itself a capability decision.

5C.10 Economic and Distributional Effects

Defence spending is often presented purely as a security necessity, with its economic effects left unexamined. They are set out here on the same basis as every other chapter in this Budget.

Employment. The programme supports approximately 90,000 jobs in Year 1, rising to approximately 145,000 by Year 5, across direct employment, the supply chain and induced activity.¹³² A substantial share of this sustains capacity that would otherwise contract rather than creating new posts, which is itself a policy objective: skilled shipbuilding, energetics and systems engineering capability lost to closure takes a decade or more to rebuild. Net additional employment is estimated at 40,000 to 50,000 by Year 5.¹³²

Regional distribution. Defence manufacturing is among the most geographically dispersed forms of industrial activity in the United Kingdom, and is concentrated overwhelmingly outside London and the South East. The principal beneficiaries of this programme are Barrow-in-Furness, Govan and Scotstoun on the Clyde, Rosyth, Derby, Preston and Samlesbury in Lancashire, Filton near Bristol, Belfast, and Glascoed in South Wales. Median household income in most of these areas sits below the national median, and median wages in defence manufacturing sit above it, at approximately £40,000 against a national median of around £35,000.¹³² The programme therefore raises earnings in places where earnings are below average, which is the principal channel through which it affects the distribution of income.

Unemployment. The net employment effect is equivalent to approximately 0.13 per cent of the labour force, and is estimated to reduce unemployment by approximately 0.05 percentage points by Year 5.¹³² The effect is smaller than the headline job numbers imply because the binding constraint in defence manufacturing is the availability of skilled labour rather than the availability of work. A meaningful part of the impact therefore appears as higher wages and expanded apprenticeship intakes rather than as reduced unemployment, which is why the industrial resilience component of the programme funds workforce development directly and is coordinated with the Construction Skills Accelerator in Chapter 3.

Growth. Applying a fiscal multiplier of approximately 0.75, which is consistent with the range found for defence procurement with high domestic content, the programme raises the level of GDP by approximately 0.4 per cent by Year 5.¹³² Its contribution to the annual growth rate is smaller, at roughly 0.03 to 0.05 percentage points, because after Year 1 the year-on-year increments are modest. This is a lower multiplier than the housing and infrastructure investment in Chapter 3, and this Budget does not claim otherwise: defence spending is justified primarily on security grounds, with its growth contribution a secondary benefit. The exception is research and development, where defence funding has a documented history of spillover into civilian sectors, and where the artificial intelligence, autonomous systems and directed energy components of this programme are most likely to generate returns beyond the defence sector itself.¹⁶⁴

Inflation. The programme is not expected to have a material effect on general inflation. At approximately 0.5 per cent of GDP in Year 5, it is too small relative to the economy to move the aggregate price level, and the phasing set out in Section 5C.5 is designed specifically to avoid bidding up prices faster than capacity can expand.¹³² Localised pressure on wages and input costs in defence engineering, shipbuilding and energetics is expected and is a recognised consequence of rearmament across Europe. The response is to expand supply through training and multi-year contracting rather than to accept higher unit costs for the same output.

Distributional effect of the funding. The revenue measures that fund this chapter fall overwhelmingly on higher-income households and on imports. The private aviation and premium cabin duty applies to a form of consumption concentrated in the top income decile, with economy travel unaffected. The Carbon Border Adjustment Mechanism extension falls on imported goods produced without an equivalent carbon price. Compliance investment recovers tax already owed. Taken together, the spending flows disproportionately to regions with below-average earnings while the funding falls disproportionately on the top of the income distribution.

The combined effect is set out below.

Indicator	Effect by Year 5	Principal channel
Employment supported	~145,000 jobs	Direct, supply chain and induced
Net additional employment	40,000–50,000	Capacity expansion above replacement
Unemployment	–0.05 percentage points	Skills-constrained, partly wage effect
GDP level	+0.4 per cent	Multiplier ~0.75, high domestic content
Annual GDP growth	+0.03 to 0.05 pp	Year-on-year increments
Inflation	No material general effect	Localised engineering wage pressure
Income distribution	Mildly progressive	Regional wages up, funding from top decile

These figures are partial-equilibrium estimates on the same basis as the chapter-level growth contributions elsewhere in this Budget, and are not additive with them. The reconciled position is the macroeconomic path set out in the Introduction.

5C.11 Funding Options Beyond Year 5

If debt continues to fall beyond Year 5 on the trajectory set out in Chapter 8, the increments required for the 2035 target can be absorbed within the existing fiscal framework and no further measures are needed. Chapter 8 projects a growing fiscal buffer from Land Value Tax receipts, beginning at approximately £1.3 billion in Year 6 and rising to £6 to £7 billion per year by Year 10 as the valuation base matures and revaluation cycles take effect.¹³² Directing that buffer to defence rather than to discretionary tax reductions would fund a substantial share of the required increment without any new measure.

Should that prove insufficient, or should the debt path deteriorate, the following options are available in approximate order of preference. None involves increases in income tax, National Insurance or VAT.

National Security Bonds: a dedicated long-dated gilt programme, available to retail as well as institutional investors, hypothecated to the defence capital programme. This does not reduce borrowing but lengthens its maturity profile and matches the funding term to assets with thirty-year lives, and has historical precedent in UK practice.

Defence industrial dividend: export receipts, offset agreements and equity retained in companies whose capacity has been built with public investment. Capacity funded by the state at scale should generate a public return where it is subsequently sold abroad.

Allied procurement efficiency: joint European and NATO procurement of munitions, air defence and drones, where common specifications and pooled order books materially reduce unit costs. Savings here reduce the cash requirement rather than raising revenue and should be pursued first.

Extension of the passive wealth and land tax base: the measures in Chapters 7A and 8 are set at rates deliberately below their revenue-maximising level to limit behavioural response. Modest rate increases, or reduction of thresholds, would raise further revenue within an established framework rather than requiring a new tax.

Reprioritisation within the security-related envelope: where the 1.5 per cent component is over-delivered through infrastructure and resilience spending that would have occurred regardless, the marginal fiscal cost of the overall 5 per cent commitment falls correspondingly.¹³²

We would not fund defence growth through reductions in the welfare provisions of Chapter 5B, the NHS and education settlements of Chapter 5, or the housing programme of Chapter 3. A defence policy that erodes the social settlement it exists to protect is self-defeating, and the historical evidence from the late 1960s and mid 1970s is that defence commitments funded in that way are not sustained.

5C.12 Financial Summary

Policy / Measure	Annual Cost	5-Year Total
Defence Investment Plan shortfall closure	£1.8bn (Yr1) / £1.5bn (Yr2) / £1.4bn (Yr3)	£4.7bn
Core defence uplift (personnel, readiness, equipment)	£8.0bn rising to £12.5bn	£49.9bn
Next-Generation Defence Capabilities Programme	£2.5bn rising to £8.3bn	£25.75bn
Total Chapter 5C Spending	£12.3bn (Yr1) to £20.6bn (Yr5)	£80.35bn

Chapter 5C represents additional defence investment of £12.3 billion per year in Year 1 rising to £18.3 billion in Year 5, and £75.45 billion over the five-year period.¹³³ This is additional to the Defence Investment Plan baseline of approximately £71 billion per year rising to £82 billion, giving total core defence expenditure of £83.3 billion in Year 1 rising to £100.3 billion in Year 5, equivalent to 2.90 per cent of GDP.⁶⁴ These figures are consistent with the Year 1 spending envelope of £95 billion set out in the Conclusion's Fiscal Strategy table.

5C.7 Holding the Three Per Cent Commitment

The Government has committed to spending three per cent of national income on defence by 2030. That commitment is now reported to be under review, and the argument for abandoning it is the familiar one: the money is needed elsewhere, the fiscal position is tight, and the target was always aspirational. This Budget rejects that argument and funds the commitment in full.⁶⁵

Attacks on undersea cables, satellite systems and critical national infrastructure have become routine rather than exceptional. The threat to British installations is now explicit and on the record. In April 2026 the Russian Defence Ministry published a list of European facilities it described as potential targets for its armed forces, including addresses in London, Leicester, Reading and Suffolk, the last of these at Mildenhall, where an RAF station is located.²³⁷ In August 2026 the Russian Foreign Ministry warned that any British military facilities and equipment, in Ukraine and beyond its borders, could be targeted in response to Ukrainian strikes using British weapons, and Russian state television discussed the coordinates of British logistics hubs at RAF Akrotiri in Cyprus and Rzeszów in Poland.²³⁸ These are threats rather than actions. But British sovereign facilities have already been struck in this period: a loitering munition hit RAF Akrotiri on 1 March 2026 during the Iran conflict, and missiles were fired at the joint base at Diego Garcia later that month. The first attack on a British sovereign facility in forty years has already happened, and the question is no longer hypothetical.²³⁹

The deterrence argument is the practical one. Deterrence works when an adversary believes both that a response would be effective and that it would come. A published commitment that is quietly withdrawn when it becomes expensive tells any adversary watching that British commitments are contingent on the state of the public finances. That inference is more dangerous than the money saved, because it applies to every other commitment the United Kingdom has made, including those under Article 5.

An attack on British forces or British installations would not be a marginal event to be managed diplomatically. It would be an attack on the United Kingdom, and this publication takes the view that it should be answered as one, with the full weight of the alliance behind the response. The purpose of the spending set out in this chapter is to ensure that such an attack is never judged worth attempting, which is cheaper in every currency than the alternative.²²⁵

This Budget therefore raises core defence spending to three per cent of GDP by 2030-31, a year earlier than the trajectory set out in the previous section, and holds it there. In cash terms that is £98.6 billion in Year 4 and £102.6 billion in Year 5, against a Defence Investment Plan baseline that would deliver approximately 2.37 per cent.⁶⁴ The additional cost above the earlier trajectory is £2.6 billion in Year 4 and £2.3 billion in Year 5.

That additional sum is funded by raising the monopoly rent charge on regulated utilities from six billion pounds a year to seven and a half billion. The choice is deliberate. The charge falls on returns above the allowed regulatory rate earned by water companies, energy networks and airports, which are licensed monopolies rather than competitive businesses. Revenue of this kind is the least economically damaging available to a government: it does not fall on wages, on employment, on investment or on the profits of firms that must compete for their customers.⁴⁸ Defence is being funded from economic rent, not from productive activity.

A final observation about the politics. Three per cent is a floor rather than a ceiling, and NATO's Hague commitments point toward three and a half per cent on core defence by 2035.⁶⁵ A government that cannot hold three by 2030 will not reach three and a half by 2035. The target matters less as an accounting threshold than as evidence that the United Kingdom does what it says it will do, which is the only asset in defence policy that cannot be bought once it has been spent.

Chapter 5D: Ending the Social Care Crisis and Building a National Care Service

This chapter sits on top of the current Labour government's existing plans for social care, not in place of them. The Government has already begun important work: a multi-year funding settlement for councils, the first Fair Pay Agreement for care workers negotiated through the new Adult Social Care Negotiating Body, and the Casey Commission's phased plan for a National Care Service.⁶² This Budget takes that baseline as given and adds further, dedicated investment on top of it, with three specific purposes that the existing plans do not yet fully fund: first, to guarantee that the sector has the capacity, the workforce and the provider stability it needs within the next two years rather than at the end of the decade; second, to protect people from having to sell their homes or exhaust their savings to pay for care; and third, to deliver the Prime Minister's commitment to care that is free at the point of need, phased in over the first three years as capacity allows and funded in full. Every figure in this chapter is additional to the current baseline and is accounted for separately in the Budget's fiscal framework, so that it adds to, rather than substitutes for, what the Government already intends to spend.²⁰⁶

Adult social care is the most neglected part of the public realm. For more than two decades successive governments have promised reform and delivered reviews, while the system has been left to deteriorate: councils are unable to meet rising need within the funding they are given, hundreds of thousands of people wait for an assessment or a care package, providers hand back contracts they cannot afford to deliver, and a workforce of well over a million people is paid so poorly that turnover runs at around a quarter each year. The human cost falls on older and disabled people who go without the support they need, and on the estimated five million unpaid family carers who fill the gap. The economic cost is equally real: unmet care need is one of the largest single causes of delayed discharge from hospital, with thousands of beds occupied each day by people who are medically fit to leave but have nowhere safe to go, which in turn lengthens NHS waiting lists and drives up costs across the whole health system.^{200,207}

The scale is well documented. Around 1.9 million older people in England have some unmet care need, and the number of people waiting for a care assessment or the start of a package has risen roughly fourfold since 2021, into the hundreds of thousands. The workforce numbers about 1.6 million people, with close to 96,000 vacancies on any given day, a vacancy rate roughly three times the wider economy's, and Skills for Care estimates that keeping pace with the ageing population will require some 470,000 additional posts by 2040.¹³² On the funding side, the Association of Directors of Adult Social Services has warned of a gap exceeding a billion pounds simply to keep services standing still, and independent projections put the pressure far higher over the coming decade. Meanwhile roughly one acute hospital bed in nine is occupied by someone medically fit to leave but with no safe place to go. These are not abstract statistics; each represents a person going without support, a family carrying a burden alone, or a hospital unable to admit the next patient.^{203,204}

This Budget treats social care not as a burden to be managed but as essential economic and social infrastructure. Fixing it relieves pressure on the NHS, allows more unpaid carers to return to or remain in paid work, and supports over a million jobs in every community in the country. The approach set out here has two horizons. Over this Parliament, the priority is to stabilise the system, end the immediate crisis in funding, pay and waiting times, and put in place the building blocks of a National Care Service. Beyond this Parliament, the long-term goal is to complete that service and move it, in phases, toward personal care that is free at the point of use on the same principle as the National Health Service. The scale of that final step means it cannot responsibly be promised within five years, but the foundations for it can and should be laid now.²⁰⁰

The Immediate Priority: Stabilising the System

The first task is to end the funding crisis in local authority care. Adult social care consumes the largest and fastest-growing share of council budgets, and years of demand outstripping funding have forced authorities to tighten eligibility, cut fee rates to providers and reduce everything that is not legally required. This Budget would provide a multi-year funding settlement for adult social care through local government, giving councils the certainty to plan and commission properly rather than lurching from one emergency to the next, and it ends the practice of funding care through short-term, one-off grants announced late in the financial year. Stable, sufficient funding is the precondition for everything else in this section; without it, improvements in pay and access cannot be sustained.

The second task is to fix pay and recruitment. Care work is skilled, demanding and vital, yet it is routinely paid at or barely above the minimum wage, less than many entry-level retail and hospitality roles, which is the root cause of the chronic shortages and high turnover that destabilise the sector. This Budget would fund the first Fair Pay Agreement for adult social care, negotiated through the new sector negotiating body, to establish a binding floor for pay, terms and conditions and a career structure that rewards experience and training. Crucially, the funding for the pay uplift is provided to councils rather than left as an unfunded mandate that would simply force cuts elsewhere. A professional register and recognised training standards will accompany the pay reform, raising the status of care work and making it a career worth entering and staying in. Better pay reduces turnover, and lower turnover improves the continuity and quality of care while cutting the heavy costs of constant recruitment.¹⁹⁹

The mechanism for this already exists in embryo. The Adult Social Care Negotiating Body, established to bring together unions and employers, provides the vehicle through which a binding Fair Pay Agreement can be reached, with the first agreement expected to take effect within this Parliament. What has been missing is the funding to make it real: an agreement that raises pay without money to pay for it would simply force councils to commission less care. This Budget supplies that funding, so that the Fair Pay Agreement lifts wages and conditions genuinely rather than on paper.

The third task is to bring down waiting times. Hundreds of thousands of people are waiting for a care needs assessment, a reassessment or the start of a care package, and every delay risks a deterioration that leads to a costly hospital admission. This Budget would fund councils to clear the assessment backlog, expands reablement and home-based support so that people can be helped to stay independent in their own homes, and invests in the intermediate care and rapid-response services that prevent admissions and speed safe discharge from hospital. Reducing delayed discharges is one of the highest-value investments available anywhere in this Budget, because it frees NHS capacity, shortens waiting lists and improves outcomes for patients, all at once.⁶³²⁰⁷

The Building Blocks of a National Care Service

Alongside stabilising the system, this Budget begins constructing a National Care Service within this Parliament, taking forward the phased plan set out by the independent commission on social care. A National Care Service does not mean nationalising care provision. It means a service organised around clear national standards and entitlements, so that the quality of care a person receives no longer depends on which council area they happen to live in, delivered locally and drawing on a mixed economy of public, private, voluntary and charitable providers, alongside care delivered in people's own homes. The state's role is to guarantee standards, fund the system fairly, and hold it to account, not to run every care home and home-care round directly.²⁰⁴

Within this Parliament the building blocks include national standards for care quality and entitlement so that provision is consistent across the country; genuine integration between the NHS and social care, with joint budgeting and commissioning at local level and a principle of home first, so that the two systems work as partners rather than passing costs and people between them; a national information and advice service, a single point of entry that helps people and their families understand and navigate their entitlements, which are at present needlessly opaque; a stronger role for prevention and reablement, shifting the balance of the system away from crisis response and residential care and toward keeping people well and independent at home for as long as possible; and proper recognition and support for unpaid carers, whose contribution is worth tens of billions of pounds a year and whose ability to stay in work depends on the availability of reliable care.²⁰⁴

Free Care at the Point of Need Within This Parliament

This Budget would commit to the goal the Prime Minister has set: a National Care Service in which personal and nursing care is free at the point of need, funded collectively and provided on the basis of need rather than the ability to pay, in the same way as the National Health Service. Unlike previous plans that treated free care as a distant aspiration, this Budget funds it as a deliverable programme and sets a clear timetable to reach it within this Parliament, with full coverage in place by the third year.

The design follows the same principle as the Prime Minister's proposal and the system that already operates in Scotland: what becomes free is the personal and nursing care a person needs, the help with washing, dressing, medication, mobility and the clinical tasks that meet an assessed need. The accommodation or living costs of a care home, sometimes called the hotel costs, being the rent, food and utilities that a person would pay wherever they lived, remain means-tested, so that those who can afford their living costs continue to contribute to them while no one is charged for the care itself. This distinction is what makes free care at the point of need affordable within a single Parliament, because it concentrates public funding on care rather than on subsidising the living costs of those who can meet them, and it is the same line that the National Health Service already draws between treatment, which is free, and the wider costs of daily life, which are not.²⁰⁴

The timetable is phased to match the growth of capacity, because free care cannot be switched on faster than the workforce and providers can meet the demand it creates. The first year completes the stabilisation and workforce expansion set out above, since a system with tens of thousands of vacancies cannot absorb a surge in demand. The second year makes personal care free in people's own homes, where additional capacity can be brought on most quickly and where most people would prefer to be cared for. The third year extends free personal and nursing care into residential settings, completing the move to free care at the point of need.⁶² By concentrating the early effort on domiciliary care and on building the workforce, the phasing avoids the mistake of promising universal free provision before the system can deliver it, which would simply convert unaffordable waiting lists into a different unaffordable form.

The means test that has trapped people for a generation is reformed alongside this. The upper capital threshold, frozen at £23,250 since 2010, is raised substantially and a cap on lifetime care costs is introduced from the outset, so that from the first year no one is forced to sell their home or exhaust their savings to pay for personal care, and by the third year the charge for personal care is removed altogether. This ends the arbitrary and widely resented line under which a person with dementia can lose almost everything while someone with a different illness is treated free by the National Health Service.²⁰²

How Free Care at the Point of Need Is Funded

The programme reaches a steady-state cost of approximately £16 billion a year by the fifth year, consistent with the Prime Minister's own initial estimate and set deliberately on its prudent side because accommodation costs remain means-tested rather than free.¹³² It is funded in full, year by year, from a defined package of measures, none of which is a broad-based levy on earnings and none of which is a charge on estates at death, so that the funding avoids the designs that have caused previous reforms to collapse. The largest single source is a reform of pension tax relief, which yields approximately £3.5 to £4 billion a year net of the compensating adjustment for public-sector defined-benefit schemes.³⁸ Accommodation contributions from those who can afford them yield approximately £2.5 billion by Year 5, and health-service savings from fewer delayed discharges approximately £2 billion.¹³² Together these three sources provide roughly £8.5 billion of genuinely additional funding by Year 5. The balance, approximately £7.5 billion, is drawn from a dedicated share of the Budget's land and property taxes and from a higher charge on second and empty homes; these are revenues raised in Chapters 7C and 8 and hypothecated to social care rather than levied separately, and they are accounted for once, in the chapters that introduce them. The remainder of the funding rests on the health-service savings that the reform itself generates as delayed discharges and avoidable admissions fall.^{139,207}

Pension tax relief is reformed to a single flat rate of 30 per cent.³⁸ At present, relief is given at each person's marginal rate, so a higher-rate taxpayer receives 40 pence of relief on every pound saved while a basic-rate taxpayer receives only 20, which means the great majority of the roughly £46 billion annual cost of relief flows to the highest earners.³⁸ A flat rate of 30 per cent is more generous to basic-rate savers, who gain, and less generous to higher and additional-rate savers, who still receive substantial support but no longer at the most privileged rate.³⁸ The reform corrects a subsidy that is skewed towards those who need the least help to save, it is progressive, and it raises approximately £3.5 to £4 billion a year after the protections and behavioural effects described below.³⁸ Crucially, it is not a tax on income, on jobs or on estates, and it leaves the pension savings of ordinary basic-rate taxpayers better off, which is what distinguishes it from the levies and estate charges that have failed before.

Protecting Public Service Workers

A flat rate of relief would, if applied without care, fall heavily on the defined-benefit pension schemes of nurses, teachers, members of the armed forces, police officers and civil servants, because in those schemes relief is given on the deemed value of the benefits a member builds up rather than on contributions to a pot. A blunt reform could therefore leave a senior nurse or an experienced teacher with an unexpected tax charge, as the pensions taper did when it drove hospital consultants to refuse additional shifts and retire early. This Budget avoids that outcome. The reform is accompanied by explicit protection for public service defined-benefit schemes, through a compensating adjustment to the way the charge applies to registered public schemes, so that the people who staff the National Health Service, schools and the emergency services are shielded from an unintended penalty. The cost of that protection, of the order of one to one and a half billion pounds a year, is already reflected in the net revenue figures above, which is why the yield is stated conservatively rather than at its headline level.

Answering the Concern About Saving

It is sometimes argued that reducing higher-rate relief will discourage retirement saving. The concern deserves a direct answer rather than dismissal. The evidence does not support the strong version of the claim: the decision to save for retirement is driven far more by automatic enrolment, by employer contributions and by income than by the marginal rate of relief, and countries with flatter relief systems do not save less for retirement as a result. A flat 30 per cent rate remains a substantial incentive, more generous than the relief a basic-rate taxpayer receives today, and it continues to reward saving at every income level.¹³² What changes is not whether saving is rewarded but how evenly the reward is shared: at present the subsidy is concentrated on the highest earners, who are also those most likely to save regardless, while the reform extends a better rate to the many for whom the incentive matters most. To the extent that a small behavioural response occurs, principally the retiming of contributions and greater use of salary sacrifice, the revenue forecast already discounts for it, so the funding of care does not depend on a response that fails to materialise. A reform that makes relief fairer and better targeted, while leaving a strong universal incentive in place, is not a tax on aspiration but a correction of a subsidy that had drifted away from its purpose.

The Next Step: Free at the Point of Use by Year Seven

Free care at the point of need, delivered within this Parliament, is not the end of the ambition but the foundation for it. Once personal and nursing care are free and the system is stable and properly staffed, the remaining barrier is the accommodation cost of residential care, the rent, food and utilities that a resident still pays where they can afford them. The final step, which this Budget sets as the goal for around the seventh year, is to remove that barrier too and make care free at the point of use, in the fullest sense in which the National Health Service is free: not only the care a person needs but the cost of receiving it, so that no one pays anything at the point of use for the support that age or disability requires.

This step is deliberately placed beyond the five-year horizon of this Budget, and it is right to be clear about why. Covering accommodation costs is the single most expensive element of a universal care system, and removing the last charge also increases demand, as people who currently arrange and fund their own care draw on the public system instead. Independent analysis, including from the Health Foundation, puts the cost of a fully comprehensive, universal system at around nineteen billion pounds a year and above once mature, and the Prime Minister's own estimates envisage a substantial further sum beyond the initial cost of free personal care to reach full coverage. Attempting it before the workforce, the provider base and the funding have been built would repeat the mistake of promising more than can be delivered. Sequencing it for the seventh year, once free care at the point of need is established and working, is what makes it credible rather than rhetorical.

The indicative cost of the final step is an increase from the steady-state figure of around sixteen billion pounds a year for free care at the point of need to approximately twenty-six billion pounds a year for free care at the point of use, phased over the sixth and seventh years. Of that increase, the larger part is the accommodation cost that residents currently meet themselves, and the remainder reflects the additional demand that removing the last charge generates. The table below sets out the indicative path.

Indicative path beyond this Parliament	Year 5	Year 6	Year 7
Free care at the point of need (established)	£16bn	£16bn	£16bn
Accommodation costs brought into free provision	£0bn	£3bn	£7bn
Additional demand as the last charge is removed	£0bn	£2bn	£3bn
Total: free care at the point of use	£16bn	£21bn	£26bn

No new funding source is required to reach this point. The step is met by the same package that funds free care at the point of need, growing as the economy and the tax base grow: the flat-rate pension relief, the dedicated share of land and property taxes, the charge on second and empty homes, and the health-service savings all rise over time, while the accommodation contributions that residents currently pay are progressively absorbed into free provision rather than lost. By the seventh year the Budget's debt target has been met and debt is falling below it, which creates the fiscal room to complete the system from the growth dividend rather than from a new tax. In other words, the final step is funded by the success of the plan itself: a larger economy, a repaired care system that has taken lasting pressure off the National Health Service, and a public finances position strong enough to afford the last step without asking anyone to pay more.

Setting the destination in this way, free care at the point of need within this Parliament and free care at the point of use by around the seventh year, gives the country for the first time a costed, funded and phased route to a National Care Service that is genuinely comparable to the National Health Service, rather than an aspiration endlessly deferred.

Costings: Additional Social Care Investment

The table below sets out the additional investment this chapter makes on top of the existing baseline, building to the full National Care Service in which care is free at the point of need. It is phased to match the growth of capacity: the first year concentrates on stabilising providers and expanding the workforce, free personal care at home begins in the second year, and free personal and nursing care in residential settings follows in the third, by which point the service is fully in place. Every figure is included in the Budget's total spending and is reflected in the fiscal projections in the Conclusion; the programme is not additional to the debt path but accounted for within it, because it is matched year by year by the funding set out below.

Investment (additional to baseline)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Council capacity and provider stability	£2.0bn	£2.5bn	£3.0bn	£3.0bn	£3.0bn
Workforce and Fair Pay Agreement top-up	£2.0bn	£2.5bn	£3.0bn	£3.0bn	£3.0bn
Clearing assessment and care backlogs	£1.0bn	£1.0bn	£0.5bn	£0.5bn	£0.5bn
Free personal care at home (from Year 2)	£0.0bn	£3.0bn	£4.0bn	£4.0bn	£4.0bn
Free personal and nursing care in residential settings (from Year 3)	£0.0bn	£0.0bn	£2.5bn	£3.0bn	£3.0bn
Home protection (means-test reform, cap on costs)	£3.0bn	£2.0bn	£2.0bn	£2.5bn	£2.5bn
Total National Care Service investment	£8.0bn	£11.0bn	£15.0bn	£16.0bn	£16.0bn

The programme is front-loaded on capacity and workforce because free care cannot be switched on faster than providers and staff can meet the demand it creates. Council capacity and the Fair Pay Agreement top-up together account for the largest share in the early years, since a system running with tens of thousands of vacancies cannot absorb a surge in demand. Free personal care at home begins in Year 2 and free personal and nursing care in residential settings in Year 3, at which point the service reaches its full standard. Home protection, a more generous means test and a cap on lifetime costs, runs from the first year so that no one is forced to sell their home even before free care is complete. The programme builds to a steady-state cost of approximately £16 billion a year by Year 5, and the five-year additional total is approximately £66 billion.¹³² This delivers care that is free at the point of need within this Parliament; the accommodation costs of residential care remain means-tested, which is what keeps the programme affordable on this timetable.²⁰²

A note on how this is paid for. This investment is funded in full, year by year, by the package set out above, of which roughly £8.5 billion by Year 5 is genuinely additional revenue and the balance is hypothecated from land and property receipts raised elsewhere in this Budget: the reform of pension tax relief to a flat 30 per cent rate, a dedicated share of the Budget's land and property taxes, a higher charge on second and empty homes, the means-tested accommodation contributions of those who can afford them, and the health-service savings the reform itself generates.³⁸ Because the funding matches the spending in every year, the programme neither adds to borrowing nor slows the reduction in debt: it is carried in the master table in the Conclusion, where both the additional spending and the revenue that meets it are included, so that the Net improvement and the path of debt to 88.4 per cent of GDP by Year 5 are unchanged.³⁸ The commitment is therefore fully funded and fully accounted for rather than left as an aspiration.

Stakeholder Impact and Economic Effects

The principal beneficiaries are the older and disabled people who rely on care and who will receive it faster, more consistently and to a higher standard; the unpaid family carers who will gain reliable support and, in many cases, the ability to return to paid work; and the care workforce, whose pay, conditions and professional status will rise materially under the Fair Pay Agreement. The National Health Service benefits substantially from reduced delayed discharges and fewer avoidable admissions, which shortens waiting lists across the board. The wider economy gains from over a million better-paid jobs, from the return of carers to the workforce, and from the productivity effects of a healthier population. The measures are funded from the wealth and land tax base, from recycled health savings and from a modest broad-based contribution, so that the cost falls on those most able to bear it rather than on care users or the lowest-paid.²⁰⁶

Chapter 6: Investing in the UK's Future Economy

Strategic Investments for Long-Term Economic Prosperity

The UK's economic future depends on investing in emerging technologies and high-productivity sectors that will drive long-term growth, competitiveness, and resilience.

This chapter sets out a programme of investment in artificial intelligence (AI), quantum technology, nuclear fusion, and other frontier sectors, alongside skills and training programmes to prepare the workforce for these transformative industries.⁷³

The overall goal is to position the UK as a global leader in future technologies, create high-skill jobs, strengthen productivity, and secure sustainable economic growth for the coming decades.¹⁷⁹

Public investment in frontier technology is justified where private markets under-invest, and the sectors identified here share exactly that feature.¹⁰⁴ The returns to fundamental research and to first-of-a-kind facilities are large but uncertain, long-dated, and difficult for any single firm to capture, so the private sector reliably provides less of them than the economy as a whole would benefit from. The United Kingdom has genuine strengths to build on, a deep science base, world-class universities and existing clusters in artificial intelligence and quantum, but a persistent weakness in translating research into scaled commercial activity at home. The programme in this chapter is therefore weighted toward the point of failure: not the discovery itself, which Britain does well, but the capital, skills and infrastructure needed to turn it into productive industry before the value migrates overseas.

This translation gap is often called the valley of death: the stage between a proven idea and a scaled business, where funding is hardest to find because the risks are still high but the sums required are large.⁷³ British firms have repeatedly crossed the early part of this gap only to be acquired by better-capitalised foreign buyers, or to relocate to jurisdictions with deeper pools of growth capital, at precisely the moment when the value was about to be realised. The consequence is that the United Kingdom has often borne the cost of the science while capturing little of the industrial return. The programme here addresses that directly, pairing research funding with patient growth capital, procurement that gives young firms a first domestic customer, and the physical infrastructure, from compute to fabrication and pilot facilities, that scaling requires. The aim is not to pick winners but to ensure that firms which succeed on their merits can grow to scale in Britain rather than being forced abroad to do so.

Policy 6.1: Artificial Intelligence Development Programme

A Labour government should invest **£3.5 billion per year** in AI research, development and commercialisation.¹³²

The programme is built around the recognition that the state's role is not to compete with the largest technology companies on frontier model development, where private capital is abundant, but to fund the parts of the ecosystem the market under-provides. Mariana Mazzucato's work on the public foundations of private innovation makes the wider case: the technologies that define modern industries have typically rested on decades of publicly funded research that no individual firm would have financed alone.¹⁰⁴ That division of labour runs through the programme, which invests in four areas: support for the domestic startups and smaller firms that struggle to raise early capital, through grants, research and development tax credits and seed funding; the shared research infrastructure and compute that no single institution can justify alone, delivered through national research centres in partnership with leading universities; the public and private testbeds that give high-stakes sectors such as healthcare and manufacturing a safe route to adoption; and the regulation and ethics frameworks that make confident deployment possible.

Justification for AI Investment

AI has the potential to increase productivity, automate repetitive tasks, and enable innovation in multiple sectors, including healthcare, manufacturing, logistics, and public services.

Early and coordinated investment ensures the UK captures global market share and retains high-value jobs domestically.

The £3.5 billion annual commitment is structured to reflect that comparative advantage rather than to chase frontier model development.¹³² A substantial share funds shared compute and research infrastructure, the single most important input that individual firms and universities cannot justify alone, because access to large-scale computing is now the binding constraint on serious AI research in Britain. The national research centres anchor that infrastructure in partnership with leading universities, keeping publicly funded discovery in the country rather than seeing it migrate to wherever compute is cheapest. The industrial and healthcare testbeds exist to solve the adoption problem directly, giving hospitals, manufacturers and public bodies a low-risk route to trial proven tools, and the regulatory and ethics work is treated as an enabler of deployment rather than a brake on it, since clear rules are what allow high-stakes sectors such as healthcare to adopt AI with confidence.

The role of public investment here is specific and bounded. The state cannot and should not attempt to out-spend the largest technology companies on raw model development, where private capital already flows freely. Its comparative advantage lies in the parts of the ecosystem that private markets under-provide: shared research infrastructure and compute that individual firms cannot justify alone, the translation of academic research into commercial application, and the diffusion of proven tools into sectors such as healthcare, public services and traditional industry where adoption lags. The largest productivity gains from artificial intelligence are likely to come not from the frontier laboratories but from the widespread application of existing capability across the wider economy, and it is that diffusion, rather than a race to build the largest model, that the programme is designed to accelerate. The approach also takes seriously the risks, from labour-market disruption to safety, which is why the investment is paired with regulation and with support for workers whose roles are most exposed to automation.²²⁷

Stakeholder Impact Analysis

The beneficiaries are UK AI companies, workers in high-skill roles and research institutions. Existing SMEs not involved in artificial intelligence are not directly affected, and general taxpayers only indirectly.

The direct beneficiaries are the AI companies, research institutions and high-skilled workers who receive funding, infrastructure and demand, but the more important beneficiaries in the long run are the sectors into which the technology diffuses: the hospitals that adopt diagnostic tools, the manufacturers that raise productivity, and the public services that become more efficient. Firms outside the AI sector are not directly funded, but few are left untouched, because the programme's central purpose is to spread proven tools into the wider economy rather than to benefit a narrow set of technology companies. The principal risk falls on workers in roles most exposed to automation, which is why this policy is deliberately paired with the workforce programme in Policy 6.2, so that the people most affected by the technology are also those the Budget invests in most directly.

Projected Economic Indicators from AI

The programme is estimated to raise GDP growth by 0.2 to 0.4 percentage points annually through AI-enabled productivity gains.

These projections are deliberately cautious and reflect diffusion rather than frontier breakthroughs. The productivity gain arises as existing tools are adopted across enough of the economy to move the aggregate figures, which is why the effect builds over the period rather than appearing at once. The estimate sits below the more optimistic claims made for artificial intelligence precisely because it counts only the adoption the programme can realistically accelerate, not the full theoretical potential of the technology. The fiscal return follows the same logic: higher productivity raises output and wages, which broadens the tax base over time, so that a programme funded as investment begins to pay for itself as the gains materialise, while the risks to employment are addressed through retraining rather than left to fall where they may.

Unemployment is expected to fall by around 0.05 percentage points through the creation of new technology jobs, tax receipts to rise as the sector grows over the medium term, and the effect on inflation to be neutral, with production costs possibly falling over time.

Policy 6.2: AI Workforce Training and Development

A Labour government should invest **£1.5 billion per year** in AI and digital skills training programmes.¹³²

The programme is designed around a simple principle: the productivity gains from new technology are only shared widely if the workforce can move into the roles the technology creates. The programme is therefore built around four strands designed to reach the workers most at risk of being left behind: vocational and technical courses aimed at mid-career workers, national certification that gives those skills a currency between employers, scholarships that widen access for underrepresented groups, and close collaboration with employers so that the training aligns with genuine demand and leads to real jobs.

Justification for Workforce Training Initiatives

Automation and the adoption of artificial intelligence require a highly skilled workforce.

The £1.5 billion annual programme is weighted deliberately towards mid-career workers, because they are both the most exposed to displacement and the least served by an education system built around new entrants.¹³² Vocational and technical courses provide the practical, job-ready skills that employers actually hire for, while national certification gives those skills a currency that workers can carry between employers and regions. Scholarships for underrepresented groups widen the pool at a time when the sector cannot afford to draw talent from only a narrow part of the population, and the requirement that provision be designed with employers ensures the training tracks real vacancies rather than producing qualifications the labour market does not value. The programme is, in effect, the labour-market counterpart to the investment in the technology itself: without it, the productivity gains from AI accrue to a few while the disruption falls on the many.

Targeted training ensures workers can transition into high-value jobs, mitigating structural unemployment risks.

The distributional stakes here are as important as the aggregate ones. Automation tends to displace particular kinds of work, often routine tasks concentrated in specific occupations and regions, while creating demand for different skills elsewhere. Left to itself, this transition can leave whole communities behind even as the economy as a whole grows, which is both a human cost and a political one. Publicly funded retraining, focused on mid-career workers rather than only new entrants, is the mechanism by which the gains from technological change are shared rather than concentrated. The emphasis on vocational and technical routes, on certification that employers recognise, and on widening access for groups underrepresented in technology reflects the evidence that the barrier is rarely aptitude but rather access to structured, employer-aligned training. Aligning that training with genuine employer demand, rather than training people for jobs that do not exist, is what distinguishes an effective programme from an expensive one.

Identification of Stakeholders and Impacted Groups

The beneficiaries are workers transitioning into artificial intelligence or technology roles, and their employers. Workers in non-technology sectors without access to retraining are not reached directly.

The beneficiaries are the workers who gain recognised, employer-aligned skills and the employers who gain the trained staff they cannot currently find, but the design matters as much as the headline. The programme is aimed at mid-career workers rather than only new entrants, because they are the group most exposed to displacement and least served by existing provision. The concern flagged in the second line, workers in non-tech sectors without access to retraining, is precisely the gap the programme exists to close, and its success should be judged by how far it reaches those workers rather than only those already close to the technology sector. Widening access for underrepresented groups is included for the same reason: a training programme that draws from only a narrow part of the workforce cannot meet demand at the scale the transition requires.

Economic Projections from Labour Productivity

The programme is estimated to raise GDP growth by 0.1 to 0.15 percentage points through labour productivity improvements, to reduce unemployment by 0.05 to 0.1 percentage points over the medium term, and to reduce inequality by upskilling lower-income workers.

The economic case rests on more than the direct productivity of retrained workers. By easing the movement of labour from declining occupations into growing ones, the programme reduces the frictional unemployment that technological change would otherwise create, which is why it registers a modest fall in unemployment as well as a productivity gain. Its distributional effect is the most important of its economic consequences: because automation tends to displace routine work concentrated among lower and middle earners, publicly funded retraining is the mechanism by which the gains from that change are shared rather than captured by those who already hold the scarcest skills. The effect on inflation is neutral, since the programme expands the productive capacity of the workforce rather than adding to demand.

Policy 6.3: UK AI Companies and Industrial Expansion Fund

A Labour government should provide **£2.0 billion per year** to scale AI-focused companies.¹³²

The fund targets the single stage at which British technology companies have most often been lost: the point at which a firm has proven its technology and needs substantial capital to grow, and is either acquired by a larger overseas company or relocates abroad to find it. The fund is therefore built around three components designed to keep those companies and their value in the country: expansion grants for high-growth startups at the critical scale-up stage, shared industrial clusters that smaller firms could not fund alone, and co-investment in applied artificial intelligence for manufacturing and logistics.

Justification for AI Investment

Supporting the growth of UK AI firms strengthens domestic industrial capacity, fosters high-value exports, and ensures the UK benefits from global AI markets rather than relying on foreign technology.

This fund addresses the specific weakness identified at the start of the chapter: Britain generates world-class AI research but has historically failed to convert it into scaled domestic industry. Expansion grants for high-growth firms provide the growth capital that is scarcest at the moment a company moves from proven technology to commercial scale, which is precisely the stage at which British firms have tended to be acquired or to relocate abroad. Shared industrial clusters allow smaller firms to access expensive infrastructure and specialised talent they could not justify alone, while co-investment in applied AI for manufacturing and logistics targets the diffusion of the technology into the wider economy, where the largest productivity gains lie. The aim throughout is not to subsidise firms that would succeed anyway, but to ensure that those which succeed on their merits can scale in Britain rather than being forced overseas to find the capital and infrastructure to grow.²²³

Britain retains the value of the companies it creates. The pattern the fund is designed to break is a familiar one: a promising firm proves its technology, reaches the point where scaling requires substantial growth capital, and is then acquired by a larger overseas company or relocates to a market where that capital is easier to raise, taking its jobs, its intellectual property and its future tax revenues with it. Co-investment alongside private capital, rather than grant funding alone, is the mechanism that both stretches the public money further and ensures the state shares in the upside when these companies succeed, so that the fund can become partly self-sustaining over time rather than a permanent call on the Exchequer.

Stakeholder Impact

The beneficiaries are AI startups and scale-ups together with the manufacturing and technology companies that adopt their products. Companies outside the sector are not directly affected, and general taxpayers only indirectly.

The beneficiaries are the high-growth firms that receive growth capital and the manufacturing and logistics companies that adopt their technology, but the deeper beneficiary is the domestic economy that retains these companies rather than losing them. The pattern this fund exists to break is the acquisition or relocation of promising British firms at the point of scale-up, which takes jobs, intellectual property and future tax revenue abroad. Companies outside the sector are not directly supported, but because the fund co-invests in applied AI for manufacturing and logistics, its benefits reach the traditional industries that adopt the technology as well as the firms that build it.

Economic Projections

The fund is estimated to raise GDP growth by 0.1 to 0.2 percentage points through industrial expansion and to create 10,000 to 15,000 high-skill jobs over five years.¹³²

The employment and revenue figures follow directly from the fund's design. Because it co-invests alongside private capital rather than issuing grants alone, each pound of public money is matched by private investment, so the jobs and output created exceed what the public contribution alone would suggest, and the state shares in the returns when the companies succeed. The rising corporate tax receipts reflect firms that scale and remain domiciled in Britain rather than being acquired abroad, which is the specific fiscal loss the fund is designed to prevent. The effect on inflation is neutral because the investment expands supply, and the jobs created are concentrated in the high-skill, high-wage roles that raise average productivity.¹⁵¹

The fund is also expected to increase corporate tax receipts as the AI sector grows.

Policy 6.4: Nuclear Fusion Development Programme

A Labour government should commit **£2.5 billion per year** to nuclear fusion research and infrastructure.¹³²

Fusion is the clearest case in this chapter of a technology whose potential is transformative but whose returns are too distant and uncertain for private capital to fund the early, fundamental work alone. The commitment is directed at the four points where public investment is indispensable: expanding the national fusion research facilities and the first-of-a-kind demonstration plant, backing the British private fusion companies and joint ventures now among the world's most advanced, investing in the enabling technologies from superconducting magnets and advanced materials to plasma control on which commercial fusion ultimately depends, and funding the feasibility studies for commercial-scale power plants that turn the science into a route to deployment.

Strategic Justification for Fusion Energy

Fusion offers long-term, low-carbon, high-capacity energy, potentially reducing the UK's reliance on fossil fuels and complementing the renewable energy programme.

Early investment positions the United Kingdom as a global leader in fusion energy.

The £2.5 billion annual commitment is directed at the specific points where public funding is indispensable.¹³² The expansion of national research facilities sustains the fundamental science and the first-of-a-kind demonstration plant that no private firm can finance alone, while support for private fusion companies and joint ventures backs a British cluster that is now among the most advanced in the world, ensuring that publicly funded science translates into domestic industry rather than being commercialised abroad. The investment in enabling technologies, particularly superconducting magnets, advanced materials able to withstand extreme conditions, and plasma control, matters because these are the components on which commercial fusion ultimately depends and because they have valuable applications in other industries regardless of when fusion itself arrives. The programme is honest that fusion is a long-horizon bet, but it is precisely the long horizon and the scale of the eventual prize that make it a responsibility of the state rather than the market.

Fusion is the clearest example in this chapter of the market failure that justifies public investment. Its potential prize is enormous, an effectively limitless source of low-carbon, high-density energy, but its returns are so long-dated and uncertain that no private firm can justify funding the fundamental research and first-of-a-kind facilities on its own. Britain holds genuine advantages here, including decades of accumulated expertise at its national fusion laboratories and a cluster of private fusion companies now among the most advanced in the world, so the investment builds on real strength rather than starting from nothing. The programme is deliberately balanced between sustaining the public research base, supporting private ventures and joint projects, and funding the materials science, superconducting magnets and plasma physics on which any commercial reactor will depend. Even on cautious assumptions about timelines, the option value of maintaining a leading position in a technology that could transform the energy system justifies the commitment, and the intermediate advances in materials and superconductors have applications well beyond fusion itself.¹⁹⁵

Stakeholder Impact Analysis

The beneficiaries are the energy sector, scientific research institutions and future energy consumers. Small-scale energy consumers are not affected immediately.

The immediate beneficiaries are the energy sector and the scientific institutions that receive investment, but the ultimate beneficiaries are future energy consumers and, through them, the whole economy, since abundant low-carbon energy would lower costs across every sector. The second line is honest that ordinary consumers see no immediate benefit, because fusion is a long-horizon technology whose returns lie years ahead. That honesty is deliberate: the policy does not pretend fusion will cut bills within the Budget period, but argues that the scale of the eventual prize, and the fact that no private firm can carry the early risk alone, make it a responsibility the state should shoulder now on behalf of those future consumers.

Economic Impact of Fusion Investment

The programme is estimated to raise GDP growth by 0.05 to 0.1 percentage points in the short term, with higher long-term potential, to deliver medium-term reductions in energy costs and possible revenue from energy exports, and to create 2,000 to 3,000 high-tech engineering jobs.⁷⁷ The effect on inflation is neutral initially, with downward pressure on energy costs in future.

The near-term economic effects are modest by design, because the return on fundamental research of this kind is long-dated rather than immediate. The jobs created are highly skilled and concentrated in the science and engineering base the programme is intended to strengthen, and the investment in enabling technologies such as superconducting magnets and advanced materials generates value in adjacent industries regardless of when commercial fusion itself arrives. The larger economic prize is deliberately not booked in these figures: were fusion to reach commercial viability, the effect on energy costs and on the wider economy would be transformative, but the Budget counts only the near-term, defensible effects and treats the long-term potential as the strategic rationale rather than as revenue that can be relied upon.

Policy 6.5: Quantum Technology Investment

A Labour government should invest **£2 billion per year** in quantum computing, sensing and communication.¹³²

Quantum technology occupies the position artificial intelligence held a decade ago: a field in which Britain has a genuine scientific lead that will translate into industrial advantage only with sustained investment in infrastructure and skills. The programme deliberately spans all three domains, computing, sensing and communication, rather than computing alone, because sensing and communication are closer to market and can deliver real industrial and security value while the longer-term promise of quantum computing matures. It does so through national laboratories and testbeds that give researchers and companies access to equipment no single firm could own, commercialisation grants to carry university discoveries to market, and a dedicated workforce programme, because a national capability across the field is what protects both future competitiveness and the security of data.

Rationale for Quantum Investment

Quantum technologies promise breakthroughs in encryption, computing power, materials science, and scientific discovery.

The United Kingdom must invest early to remain competitive globally.

Quantum technologies occupy a similar position to artificial intelligence a decade ago: a field in which Britain has a genuine scientific lead, concentrated in its universities, but in which that lead will translate into industrial advantage only with sustained investment in the infrastructure and skills needed to commercialise it. The near-term applications are more concrete than the popular association with quantum computing alone suggests: quantum sensing already offers advances in navigation, medical imaging and the detection of underground structures, while quantum communication has direct implications for the security of data against future decryption. The programme therefore spans computing, sensing and communication rather than betting on a single application, and it pairs national laboratories and testbeds with commercialisation grants and a dedicated skills pipeline. As with fusion, the rationale is partly defensive: the security implications of quantum decryption alone mean that a country cannot safely be wholly dependent on others for this capability.

than concentrating on computing alone, because the sensing and communication applications are closer to market and can generate real industrial and security value while the longer-term promise of quantum computing matures. The £2 billion annual investment funds the national laboratories and testbeds that give researchers and companies access to equipment no single firm could own, commercialisation grants to carry university discoveries across the gap between the laboratory and the market, and a dedicated workforce programme, since the scarcity of people who can build and operate quantum systems is as real a constraint as the science itself.¹³² A particular priority is the security dimension: quantum communication offers protection against the future decryption of today's data, a national-security concern that gives the state a direct interest in maintaining a sovereign capability rather than depending on others.

Stakeholders in Quantum Technology Advancement

The beneficiaries are technology companies, universities, research institutions and the high-skilled workforce. Sectors outside technology are not affected directly.

The beneficiaries are the universities, research institutions and companies at the frontier of quantum technology, together with the high-skilled workforce the programme trains. Sectors outside technology are not directly affected in the near term, but two of the three strands, quantum sensing and quantum communication, have concrete applications that reach well beyond the technology sector: sensing into navigation, medical imaging and infrastructure, and communication into the security of data across finance, defence and government. The national security dimension gives the state a particular stake, since a sovereign capability in quantum communication protects against the future decryption of today's data, a benefit that accrues to the whole country rather than to any single firm.

Economic Impact of Quantum Technology Investment

The programme is estimated to raise GDP growth by 0.05 to 0.1 percentage points over the medium term, to increase future corporate and capital gains tax revenues from commercialisation, and to create 5,000 to 8,000 high-skill jobs.¹³²

As with the other frontier investments in this chapter, the near-term economic effects are modest and the larger returns lie further ahead, which is why the growth estimate is stated conservatively over the medium term. The public finance benefit builds as university discoveries are commercialised and the resulting companies generate corporate and capital gains revenue, and the jobs created are concentrated in the high-skill roles that raise national productivity. The figures deliberately exclude the security value of maintaining a sovereign quantum capability, which is real but not readily monetised, and which is better understood as a strategic reason for the investment than as a return that can be counted in the projections.

Policy 6.6: Investment in Emerging Industries

Policy Description

Additional investment of **£2.0 billion per year** across other emerging sectors.¹³²

This final allocation is the diversifying element of the chapter's strategy, deliberately spread across several fields rather than concentrated in one. Because it is impossible to know in advance which emerging technologies will prove most transformative, backing a portfolio hedges against the risk of choosing wrong while still concentrating on areas where Britain already holds scientific strengths and where global markets are growing fastest. Four sectors are chosen on that basis, biotechnology and life sciences, advanced materials and nanotechnology, green hydrogen production, and space technologies and satellite infrastructure, and the funding is allocated flexibly between them so that it can follow evidence of progress as each field develops.

Strategic Rationale and Economic Projections

Diversification of future economy investments ensures the UK is resilient to technological shocks, captures global high-value markets, and accelerates decarbonisation.¹⁹⁰

The logic of this final allocation is one of portfolio breadth rather than concentrated bets. It is impossible to know in advance which emerging technologies will prove most transformative, and a strategy that backed only one or two would expose the country to the risk of choosing wrong. Spreading investment across biotechnology and life sciences, advanced materials, green hydrogen and space technologies hedges that uncertainty while concentrating on fields where Britain already has scientific strengths and where global markets are expected to grow rapidly. Several of these areas also reinforce other objectives in this Budget: green hydrogen supports the decarbonisation and energy-security aims of the energy chapters, advanced materials underpin the fusion and quantum programmes, and life sciences build on one of the country's most successful existing sectors. The relatively modest projected returns from any single area reflect the early stage of these technologies, but the diversified commitment ensures that Britain retains a stake in whichever of them matures fastest.

Each strand is chosen for a specific reason rather than for breadth alone. Biotechnology and life sciences build on one of Britain's strongest research bases and its established pharmaceutical industry, with direct benefits for the National Health Service as well as for exports. Advanced materials and nanotechnology are foundational, feeding into almost every other advanced sector including fusion, quantum and clean energy. Green hydrogen supports the decarbonisation of the industrial processes and heavy transport that electricity alone cannot easily reach, reinforcing the energy and climate objectives set out elsewhere in this Budget. Space technologies and satellite infrastructure underpin communications, navigation, climate monitoring and defence, and represent a market in which Britain has a competitive launch and small-satellite sector to build on. The £2.5 billion is allocated flexibly across these areas rather than fixed in advance, so that funding can follow evidence of progress and shift towards whichever fields prove most promising as they develop.⁷²

Who Is Affected

Beneficiaries: Private sector firms in emerging industries, research institutions, skilled workforce

Traditional industries not participating in the new sectors are not directly affected.

The beneficiaries are the firms, research institutions and skilled workers active in these emerging fields, but the benefits reach considerably further than the sectors themselves. Life sciences investment supports the National Health Service and the pharmaceutical industry, advanced materials feed into almost every other advanced sector, green hydrogen serves the wider decarbonisation effort, and space infrastructure underpins communications, navigation and defence. Traditional industries not active in these areas are not directly funded, but because several of these technologies are foundational, their benefits diffuse across the economy over time rather than remaining confined to the sectors that receive the investment.

The allocation is estimated to raise GDP growth by 0.05 to 0.15 percentage points.

The projected returns from any single strand are modest, which is the expected consequence of investing in technologies at an early stage of development, and the figures deliberately count only near-term, defensible effects rather than the larger prizes that success in any one field could bring. The value of the allocation lies less in the return from any individual sector than in the breadth of the portfolio: by holding a stake in several fast-growing fields at once, the Budget ensures that Britain benefits from whichever of them matures fastest, while the diversification itself reduces the risk that the country is left behind by a technological shift it failed to back. The effect on inflation is neutral, since the investment expands the economy's productive and innovative capacity rather than adding to demand.

It is expected to create 10,000 to 15,000 high-skill jobs over five years, with a neutral effect on inflation.¹³²

Chapter 6 Summary: Future Economy Project Investments and Objectives

Total expenditure on future economy projects rises from £8 billion in Year 1 to £13.5 billion from Year 3, giving £58 billion over five years.¹³²

Taken together, the six policies in this chapter represent a coherent strategy rather than a collection of separate bets. Each addresses the same underlying weakness in the British economy: a strong research base that has historically failed to translate into scaled domestic industry, because the shared infrastructure, the growth capital and the skilled workforce that commercialisation requires have been under-provided.⁷³ This investment is directed at exactly those gaps. Artificial intelligence receives the largest share because it is the closest to market and the most broadly applicable, with the potential to raise productivity across almost every sector; the frontier technologies of quantum and fusion receive patient, long-horizon investment because their eventual prizes are transformative but too distant for private capital to fund the early work alone; and the diversified emerging-industries allocation ensures the country retains a stake in whichever fields mature fastest. The common thread is that the state funds what the market will not, and then lets private enterprise carry the results to scale.

These investments will accelerate AI development, adoption and workforce readiness, establish the United Kingdom as a global leader in quantum technology and nuclear fusion, support emerging sectors that drive high-value exports and innovation, and strengthen long-term productivity, GDP growth and high-skill employment.

These objectives reinforce one another. A larger, more productive technology base raises wages and output, which broadens the tax base and helps fund the wider commitments of this Budget; the high-skill jobs it creates are concentrated in exactly the regions and sectors where better-paid work is most needed; and a country that leads in artificial intelligence, quantum and fusion is more resilient to the technological shocks that will reshape the global economy over the coming decades. The investment is therefore not only an industrial strategy but a contribution to the fiscal and social aims of the Budget as a whole.

Projected Macroeconomic Outcomes

Over the five-year horizon the programme is estimated to raise GDP growth by 0.4 to 0.7 percentage points and to reduce unemployment by 0.1 to 0.2 percentage points, with a neutral effect on inflation and medium-term increases in corporate and income tax revenue from expanded high-productivity sectors.

These aggregate effects are deliberately stated conservatively, and they build over the period rather than arriving at once, because the returns to research and infrastructure investment are realised as the technologies diffuse into use rather than at the moment the money is committed. The combined contribution of between four and seven tenths of a percentage point to annual growth by the end of the period is significant in the context of an economy that has struggled with weak productivity for over a decade, and it is achieved without adding to inflation, because the investment expands the economy's productive capacity rather than its demand.¹⁰⁸ The fiscal return, through higher corporate and income tax receipts from a larger high-productivity sector, means that a programme funded as investment steadily strengthens the public finances as its effects mature.

Financial Summary: Chapter 6 Total Spending

Policy	Annual Cost	5-Year Total
Policy 6.1: Artificial Intelligence Development Programme	£3.5bn/yr (Yr3+)	£15.0bn
Policy 6.2: AI Workforce Training and Development	£1.5bn/yr (Yr3+)	£6.4bn
Policy 6.3: UK AI Companies and Industrial Expansion Fund	£2.0bn/yr (Yr3+)	£8.6bn
Policy 6.4: Nuclear Fusion Development Programme	£2.5bn/yr (Yr3+)	£10.7bn
Policy 6.5: Quantum Technology Investment	£2.0bn/yr (Yr3+)	£8.6bn
Policy 6.6: Investment in Emerging Industries	£2.0bn/yr (Yr3+)	£8.6bn
Total Chapter 6 Spending	£8.0bn (Yr1) → £13.5bn (Yr3+)	£58.0bn

Chapter 6 represents a public investment rising from £8 billion in Year 1 to £13.5 billion from Year 3, totalling £58 billion over five years.¹³² The profile is phased rather than flat because research institutes, fusion facilities and quantum testbeds cannot absorb their full allocation in a first year of operation; recruitment, procurement and construction all take time, and funding ahead of that capacity would not be spent.⁷⁹ The Year 5 capability is unchanged. This is consistent with the Budget's spending envelope as set out in the Conclusion's Fiscal Strategy table, where Chapter 6 accounts for approximately £13.5 billion at maturity of the £95 billion total alongside Chapters 1–5.¹³² These investments represent the Budget's long-term growth programme, with returns expected to compound through increased corporate tax receipts, high-skill employment, and productivity gains from Year 3 onwards.

Chapter 7A: National Passive Wealth Taxation, Rebalancing Wealth in the UK Economy

Introduction: Concentration of Wealth and Economic Challenges

The United Kingdom has experienced a sustained increase in wealth concentration over recent decades, accompanied by a structural shift in how wealth is held.

A growing share of high-net-worth wealth is now concentrated in passive financial portfolios, secondary property holdings, and non-productive assets that generate returns primarily through asset price inflation rather than productive economic activity.

This shift has contributed to several long-term economic challenges, including weak business investment, rising housing costs, and increased inequality.

These are not separate problems but symptoms of a single distortion. When the returns to holding assets passively, through rising house prices, appreciating financial portfolios and the ownership of land, come to exceed the returns to investing in production, capital is drawn away from the businesses, equipment and skills that raise output and wages. Ryan-Collins, Lloyd and Macfarlane have traced how this operates in Britain specifically, through the interaction of land values with bank credit, and Thomas Piketty's work on the long-run tendency of returns to capital to exceed the rate of growth describes the same mechanism at a longer horizon.^{103,101} Housing becomes an object of speculation rather than shelter, pushing costs beyond the reach of younger and poorer households; savings flow into existing assets rather than new enterprise, weakening the investment on which productivity depends; and wealth concentrates in the hands of those who already hold it, widening the gap between those who own assets and those who rely on their labour. Anthony Atkinson's survey of the instruments available to a market economy for reversing that concentration informs the design of the measures that follow.¹⁰² A tax system that taxes work heavily while barely touching passively held wealth reinforces each of these effects rather than correcting them.¹³⁶

Objectives of National Passive Wealth Taxes

At the same time, the tax system has struggled to capture these forms of wealth effectively, placing a relatively greater burden on labour income and productive enterprise.

This chapter introduces a targeted system of National Passive Wealth Taxes, designed to: Shift the tax base toward unproductive or low-productivity wealth, Encourage reinvestment into productive sectors of the UK economy, Reduce structural inequality, Strengthen the long-term sustainability of the public finances.

The purpose is not to penalise success or to raise revenue for its own sake, but to correct the imbalance between how the tax system treats work and how it treats passive ownership. By placing a modest annual charge on large concentrations of passively held wealth while leaving productive capital untouched, the reform changes the relative reward of the two, nudging capital towards the uses the economy most needs while raising revenue from those who choose not to make that shift. In doing so it aims to ease the pressure on labour income, help rebalance the housing market, and place the public finances on a firmer and fairer footing, all without discouraging the enterprise and investment on which growth depends.

Crucially, these reforms are designed to protect productive economic activity, ensuring that businesses, employment, and innovation remain unaffected.

7A.1 Core Principles of Passive Wealth Taxation

Taxing Economic Rents, Not Production

The design of national passive wealth taxation rests on a single core principle: the system taxes economic rents rather than production. The policies in this chapter focus on wealth that derives its returns from passive financial accumulation, from asset price appreciation, and from the holding of land and property without active use, rather than on the returns to employment and enterprise.

This is the single principle from which the entire design follows. Economic rents, the returns that accrue to the mere ownership of an asset rather than to any productive effort, can be taxed without discouraging the activity that creates value, because by definition no productive activity is being rewarded. The idea is not new. David Ricardo formalised it in 1817 in his account of differential rent, showing that the return to land arises from its position relative to other land rather than from anything its owner contributes, and Henry George built an entire political economy upon it in *Progress and Poverty* in 1879, arguing that value created by the presence and effort of the community should return to the community rather than to whoever happens to hold the title.^{97,98} Alfred Marshall later generalised the point in his treatment of quasi-rents, distinguishing returns to effort from returns to position.¹⁰⁰ The classic case remains land, whose value derives largely from its location and from public investment around it rather than from anything its owner does, but the same logic extends to passive financial holdings and to property held idle for appreciation. Taxing these returns is efficient in a way that taxing wages or enterprise is not: it raises revenue and, if anything, improves the allocation of capital rather than distorting it.

Taxation and Economic Incentives

This distinction ensures that taxation does not reduce incentives for productive economic activity. The whole architecture of exemptions that follows, protecting businesses, pensions, venture investment and productive land, exists to hold that line precisely, so that the charge falls on rent-seeking and never on the creation of value.¹⁶¹

7A.2 Scope, Application and Exemptions

Exemptions for Productive Assets

To maintain economic growth and investment, a defined set of productive assets is fully exempt from the surcharge. These are: owner-operated businesses, using the same material-participation test HMRC already applies for Business Asset Disposal Relief, broadly a holding of at least five per cent together with a director or employee role for at least two years; shares in actively managed firms where the individual materially participates, using the same test as the business exemption; pension funds and retirement savings; venture capital and early-stage investment; UK infrastructure and industrial investment; research and development investment; and agricultural land in active production.⁴⁷ This exemption structure ensures that capital is not withdrawn from the sectors most critical to economic growth.

Incentivising Domestic Reinvestment and Capital Allocation

The reliefs and exemptions are structured to incentivise reinvestment into UK productive sectors, long-term capital allocation, and domestic economic activity. The system therefore acts not only as a revenue-raising mechanism but also as a tool for capital reallocation.

This second function is as important as the first. Because the surcharge exempts productive business capital, venture and early-stage investment, infrastructure and research, while falling on passively held wealth, it changes the relative attractiveness of the two. An investor holding a large passive portfolio faces a choice: continue to hold assets that now carry an annual charge, or move capital into the exempt productive categories that also happen to be those the wider economy most needs. In this way the tax is designed to redirect capital rather than to drive it away, and the revenue it raises can be understood as falling on those who choose not to make that shift. The measure is therefore both a source of revenue and an instrument of the growth strategy, aligning private incentives with the national interest in productive investment.

Overview of the Net Passive Wealth Surcharge

The Net Passive Wealth Surcharge introduces an annual tax on large concentrations of passive wealth held by UK residents. It applies to global net wealth, so that offshore holdings are included within the tax base, and only to wealth above a high threshold, targeting the top end of the wealth distribution.

The design of this tax is shaped directly by the international record, which is mixed and instructive. Several European countries that once levied broad wealth taxes have since repealed them, generally because poorly designed versions raised little, encouraged the wealthy to relocate, or proved expensive to administer relative to their yield.⁵³ Others, notably Switzerland and Norway, retain wealth taxes that function reasonably well.⁵³ The difference lies in the design. Taxes set at modest rates, falling on a broad and hard-to-move base, and exempting the primary residence and genuine business assets have proved more durable than those set at high rates on narrow, mobile bases. This chapter follows the more successful model deliberately: rates are kept low, at 0.5 to 1 per cent above two million pounds; the primary residence is fully exempt; and productive business capital is protected, so that the charge falls on passive holdings rather than on enterprise or on the family home.¹³²¹⁵⁶

Tax Rate Structure

The surcharge is applied on a progressive marginal basis. Passive wealth between two and five million pounds is charged at 0.5 per cent, wealth between five and ten million pounds at 0.75 per cent, and wealth above ten million pounds at 1 per cent.¹³² These rates apply only to the passive portion of a person's wealth.

The top rate is capped at 1 per cent and the primary residence is excluded from the base entirely.⁵³ This calibration reflects the international evidence that annual net-wealth taxes are the most behaviourally sensitive of all taxes: the countries that levied them at rates above about 1 per cent, including France and Norway, experienced documented emigration of wealthy households, and most European states that once had such taxes have since repealed them.^{52,53} A top rate of 1 per cent keeps this measure within the range that has proved sustainable elsewhere.⁵² The revenue given up by the lower rate is modest in central terms, because the higher rate was also the most likely to be eroded by avoidance and relocation; the reduction therefore lowers the risk around the forecast more than it lowers the central estimate, and the passive wealth surcharge remains the least certain revenue line in this Budget, which is why it is deliberately set at a cautious level.¹⁵²

Defining Passive Wealth for Taxation

The tax base comprises the forms of wealth that generate returns without active participation. It includes passive financial portfolios such as equities, bonds and funds not actively managed by the taxpayer; hedge fund and private equity holdings held without active participation; large-scale rental property portfolios beyond defined thresholds; offshore trusts and passive investment vehicles; precious metals and speculative commodity holdings; and luxury asset portfolios held primarily for capital appreciation.¹⁵¹

Exemptions

Set against that base, the following are excluded. The primary residence is fully exempt: the main home is already taxed under the Residential Property Tax and the residential Land Value Tax set out in Chapter 8, and to avoid taxing the same lived-in home two or three times over it is excluded from passive wealth taxation entirely, whatever its value. Also excluded are active business ownership, pension assets, venture capital investments, UK industrial and infrastructure investments, and agricultural land in active use. These exemptions are critical to maintaining investment incentives.

7A.3 Rationale and Impact of the Net Passive Wealth Surcharge

The Net Passive Wealth Surcharge addresses a core structural issue in the UK economy: the accumulation of wealth in assets that do not contribute directly to productive economic activity. Passive wealth generates its returns primarily through capital gains, rent extraction and market appreciation, rather than through job creation, output expansion and innovation. The consequences are a reduced allocation of capital to productive sectors, increased inequality, and asset price inflation that is felt most acutely in housing. By introducing a targeted surcharge, the policy encourages a shift in behaviour toward more productive uses of capital.

The rationale, then, is as much about the composition of the economy as about revenue. The United Kingdom does not suffer from a shortage of wealth but from a misallocation of it: too much is tied up in assets that appreciate without producing, and too little flows into the businesses, infrastructure and innovation that raise productivity and wages. A surcharge that falls on the former while exempting the latter works on that margin directly, making idle and speculative holdings marginally less attractive and productive investment marginally more so. The effect on any individual decision is modest, as it should be, but across the whole stock of large passive holdings even a small shift in relative incentives moves substantial sums towards productive use. The revenue raised from those who do not shift is the by-product of a measure whose primary purpose is to improve how the nation's capital is deployed.

7A.4 Behavioural Effects

The policy is designed to change incentives rather than simply to raise revenue. The behavioural responses it seeks are the reallocation of capital into UK businesses and infrastructure, a reduction in speculative asset holding, greater participation in productive enterprise, and greater use of capital for long-term investment. Importantly, because productive assets are exempt, capital is redirected rather than withdrawn.

This distinction, between redirecting capital and driving it out of the country, is the pivot on which the whole design turns, and it is what separates this measure from the failed wealth taxes of the past. A tax that fell on all wealth, including productive business assets, would indeed give the mobile wealthy a reason to leave, taking their capital and their enterprise with them. A tax that falls only on passive holdings, while leaving every productive use untaxed, gives them a reason to reallocate instead: the charge can be avoided entirely by putting capital to work in the exempt categories. The behavioural responses the policy seeks, more investment in British business and infrastructure and less speculative and idle holding, are therefore not incidental side effects but the central mechanism through which it operates, and the revenue forecasts assume that a substantial share of those affected will respond in exactly this way.

7A.5 Distributional Impact

The surcharge is highly progressive and affects only a small proportion of the population. It applies primarily to the top 0.5 to 1 per cent of wealth holders, fewer than 300,000 households, reflecting the two million pound passive wealth threshold measured net of the primary residence, pensions and productive business assets.^{132,34} The majority of households are unaffected, and there is no impact on typical homeowners or pension savers. Among those who are affected, individuals with predominantly passive portfolios face higher effective taxation, while those who direct their capital into productive investment face significantly lower effective rates.

The distributional design carries an important fairness point that is easily missed. Two people with identical wealth can face very different charges under this measure, and that is deliberate: the one who has put their capital to work in a business, in venture funding or in infrastructure pays little or nothing, while the one who holds the same sum in a passive portfolio pays the surcharge in full. The tax therefore does not fall on wealth as such but on the choice to hold it unproductively, which is both its economic rationale and its moral one. For the ordinary household the practical effect is simpler still: with the primary residence, pensions and any stake in a family business all excluded, the measure does not reach them at all, and the burden rests squarely on the small number of people with very large concentrations of genuinely passive wealth.

7A.6 Macroeconomic Impact

The introduction of the Net Passive Wealth Surcharge contributes to broader economic performance through several channels. By encouraging capital reallocation, it raises business investment, improves the availability of venture capital, and expands infrastructure funding. That higher productive investment in turn supports increased output, higher productivity and stronger long-term growth, with an estimated contribution of 0.2 to 0.3 percentage points to annual GDP growth. Its direct inflationary effect is minimal, and indirectly it is mildly disinflationary, since increased supply capacity reduces price pressure and reduced asset speculation moderates housing inflation, giving an estimated effect of between minus 0.05 and plus 0.05 percentage points. Through the same expansion in investment the measure supports job creation, with an estimated 30,000 to 50,000 additional jobs over five years and a reduction in unemployment of 0.05 to 0.1 percentage points.¹³²

These effects operate through a single chain of causation: by shifting capital from passive holdings into productive investment, the surcharge raises the rate of business investment, and higher investment in turn supports greater output, higher productivity and, through them, employment and growth. The estimated contribution of two to three tenths of a percentage point to annual growth is stated conservatively and assumes that only a portion of those affected reallocate their capital; the fuller the behavioural response, the larger the growth effect and the smaller the revenue, which is why the two are modelled together rather than in isolation. The effect on inflation is close to neutral and, if anything, mildly disinflationary, because expanding the economy's productive capacity eases supply constraints while dampening the asset-price speculation, particularly in housing, that has been a persistent source of cost pressure. The measure is, in short, one of the few revenue-raising instruments that plausibly supports growth rather than restraining it.

7A.7 Fiscal Revenue Generation

The Net Passive Wealth Surcharge provides a stable and predictable revenue stream, raising approximately 4.5 billion pounds a year. Its stability rests on three design features: a high threshold, the exemption of productive assets, and deliberately conservative compliance assumptions. Unlike transaction-based taxes, whose yield rises and falls with market activity, a tax on the stock of wealth draws on a base that is relatively stable over time, so revenue volatility is limited and fiscal planning is improved.

No wealth tax is free of risk, and the credibility of this one rests on confronting those risks directly rather than assuming them away. Three stand out: that mobile capital might leave the country, that assets might be misclassified as productive to escape the charge, and that investment might be discouraged. The design addresses each through a combination of a broad, hard-to-move base, clear legal definitions tested against existing HMRC practice, and the international cooperation set out in Chapter 7B. The mitigations that follow are not afterthoughts but integral features of the policy, and the revenue forecasts are set conservatively to reflect the residual risk that remains after they are applied.¹⁵⁴

7A.8 Addressing Potential Risks and Implementing Mitigations

The guiding approach to risk is to design it out rather than to legislate against it after the fact. The risk of capital flight is met not by penalties on those who leave but by taxing global net wealth, so that relocation of assets does not escape the charge, reinforced by the international cooperation set out in Chapter 7B. The risk of assets being dressed up as productive to claim exemption is met by tying the definitions to tests HMRC already operates, such as the material-participation standard used for existing reliefs, so that the boundaries are familiar and enforceable rather than novel and contestable.⁴⁷ And the risk of discouraging investment is addressed by the exemptions themselves, since the one certain way to avoid the surcharge is to invest productively. Because each mitigation is built into the structure of the tax rather than bolted on, the residual risk is smaller than for the wealth taxes that failed elsewhere, and the revenue forecasts are set conservatively to reflect what remains.¹⁵²

7A.9 Interaction with Wider Tax System

The passive wealth surcharge is deliberately designed as one element of a coherent system rather than as a standalone charge. It complements the Land Value Tax of Chapter 8, which captures the rents arising from land; the property efficiency taxes of the later chapters, which ensure assets are put to use; and the international measures of Chapter 7B, which prevent avoidance through offshore relocation. Together these policies target the same underlying problem from different directions: passive wealth, idle assets, and speculative behaviour.¹⁵²

No single tax can address the many forms that unproductive wealth-holding takes, which is why the passive wealth surcharge is designed to sit within a wider framework rather than to carry the whole burden alone. The point matters for both effectiveness and fairness: a lone wealth tax invites avoidance by shifting assets into whichever form it does not reach, whereas a set of complementary measures that between them cover land, property, offshore holdings and passive portfolios leaves far fewer routes of escape. The interactions are also carefully managed to avoid double taxation, so that wealth captured by one measure is not charged again by another, and the cumulative incidence safeguards described elsewhere in this Budget ensure that no individual faces an unreasonable combined burden across the whole package.

Each measure addresses a different route by which wealth can be accumulated and held unproductively, and each reinforces the others: the land tax makes it harder to shelter wealth in land, the offshore measures make it harder to move it abroad, and the passive surcharge makes it more costly to hold it idle in any form. It is the combination, rather than any single measure, that gives the overall system its coherence and its resistance to avoidance.

Combined-Package Risk: Realistic Revenue and Timelines

Each individual chapter's sensitivity analysis models that chapter's own behavioural response in isolation. In practice, the wealthiest households and largest institutional landholders are likely to be liable under several of Chapters 7A–8 at once, and the incentive to restructure, relocate, or contest valuation compounds rather than simply adds when eight new liabilities land on the same cohort in the same Parliament. This is a genuine risk that isolated, chapter-by-chapter modelling understates.

The package is designed with this in mind. Land-based measures (Chapters 7C, 7D, 7F, 7G, 7H and Chapter 8) carry the least relocation risk, since land cannot be relocated regardless of how many separate levies apply to it. Mobile-wealth measures (Chapters 7A, 7B and 7E) carry more, and are costed accordingly. A Cumulative Incidence Safeguard caps the combined annual charge any single household or landholding can face across all measures in this Budget at 5% of assessed value, with a further aggregate cap of 4% of total UK asset value for taxpayers holding several assets, bounding the stacking risk to within the range observed not to trigger mass emigration internationally.¹³² The revenue figures throughout this document reflect this design, rather than assuming each measure performs in isolation.¹⁵²

Implementation timelines follow the same logic as Chapter 8's land valuation build-out. None of Chapters 7A–7H assumes a dedicated new administrative system operating at full capacity from Day 1. Year 1 collection in each chapter relies on data HMRC, Companies House, and Land Registry already hold, self-assessment wealth declarations, existing company ownership registers, and property title data, with dedicated registers, international data-sharing, and enforcement capacity maturing over Yr 1–3, consistent with the timeline observed for comparable digital tax programmes internationally and the automatic exchange of information network the UK already participates in. This is deliberately more cautious than assuming any of these eight measures reaches full effectiveness immediately.

Precedent for each individual measure does not by itself mean HMRC has the staffing and system capacity to build all eight in parallel at the same intensity. Chapters 7C, 7D, 7G, and Chapter 8 (the land-based measures, which reuse Land Registry and VOA data most directly) are prioritised for full Year 1 build-out; Chapters 7A and 7E (which depend more heavily on self-assessment data already collected) follow in the same year at slightly lower initial administrative intensity; and Chapters 7B and 7H.4 (which depend on international data-sharing and portfolio-level identification respectively) are the most administratively demanding and are accordingly phased in over Years 1–2, as already set out in their respective chapters. This sequencing is a reason for, not a challenge to, the phased revenue profiles used throughout this document.

The National Passive Wealth Tax: A Systemic Rebalance

The National Passive Wealth Tax represents a fundamental rebalancing of the UK tax system.

By targeting large concentrations of passive wealth while protecting productive activity, it addresses the structural weaknesses of the current system without undermining economic growth.

It ensures that wealth contributes fairly to the public finances, that capital is directed toward productive use, that economic inequality is reduced, and that long-term growth is strengthened.¹⁶⁰

Financial Summary: Chapter 7A: National Passive Wealth Taxation

Policy / Measure	Annual Revenue	5-Year Total
Net Passive Wealth Surcharge (annual charge on passive wealth £2m+, progressive rates 0.5–1%)	£4.5bn/yr	£22.5bn
Total Chapter 7A Revenue	£4.5bn/yr	£22.5bn

Chapter 7A generates £4.5 billion per year from the Net Passive Wealth Surcharge applied progressively to passive wealth above £2 million, at marginal rates of 0.5 to 1 per cent, with the primary residence fully exempt.¹³² Revenue is consistent with the Year 1 new revenue total of £80 billion set out in the Conclusion's Fiscal Strategy table.¹³²

The calibration of the rates reflects hard evidence about what sustainable wealth taxation looks like. Several European countries that once levied wealth taxes at high rates, including France and Sweden, later repealed them, having found that aggressive rates encouraged the mobile wealthy to relocate or restructure their affairs while raising less than forecast. The lesson drawn here is not that wealth cannot be taxed, since countries such as Switzerland and Norway continue to do so successfully, but that the rate must sit within a range that raises meaningful revenue without triggering flight. A top rate of one per cent on passive wealth above ten million pounds, with full exemption of the primary residence and of actively managed business assets, is deliberately positioned within that sustainable range, prioritising a stable, enduring source of revenue over a higher headline rate that would raise less in practice.

This reform establishes a modern tax framework aligned with the needs of a high-investment, high-productivity economy.

Chapter 7B: International Passive Wealth Taxation, Tackling Offshore Wealth and Global Capital Mobility

Introduction

A significant proportion of global wealth, particularly among high-net-worth individuals, is held through offshore structures, cross-border financial vehicles, and low-tax jurisdictions. While some of this activity reflects legitimate international investment, a substantial share represents passive capital positioned to minimise tax exposure rather than support productive economic activity.¹⁵⁴

For the United Kingdom, this creates three interrelated challenges: the erosion of the domestic tax base, unequal treatment between domestic and offshore wealth, and the reduced effectiveness of national tax reforms. Each of these weakens both the fairness and the yield of the wider system, and each is made worse if domestic wealth taxation is introduced without an international counterpart.

Objectives of International Passive Wealth Taxation

Without an international dimension, domestic passive wealth taxation risks partial circumvention through capital relocation or legal restructuring. This chapter therefore introduces a coordinated system of International Passive Wealth Taxation, designed to capture offshore passive wealth held by UK residents, reduce the incentives for capital flight, encourage the repatriation of capital into the UK economy, strengthen fairness within the tax system, and support international cooperation on wealth taxation. These measures complement Chapter 7A and ensure that the overall framework remains comprehensive, enforceable, and economically effective.¹⁵⁴

7B.1 Core Principles of the International Framework

Residency-Based Global Taxation

The international framework is built on three principles, the first of which is residency-based global taxation. UK tax residents are taxed on global passive wealth, regardless of where assets are held. This ensures that offshore relocation of assets does not eliminate tax liability and that domestic and international assets are treated consistently, so that the location of an asset no longer determines whether it is taxed.

Targeting Passive, Not Productive Capital

As with the national measures, the system distinguishes between passive offshore wealth, which is taxed, and active international business investment, which is protected. This avoids discouraging legitimate global economic activity, and confines the charge to the passive rent-seeking wealth the framework is designed to reach.¹⁶¹

A Phased Approach to International Cooperation

The system begins with unilateral measures and evolves toward bilateral agreements, OECD-aligned frameworks, and multilateral wealth transparency standards. This phased approach balances effectiveness with feasibility, allowing the United Kingdom to act now while building the international architecture that makes the charge progressively harder to avoid.¹⁵³

The feasibility of taxing offshore wealth has changed markedly over the past decade. The Common Reporting Standard, now operated by more than a hundred jurisdictions, requires financial institutions to report the accounts of foreign tax residents automatically to their home authorities, so that the information needed to assess offshore holdings increasingly arrives without the taxpayer having to disclose it.⁵¹ The United Kingdom already receives data on millions of offshore accounts each year. The framework in this chapter builds on that infrastructure rather than assuming perfect enforcement: it treats reported holdings as the primary base, applies robust presumptions where disclosure is incomplete, and is explicit that the yield depends on the quality of international cooperation, which is why the revenue is forecast conservatively and phased.¹⁵³

7B.2 Policy: Offshore Passive Capital Levy

Policy Description

The Offshore Passive Capital Levy introduces an annual tax on passive wealth held in offshore structures by UK residents. The levy is deliberately narrow in its target and broad in its reach. It applies to the same category of passive wealth taxed domestically under Chapter 7A, so that a UK resident cannot escape the domestic charge simply by holding the asset through a company, trust or nominee in another jurisdiction. Genuine international business investment, operating subsidiaries, and actively managed enterprises abroad are excluded, both because taxing them would discourage legitimate outward investment and because they are not the passive rent-seeking the measure is designed to reach. The distinction is enforced through the same active-participation tests used domestically: a material management role, a minimum shareholding, and evidence of genuine economic activity rather than mere ownership.

The levy applies to passive wealth held through a range of offshore vehicles: offshore trusts and family wealth vehicles, overseas property portfolios not in productive use, offshore investment funds, financial assets held in low-tax jurisdictions, and the nominee and shell structures commonly used to hold passive wealth at one remove from its beneficial owner. What unites these forms is that they represent the same passive wealth taxed domestically under Chapter 7A, held in a way that would otherwise place it beyond the reach of the domestic charge. The test is one of substance rather than form: it is the nature of the underlying wealth, not the legal wrapper around it, that determines whether the levy applies, so that a portfolio of securities does not escape simply because it is held through a trust in another jurisdiction.^{151,153}

Rate Structure

The levy is charged at progressive marginal rates, so that each band applies only to the portion of offshore passive wealth falling within it. Wealth between two and five million pounds is charged at 1.5 per cent, wealth between five and ten million pounds at 1.75 per cent, and wealth above ten million pounds at 2 per cent.¹³² These rates are set deliberately higher than the domestic passive wealth rates in Chapter 7A, which run from 0.5 to 1 per cent, and the gap is intentional: it reflects the greater avoidance risk that offshore holdings present, the opacity that makes them harder to assess, and the higher cost of enforcing a charge across borders.¹³² Setting the offshore rate above the domestic one also removes any incentive to move wealth abroad in search of a lower charge, since relocation would attract a higher rate rather than a lower one.

Scope of the Tax Base

The base comprises passive financial portfolios held offshore, non-UK property holdings that are not used productively, offshore trusts and family wealth vehicles, and cash and liquid assets held in low-tax jurisdictions. In each case the defining feature is that the asset earns a return through ownership alone rather than through any active economic contribution, which is what brings it within the same logic as the domestic passive wealth charge. Because the base is defined by the character of the wealth rather than by its location, moving an asset from one offshore jurisdiction to another offers no escape from the charge.

Exemptions from the Levy

The levy fully exempts wealth that is genuinely productive rather than passively held. Active overseas businesses that employ staff, foreign direct investment in productive enterprises, pension and retirement assets, and development-stage investments all fall outside its scope. These exemptions are not loopholes but a direct expression of the measure's purpose: the aim is to reach passive, rent-seeking wealth held offshore to minimise domestic tax, not to penalise legitimate international investment or the ordinary retirement saving of people who happen to hold some assets abroad. The active-participation tests used domestically, which require a material management role and evidence of genuine economic activity rather than mere ownership, apply here too, so that the boundary between exempt and taxable wealth is drawn by substance and cannot be manufactured by paperwork.

7B.3 Rationale and Objectives of the Levy

Offshore wealth structures are frequently used to defer or avoid taxation, to accumulate wealth without productive reinvestment, and to benefit from asset price growth without contributing to the domestic economy. This narrows the tax base, increases inequality, and distorts the allocation of capital. The Offshore Passive Capital Levy ensures that UK residents cannot avoid taxation through jurisdictional arbitrage, and that passive capital contributes fairly regardless of where it is located.

7B.4 Behavioural Effects

The policy is designed to change behaviour as much as to raise revenue. The expected responses include the repatriation of capital to the UK, increased investment in domestic productive sectors, a reduction in offshore passive holdings, and greater transparency in wealth structures. Importantly, the policy is designed so that moving capital offshore does not eliminate liability, while investing productively reduces effective tax exposure, so that the incentives point consistently towards bringing capital home and putting it to work.

7B.5 Fiscal Projections and Revenue Stability

The Offshore Passive Capital Levy is projected to raise approximately 2.0 billion pounds in Year 1, rising to 3.5 billion pounds from Year 3 onwards, with a further 0.8 to 1.0 billion pounds a year from the accompanying Share Buyback Tax. These figures reflect conservative compliance assumptions, partial behavioural adjustment, and improved reporting through international cooperation. Offshore wealth is large but somewhat mobile, so the revenue is expected to stabilise as avoidance incentives decline and as the international reporting infrastructure matures, giving a predictable base for fiscal planning once the levy reaches its full rate.

7B.6 Policy: Global Green Wealth Tax Coordination

Policy Description

A Labour government should pursue international coordination to establish a Global Green Wealth Tax on ultra-high-net-worth individuals. This tax would apply to individuals with global wealth above 50 million pounds and to the passive wealth components they hold across participating jurisdictions, with a portion of the revenues allocated to climate transition investment, green infrastructure, and international decarbonisation efforts.

Phased Implementation Plan

Because the measure depends on international agreement, it is introduced on a deliberately phased timetable. Years 1 and 2 are given over to negotiation and the establishment of reporting standards, Year 3 to the development of the legal framework, Year 4 to initial implementation, and Year 5 to expanded participation. This sequencing reflects the reality that a coordinated international tax cannot be legislated into existence overnight, and it ensures that revenue is only counted once the framework is genuinely in place.

Projected Revenue Generation

Consistent with that timetable, the measure raises nothing in Years 1 to 3, approximately 1.5 billion pounds in Year 4 as initial implementation begins, and approximately 3 billion pounds in Year 5 as participation expands. These figures are deliberately cautious, reflecting the uncertainty inherent in any measure that depends on the cooperation of other governments.

7B.7 Justification for International Tax Coordination

Ultra-high-net-worth wealth is highly globalised and mobile, and national taxation alone is insufficient to address cross-border tax avoidance, jurisdictional competition, and the concentration of wealth at the global level. International coordination allows for broader coverage of the tax base, reduced avoidance, and the alignment of incentives across economies, so that the wealthiest individuals cannot simply move between jurisdictions to escape contributing. It is the necessary complement to domestic action rather than an alternative to it.¹⁵⁸

7B.8 Macroeconomic Effects

Investment

The measures support domestic investment through a single mechanism: capital repatriated from offshore structures increases the pool of investment available at home, and more of it flows into productive sectors as the incentive to hold wealth passively offshore is removed.

Economic Growth and Inflation

The reforms are estimated to add between 0.05 and 0.15 percentage points to annual GDP growth. The effect on inflation is neutral: there is no direct impact on consumer prices, and the indirect effect, through increased supply capacity, is mildly favourable rather than inflationary.

Employment

Through the same increase in domestic investment, the measures support job creation, with an estimated 10,000 to 20,000 additional jobs.¹³² Beyond the revenue they raise, the measures in this chapter strengthen the integrity of the financial system. Opaque offshore structures do not merely reduce tax receipts; they obscure the true ownership of assets, complicate the enforcement of sanctions and anti-money-laundering rules, and create systemic risks that are hard to see and harder to manage. By bringing offshore holdings within a transparent framework and reducing the incentive to move wealth beyond the reach of domestic authorities, the reforms support several objectives at once.

7B.9 Enhancing Financial Stability and Global Standing

These measures contribute to reduced capital flight, greater transparency in financial markets, and lower systemic risk from opaque offshore structures. They also strengthen the United Kingdom's position in global tax cooperation frameworks, positioning the country as a leader in the international effort to tax mobile wealth fairly rather than as a laggard exposed to the avoidance strategies of others.

7B.10 Addressing Risks and Implementing Mitigations

Three principal risks attend a framework of this kind, and each is met by a specific mitigation. The risk of capital relocation is addressed through residency-based taxation, international coordination, and enforcement agreements, so that moving assets between jurisdictions does not remove liability. The risk of enforcement complexity is addressed through the expansion of automatic exchange of information, the strengthening of HMRC's international capabilities, and the use of digital reporting systems. And the risk of diplomatic constraints is addressed through phased implementation, alignment with OECD initiatives, and bilateral agreements, so that the United Kingdom advances in step with international partners rather than in isolation.

7B.11 Integration with Wider Tax System

Ensuring a Closed and Coherent System

This chapter is critical to the success of the overall tax strategy. It ensures that the national wealth taxes of Chapter 7A cannot be easily avoided, that the land and property reforms are not undermined by offshore ownership structures, and that the UK tax base remains comprehensive and resilient. Together with the domestic reforms, it creates a closed system in which passive wealth is taxed consistently, productive investment is protected, and avoidance routes are significantly reduced.

Conclusion: Global Coherence and Systemic Strength

International Passive Wealth Taxation transforms the UK tax system from a purely domestic framework into a globally coherent model capable of addressing modern capital mobility. By ensuring that offshore passive wealth is taxed alongside domestic wealth, the Government eliminates one of the most significant weaknesses in traditional tax systems. This approach strengthens fairness, enhances fiscal sustainability, encourages productive investment, and reduces inequality. Most importantly, it ensures that the reforms introduced in Chapter 7A operate effectively in a globalised economy.¹⁵⁵

Financial Summary: Chapter 7B: International Passive Wealth Taxation

Policy / Measure	Annual Revenue	5-Year Total
Offshore Passive Capital Levy (annual tax on offshore passive wealth)	£2.0bn (Yr1) / £2.8bn (Yr2) / £3.5bn (Yrs 3–5)	£15.3bn
Share Buyback Tax (new measure, UK-listed company buybacks)	£0.8bn (Yr1) / £1.0bn (Yrs 2–5)	£4.8bn
Global Green Wealth Tax (Year 4 onwards, ultra-HNW coordination)	£0 (Yrs 1–3) / £1.5bn (Yr 4)	≈£4.5bn (Yrs 4–5)
Total Chapter 7B Revenue	£2.8bn (Yr1) / £3.8bn (Yr2) / £4.5bn (Yr3) / £6.0bn (Yr4) / £7.5bn (Yr5)	≈£24.6bn

Chapter 7B raises £2.8 billion in Year 1, rising to £3.8 billion in Year 2 and £4.5 billion in Year 3 as the Offshore Passive Capital Levy ramps up to its full rate.¹³² The levy starts at a reduced rate in Years 1–2 rather than the full rate from Day 1, reflecting the genuine time needed to build enforcement capacity on top of the automatic exchange of information network HMRC already participates in, reaching full effect once data-sharing and verification processes have matured. A new Share Buyback Tax is introduced alongside it: a 2% excise charge on share buybacks executed by companies listed on UK-regulated markets, modelled on the equivalent US federal measure introduced in 2022, raising approximately £0.8–1.0 billion per year.¹³² Because this tax is levied on the corporate transaction itself rather than on the residency or domicile of the underlying shareholder, it cannot be avoided through personal relocation, making it a materially more robust source of revenue than a purely offshore-wealth-based levy, and a natural complement to it. Revenue rises further from Year 4 as the Global Green Wealth Tax comes online, reaching £6.0 billion in Year 4 and £7.5 billion in Year 5. These figures are consistent with the Year 1 new revenue total set out in the Conclusion's Fiscal Strategy table.

The buyback charge addresses a specific distortion in how companies return value to shareholders. A buyback and a dividend achieve much the same thing, returning cash to owners, but they are taxed differently, and the preferential treatment of buybacks has encouraged firms to favour them, sometimes at the expense of productive investment. A modest excise on buybacks narrows that gap and gently tilts the balance back toward reinvestment, while raising revenue from a base that is difficult to relocate because it attaches to the act of repurchasing shares on a UK-regulated market. The rate is set low deliberately: the intention is to correct a distortion and raise steady revenue, not to discourage the legitimate return of capital where a firm genuinely has no better use for it.

Chapter 7C: Underused Land and Property Taxation, Unlocking Housing Supply and Reducing Speculation

The Problem of Land and Housing Underutilisation

One of the most persistent structural weaknesses in the UK economy is the inefficient use of land and housing assets. A significant share of residential land and property remains underused, vacant, or held for speculative purposes, even in areas experiencing acute housing shortages.

Macroeconomic Consequences of Inefficient Land Use

This underutilisation is not simply a housing issue; it has broader macroeconomic consequences, including reduced housing supply and affordability, higher rents and cost-of-living pressures, lower labour mobility, and increased inequality driven by asset price inflation.¹⁴⁴

International experience supports the direction of these measures. Vacancy and underuse charges operate in several comparable jurisdictions: Vancouver's empty-homes tax reduced the number of vacant properties materially within a few years of its introduction, and France's tax on vacant dwellings is credited with bringing tens of thousands of units back into use.^{54,55} The mechanism is straightforward. A holding cost on an idle asset changes the arithmetic of leaving it idle, so that owners who would otherwise wait for capital appreciation are pushed toward letting, selling or developing. The revenue is, in a sense, the second-best outcome: the measure succeeds most fully when it raises little, because the asset has been brought back into use, and the forecasts in this chapter assume a behavioural response rather than a static base.

It is worth being precise about how this measure differs from the Land Value Tax in Chapter 8. The Land Value Tax is a permanent, universal charge on the value of all land, levied whether or not the land is used well; it corrects the underlying incentive to hold land idle by making ownership itself carry a cost. The measures in this chapter are narrower and more surgical, aimed at specific categories of demonstrable underuse, vacancy and speculation, and they are intended to bite hardest in the transition before the Land Value Tax is fully phased in. As the Land Value Tax matures, the marginal role of these targeted charges diminishes, because a well-designed land tax already prices the opportunity cost of leaving a site idle. The two are complementary rather than duplicative: the targeted charges address the immediate stock of underused sites, while the Land Value Tax changes the long-run incentive to accumulate them.

The treatment of second homes and short-term lets deserves particular explanation, because it is where the tension between individual choice and community need is sharpest. There is nothing objectionable in itself about owning a second home, but in areas of acute housing shortage the concentration of second homes and holiday lets can hollow out communities, pricing out local residents, closing schools and services as the permanent population falls, and leaving dwellings empty for much of the year while local workers cannot find somewhere to live. The premium in this chapter is targeted at exactly those high-demand areas rather than applied uniformly, so that it bites where the social cost is greatest and barely at all where second homes impose no such pressure. It is designed to shift the balance at the margin, making it somewhat more likely that a given property houses a local family than that it stands empty as an occasional retreat.¹³⁸

Introduction to Targeted Land Taxes

A single coordinating rule governs all of the land and property measures in this chapter and prevents any asset from being charged several times over. Each plot of land or property is assessed under whichever one of these taxes applies most specifically to it, and never under more than one: a site facing the commercial efficiency charge in Chapter 7D is not also charged under the high-value holding tax in Chapter 7F or the hoarding and vacancy levy in Chapter 7G, and a home already taxed under the Residential Property Tax and residential Land Value Tax of Chapter 8 is not additionally caught by the passive wealth tax in Chapter 7A or the ultra-luxury holding tax in Chapter 7F. The primary residence in particular is taxed only once, through the Residential Property Tax and the Land Value Tax on the land beneath it. The measures that follow are therefore alternatives applied according to the character of the asset, not layers stacked on top of one another.

While the Land Value Tax introduced in Chapter 8 provides a broad-based incentive for efficient land use, additional targeted measures are required to address specific forms of underutilisation and speculative behaviour that persist even within a Land Value Tax framework. This chapter therefore introduces a set of Underused Land and Property Taxes, designed to bring vacant and underused property into active use, reduce the speculative holding of housing assets, increase effective housing supply without requiring equivalent new construction, lower rent and house price pressures, and improve overall economic efficiency. These measures are tightly targeted and designed to complement, not duplicate, the Land Value Tax and the passive wealth taxes.

7C.1 Core Principles of the Strategic Framework

The policies in this chapter are based on three key principles. The first is a use-it-or-contribute principle: assets that are not actively used for housing or rental supply, or put to some other productive purpose, incur a higher tax burden, which ensures that productive use is always financially preferable to inactivity.

Targeting High-Impact Distortions

The second principle is to target the distortions where intervention has the largest economic and social payoff. The policies focus specifically on empty homes, second homes in high-demand areas, underutilised urban land, and the speculative holding of developable land, because these are the areas where the gap between potential and actual use is widest and where a change in incentives yields the greatest gain in housing supply.¹³⁸

Complementarity with the Land Value Tax

The third principle is complementarity with the Land Value Tax. While the Land Value Tax provides a baseline incentive to use land efficiently, these targeted measures address specific behaviours it alone may not fully eliminate, accelerate behavioural change, and improve short- to medium-term outcomes while the broader tax beds in.

7C.2 Policy: Targeted Premium for High-Demand Areas

A targeted tax premium is applied to second homes and short-term rental properties located in designated high-demand housing areas. Local authorities define these areas on the basis of housing affordability ratios, rental pressure, and demonstrated local housing shortages, so that the premium is applied where the pressure on housing is greatest.

Tax Structure

The premium takes the form of an additional annual charge of 2 to 4 per cent of property value, applied on top of standard property taxation, including the Land Value Tax.¹³² The premium is deliberately local rather than national, because the problem it addresses is intensely concentrated. In much of the country, second homes and short-term lets are unremarkable and impose little cost on the surrounding community. In a defined set of high-demand areas, however, particularly coastal towns, national parks and parts of major cities, their concentration hollows out permanent communities, prices out local residents and workers, and leaves homes empty for much of the year in places with acute housing shortages. By allowing local authorities to designate these areas on the basis of affordability ratios, rental pressure and demonstrated shortage, the premium is targeted precisely where the social cost is greatest and applies barely at all where second homes cause no such harm. The rate is set high enough to shift behaviour at the margin, making it more likely that a given property houses a permanent resident than that it stands empty as an occasional retreat, while leaving genuine holiday areas that depend on tourism able to function.

Rationale and Impact

In high-demand areas, second homes and short-term lets reduce housing availability for residents, increase rents and house prices, and distort local housing markets. The premium is intended to encourage conversion to long-term rental, increase housing availability, and reduce local price pressures. It is projected to raise approximately 3.5 billion pounds a year, though that figure is expected to fall over time as the intended behavioural shift occurs.

7C.3 Policy: Residential Property Vacancy Levy

A national levy applies to residential properties left vacant beyond a defined period, specifically where a property is unoccupied for more than twelve months and no valid exemption applies.

Tax Structure

The levy is charged at 1 per cent of property value in the first year of vacancy, rising to 2 per cent in the second year.¹³² An empty home in a country with a housing shortage is a peculiar waste: a dwelling that exists, that could house a family, but that is withheld from use. Some vacancy is unavoidable and legitimate, arising during sale, probate, renovation or a genuine period of re-letting, which is why the levy applies only after twelve months and carries clear exemptions for these situations. But long-term vacancy without such a reason usually reflects a deliberate choice to hold a property idle, whether for expected capital appreciation or through neglect, and it is that choice the levy is designed to change. The escalating rate ensures that the cost of leaving a home empty rises the longer the vacancy persists, so that bringing it back into use becomes progressively more attractive than holding it idle.

Exemptions

The levy exempts properties undergoing active renovation, those recently inherited, cases of temporary life circumstances, and newly built homes pending sale, so that it falls on deliberate long-term vacancy rather than on the ordinary and legitimate reasons a home may stand empty for a time.

Rationale and Impact

Vacant homes represent unused housing supply during a housing shortage. By bringing properties back into use, the levy increases rental supply and reduces pressure on new construction demand. It is projected to raise approximately 3 billion pounds a year as the residential component of the unified vacancy charge, again a figure expected to decline as homes return to use.

7C.4 Policy: Land Banking Levy

A levy applies to developable land that remains unused despite having both planning permission and infrastructure access.

Tax Structure

The levy is charged at 3 per cent of land value a year, rising to 5 per cent after three years of the land remaining unbuilt, so that the charge escalates over time if the land remains undeveloped.¹³²

Rationale and Impact

Land banking restricts housing supply by delaying development. The residential land-banking levy mirrors the commercial version in Chapter 7D and rests on the same insight: that a plot with planning permission and infrastructure access is, from the community's point of view, a home waiting to be built, and holding it undeveloped for years imposes a real cost in housing forgone. From the landowner's perspective, delay can be rational when land values are rising faster than the return from building, but the aggregate effect of many owners making that calculation is a chronic shortfall in delivery. An escalating annual charge changes the arithmetic, so that the cost of holding a permitted, serviced site idle rises over time until building becomes the more profitable course. Because the levy applies only where permission has been granted and development could lawfully proceed, it targets deliberate withholding rather than the genuine time that construction requires. In doing so it accelerates housing delivery, reduces speculative land holding, and increases construction activity, and is projected to raise approximately 2.2 billion pounds a year from its residential component.¹⁴⁷

7C.5 Policy: Levy on Empty and Underutilised Urban Land

A levy applies to vacant urban plots, low-density use in high-value urban areas, and idle brownfield land, charged at 0.8 to 1.5 per cent of land value annually.¹³²

Rationale and Impact

The waste of urban land is one of the least visible but most costly inefficiencies in the housing system. Vacant plots, surface car parks and low-density uses in city centres occupy land whose location makes it exceptionally valuable and exceptionally well suited to housing and commercial development, yet it generates a fraction of the economic and social value it could. Idle brownfield land is a particular concern, since it is often already served by infrastructure and could be developed with less controversy than greenfield sites, but it sits unused because the incentive to develop it is weak. A modest annual charge on such land raises the cost of leaving it idle and tilts the balance toward development or sale to someone who will develop it, helping to bring forward exactly the kind of well-located, infrastructure-served sites on which additional housing can most readily be built. The measure encourages redevelopment, increases housing density and improves urban productivity, and is projected to raise approximately 2 billion pounds a year.

7C.6 Macroeconomic Considerations

Housing Availability, Rents and Prices

Effective housing supply increases through reduced vacancy, the conversion of second homes to permanent use, and faster land development, with an estimated gain of 5 to 8 per cent in effective housing supply over five years.¹³² That additional supply feeds through into lower rent growth and reduced housing inflation, estimated at a reduction of 1 to 2 percentage points on housing inflation.

Growth, Prices and Employment

Improved housing availability supports labour mobility, workforce participation and consumption, contributing an estimated 0.2 to 0.4 percentage points to GDP. Lower housing costs feed directly into the Consumer Price Index, reducing it by an estimated 0.2 to 0.4 percentage points, while the increased construction activity supports an estimated 40,000 to 70,000 additional jobs over five years.¹³²

Distributional Effects on Stakeholders

The measures are strongly progressive in their incidence. The principal beneficiaries are renters, first-time buyers, local residents in high-demand areas, and workers who benefit from improved mobility. Those who pay more are the owners of multiple properties in constrained areas, speculative landholders, and the owners of vacant housing, in other words those whose holding of property idle imposes the greatest cost on others.

7C.7 Fiscal Impact

The revenue from this chapter is summarised below. As with the other land measures, these figures are forecast conservatively and assume a behavioural response, so that the yield falls as the underlying problem, underused and vacant residential property, is corrected. The chapter succeeds when these sums decline because the assets have returned to use, and the fiscal projections do not depend on the revenue persisting at its initial level. In indicative terms, the second-home premium contributes around 3.5 billion pounds, the residential vacancy levy around 3 billion, the land banking levy around 1.5 billion, and the urban land levy around 2 billion, giving a chapter total of approximately 10 billion pounds a year at the outset.¹⁴⁷

7C.8 Risks and Mitigations

Three principal risks attend these measures, and each is met by a specific design feature. The risk of reduced rental supply is mitigated by the structure of the charges, which encourage long-term rentals over short-term lets rather than penalising letting as such. The risk of regional inequality is mitigated by targeting only high-demand areas, so that the charges bite where housing pressure is acute and barely at all elsewhere. And the risk of administrative complexity is mitigated by using existing council tax and land registry data rather than building a new assessment apparatus.²³⁵

The commercial measures in the next chapter are aimed at a specific and visible failure: the persistence of empty shops and offices in town centres where demand for space nonetheless exists. Much of this vacancy is not the product of genuine market weakness but of the incentives created by the current system, under which an owner can hold a vacant unit at limited cost while waiting for a higher rent, claiming empty-property relief and avoiding the obligations that fall on an occupied building.³⁶ By placing a rising charge on prolonged commercial vacancy in high-demand locations, the reform changes that calculation and rewards owners who let space at a clearing rent rather than holding out. The effect reinforces the high-street regeneration that the abolition of business rates and the shift to a commercial land value tax are designed to achieve.

7C.9 Integration with the Wider System

This chapter works alongside the Land Value Tax of Chapter 8, which provides the baseline incentive for efficient land use; the passive wealth taxes of Chapters 7A and 7B, which drive the reallocation of capital; and the commercial land measures of the next chapter, which address business land use. Together they ensure that land is used productively, that housing supply increases, and that speculation declines, forming a coherent system in which each measure reinforces the others.

Conclusion

Underused land and property taxation directly addresses one of the United Kingdom's most damaging structural inefficiencies: the failure to use scarce land and housing assets effectively. By ensuring that unused or underused property carries a financial cost, this chapter shifts incentives decisively toward active use, development, and long-term occupation. The result is increased housing supply, lower rents and house prices, stronger economic growth, and reduced inequality. This is not simply a tax reform; it is a structural reform of the housing market.

Financial Summary: Chapter 7C: Underused Land and Property Taxation

Policy / Measure	Annual Revenue	5-Year Total
Second Home and Short-Term Let Premium (high-demand areas)	£3.5bn/yr	£17.5bn
Residential Property Vacancy Levy (properties vacant >12 months)	£3.0bn/yr	£15.0bn
Land Banking Levy (residential component only; see 7G for corporate)	£1.5bn/yr	£7.5bn
Levy on Empty and Underutilised Urban Land	£2.0bn/yr	£10.0bn
Total Chapter 7C Revenue	£10.0bn/yr	£50.0bn

Chapter 7C raises £10.0 billion per year from four targeted levies on underused residential and urban land.¹³² The Land Banking Levy residential component (£1.5bn) is distinct from the corporate land hoarding measures in Chapter 7G.¹³² Revenue is consistent with the Year 1 new revenue envelope of £80 billion in the Conclusion's Fiscal Strategy table.¹³²

Chapter 7D: Commercial Land and Property Efficiency Taxes, Revitalising High Streets and Productive Business Use

Introduction

Across the United Kingdom, a significant volume of commercial property and land remains vacant, underused, or inefficiently allocated. High streets suffer from persistent vacancy, city centres contain unused office space, and prime commercial locations are often held without active economic use.

Economic Repercussions of Inefficient Land Use

This underutilisation has wide-ranging economic consequences, including reduced local economic activity and productivity, lower employment in retail, services and urban industries, declining high streets and community infrastructure, suppressed business formation due to a lack of available space, and downward pressure on regional economic performance.¹⁴⁷

Introducing Commercial Property Efficiency Taxes

While broader tax reforms, including the abolition of business rates under the Land Value Tax framework, remove disincentives to invest in commercial property, they do not fully address the problem of inactive or strategically withheld commercial assets. The distinction matters because the two reforms pull in the same direction but reach different behaviour. Abolishing business rates removes a tax that actively penalised occupation: under the old system, a business that improved or occupied a property faced a higher bill, while an owner who left it empty could often claim relief. That was precisely the wrong incentive for high streets, and its removal is one of the most pro-occupation measures in the Budget. But abolition alone does nothing to discourage an owner from holding a prime site vacant while waiting for its capital value to rise, because an untaxed empty building carries no holding cost. The efficiency charges in this chapter supply that missing cost, targeted specifically at demonstrable vacancy and strategic withholding rather than at active use, so that the overall effect of the two reforms together is to reward occupation and penalise idleness, which is the opposite of the pattern the current system produces.

This chapter therefore introduces a set of Commercial Land and Property Efficiency Taxes, designed to bring vacant commercial property back into active use, reduce the speculative holding of commercial land, increase the availability of business space, support high street regeneration, and improve productivity and local economic dynamism. These policies are targeted, behaviour-driven, and designed to complement both the Land Value Tax and the wider business reforms.

7D.1 Strategic Framework: Core Principles for Property Tax Structure

The policies in this chapter are built around three core principles. The first is an active-use incentive: commercial property should be occupied, productively used and generating economic activity, and where it is not, a tax signal is applied.

Targeting Vacancy and Strategic Withholding

The second principle is to target vacancy and strategic withholding directly. The focus falls on long-term vacant retail and office space, prime commercial land left idle, and properties deliberately held off-market, because these are the forms of underuse that impose the greatest cost on surrounding businesses and communities.

Benefits of Increased Space Availability

The third principle is that increasing the availability of commercial space yields broad economic benefits. By bringing idle space back into use, the measures reduce the barriers to entry that new businesses face and make expansion easier for existing firms, so that the productive potential of commercial property is more fully realised.

7D.2 Policy: Property Vacancy Levy (Commercial Component)

This measure extends the vacancy framework introduced in Chapter 7C to commercial property. It applies to retail units, office buildings and industrial sites that have been vacant for more than twelve months.

Vacancy Levy Rates

The levy is charged at 1 per cent of property value in the first year of vacancy, rising to 2 per cent in the second year and 4 per cent in the third year and beyond.¹³² The escalating structure is deliberate. A flat vacancy charge can be absorbed as a predictable cost of holding an asset off the market, but a rate that rises the longer a property stays empty steadily erodes the return to waiting, so that the owner faces a sharpening choice between letting the unit, cutting the rent to clear it, or selling to someone who will use it. The first-year rate is set low enough that genuine, short-term vacancy during re-letting is not penalised, while the fourth-year rate is high enough that indefinite withholding becomes uneconomic.

Exemptions

The levy exempts properties undergoing active refurbishment, those experiencing temporary market vacancy during genuine active leasing, and those subject to structural redevelopment, so that it falls on idleness rather than on the ordinary friction of a functioning property market.

Rationale and Impact

Persistent commercial vacancies reduce local economic activity, discourage investment in surrounding areas, and signal inefficient land allocation. By raising the cost of leaving property empty, the levy incentivises landlords to reduce rents and encourages leasing and redevelopment.¹³⁴

7D.3 Policy: Prime Location Commercial Vacancy Tax

An enhanced levy is applied to high-value commercial zones, including city centres, major high streets and key economic clusters, in the form of an additional surcharge of 1 to 1.5 per cent on top of the vacancy levy.¹³²

Rationale and Impact

Vacancy in prime areas has a disproportionate economic impact. A vacant unit on a major high street or in a city centre imposes costs far beyond the site itself. Prime locations anchor the footfall on which neighbouring businesses depend, and a prominent empty frontage signals decline, deters investment nearby and can begin a spiral in which one vacancy begets another.¹⁰⁶ Because the underlying land values in these locations are high, the opportunity cost of leaving them idle is correspondingly large, and the case for a stronger charge is stronger still. The surcharge is calibrated to reflect that: it applies only in defined high-value zones, and it is set at a level that materially changes the holding calculation for exactly the assets whose reoccupation does most to support the wider area. In doing so it accelerates the reoccupation of prime assets, prevents strategic withholding, and supports urban economic recovery, raising approximately 1.8 billion pounds a year.¹⁴¹

7D.4 Policy: Planning Permission Hoarding Levy

A levy applies to commercial landowners who hold planning permission but do not begin development within a defined timeframe, charged at 1 to 2 per cent of land value annually and escalating over time.¹³²

Rationale and Impact

Planning permission is often held without development in order to benefit from land appreciation and to delay supply. The commercial version of the land-banking problem is, if anything, more acute than the residential one, because commercial permissions are frequently held by property investors and funds whose business model depends on the scarcity value of consented sites. A permission that has been granted represents public consent for development to proceed, and the community that granted it has a legitimate interest in seeing it used rather than warehoused. An escalating annual charge on consented but undeveloped commercial land alters the economics of delay, so that holding a site idle in expectation of appreciation becomes progressively more expensive than building on it. As with the equivalent residential measure, the charge applies only where development could lawfully proceed and is not being pursued, so it penalises deliberate withholding rather than the genuine time that design, financing and construction require. It accelerates commercial development, increases the supply of business premises, and reduces speculative delay, raising approximately 1.5 billion pounds a year.

7D.5 Policy: Vacant Commercial Lease Incentive Levy

This measure combines a targeted levy with incentives, penalising prolonged vacancy while rewarding active leasing. The levy is applied after twelve months of vacancy, with rebates available for reduced-rent agreements, small-business leasing and start-up occupancy.

Rationale and Impact

High rents often prevent occupancy even when demand exists. This measure is unusual in the chapter for combining a penalty with an incentive, and the combination is deliberate. A vacancy charge alone addresses only one side of the problem: it raises the cost of leaving a unit empty, but it does nothing to help a landlord and a prospective tenant bridge a rent gap that is keeping the property vacant. In many locations, particularly on struggling high streets, units stand empty not because there is no demand but because asking rents remain above what viable businesses can pay, often because a lower rent would reduce the paper value of the landlord's asset. Pairing the vacancy levy with rebates for reduced-rent agreements, small-business leasing and start-up occupancy gives the landlord a concrete reason to let at a realistic rent rather than hold out, and it channels the resulting occupancy toward exactly the kinds of tenant that most reinvigorate a local economy. The measure encourages realistic pricing, supports small firms and start-ups, and improves space utilisation, raising approximately 1 billion pounds a year net of the rebates.¹³⁴

7D.6 Policy: Corporate Land Hoarding Disclosure Levy

Large corporations holding significant undeveloped or unused commercial land are required both to disclose those holdings publicly and to pay a levy on the idle assets, charged at 0.5 to 1 per cent of land value annually.¹³²

Rationale and Impact

Corporate land hoarding reduces supply and distorts markets. The distinctive feature of this measure is that transparency is part of the remedy, not merely a means of collecting the charge. A significant amount of commercial land is held by large corporate entities in ways that are opaque even to local planning authorities, which makes it difficult to identify where deliberate hoarding is occurring and to hold landholders to account for it. Requiring large holders to disclose their undeveloped and unused commercial landholdings publicly, alongside a modest annual charge on idle assets, addresses both the information problem and the incentive problem at once. Disclosure allows communities, authorities and competitors to see where land is being warehoused, while the charge makes warehousing more costly; together they shift corporate behaviour toward either using the land or releasing it to someone who will. The measure increases transparency, encourages development or disposal, and improves capital allocation, raising approximately 1.2 billion pounds a year.

7D.7 Macroeconomic Considerations

Business Formation and Productivity

Greater availability of commercial space reduces the barriers to entry that new firms face, supports the growth of small and medium-sized enterprises, and increases competition, with an estimated 3 to 5 per cent increase in SME formation over five years.¹³² Better land allocation also improves the efficiency of capital use and raises urban economic density, contributing an estimated 0.2 to 0.3 percentage points to productivity growth.¹⁴¹

Growth, Inflation and Employment

Through increased activity and investment, the measures contribute an estimated 0.2 to 0.3 percentage points to GDP. Improved commercial space availability reduces retail and service costs and business overheads, easing inflation by an estimated 0.1 to 0.2 percentage points, while the increased SME activity, development and high-street revitalisation support an estimated 50,000 to 80,000 additional jobs over five years.¹³²

7D.8 Identifying Beneficiaries and Those Affected

The measures are progressive in their incidence. The principal beneficiaries are small businesses, entrepreneurs, local communities and workers in service sectors, all of whom gain from greater availability of affordable commercial space and from the revitalisation of high streets. Those who pay more are the owners of vacant commercial property, the corporations holding idle land, and speculative commercial investors, in other words those whose withholding of commercial space imposes the greatest cost on others.

7D.9 Fiscal Impact Overview

The chapter raises approximately 7.7 billion pounds a year in total. In indicative terms, the commercial vacancy levy contributes around 2.2 billion pounds, the prime-location vacancy tax around 1.8 billion, the planning hoarding levy around 1.5 billion, the lease incentive levy around 1 billion net of rebates, and the corporate land hoarding levy around 1.2 billion. As with the other land measures, these figures are forecast conservatively and are expected to fall over time as vacancy declines and commercial space returns to active use.

7D.10 Addressing Potential Risks and Implementing Mitigations

Three principal risks attend these measures, and each is met by a specific mitigation. The risk of over-penalising struggling areas is addressed by targeting prime and viable commercial zones and by giving local authorities flexibility over designation, so that the charges bite where demand genuinely exists rather than where a market is already weak. The risk of reduced property values is addressed through gradual implementation and is offset by the increased occupancy and rental income that reoccupation brings. And the risk of administrative burden is addressed by using existing planning and land registry data and by integrating the charges with the Land Value Tax systems.

7D.11 Synergies with Existing Reforms

This chapter complements the Land Value Tax of Chapter 8, which removes the investment disincentives of the old business rates; the housing reforms of Chapter 2, which improve labour mobility; and the underused land taxes of Chapter 7C, which ensure residential efficiency. Together they create a system in which land must be used productively, vacancy is reduced across all sectors, and economic activity is maximised.

Conclusion

Commercial land and property inefficiency represents a major, often overlooked constraint on UK economic performance. By ensuring that commercial land and property are actively used, or else incur a cost, this chapter drives higher productivity, increased business activity, stronger local economies and revitalised high streets. This is a structural reform of how commercial space functions in the UK economy, aligning land use with economic need.

Financial Summary: Chapter 7D: Commercial Land and Property Efficiency Taxes

Policy / Measure	Annual Revenue	5-Year Total
Property Vacancy Levy, Commercial Component (retail/office/industrial)	£2.2bn/yr	£11.0bn
Prime Location Commercial Vacancy Tax (city centres, major high streets)	£1.8bn/yr	£9.0bn
Planning Permission Hoarding Levy (commercial sites)	£1.5bn/yr	£7.5bn
Vacant Commercial Lease Incentive Levy (net of SME rebates)	£1.0bn/yr	£5.0bn
Corporate Land Hoarding Disclosure Levy	£1.2bn/yr	£6.0bn
Total Chapter 7D Revenue	£7.7bn/yr	£38.5bn

Chapter 7D raises £7.7 billion per year from five targeted commercial property efficiency levies.¹³³ The Planning Permission Hoarding Levy is set at £1.5 billion to avoid double-counting with the residential land banking measures in 7C.⁶⁹ These levies are projected to increase SME formation by 3–5% and add 50,000–80,000 jobs over five years.⁶⁹ Revenue is consistent with the Year 1 new revenue envelope of £80 billion in the Conclusion's Fiscal Strategy table.

Chapter 7E: Luxury Consumption Tax, Shifting Taxation from Production to Non-Productive High-End Spending

Introduction

A central objective of this Budget is to restructure the tax system so that it falls less on productive economic activity, such as work, investment and enterprise, and more on areas of the economy that generate limited long-term economic value. Luxury consumption represents one such area. At the top end of the income and wealth distribution, a significant share of expenditure is directed toward high-value imported goods, status-based consumption, assets that function as stores of wealth rather than productive investments, and ultra-premium services with limited domestic multiplier effects.¹⁶⁴

Advantages of a Luxury Consumption Tax

The economic case rests on the concept of deadweight loss, and on the older Pigouvian insight that where an activity imposes costs the price does not reflect, taxation can improve rather than reduce welfare.⁹⁹ A tax discourages whatever it falls upon, and the social cost of that discouragement is greatest where the taxed activity is most valuable to the wider economy. A tax on labour discourages work; a tax on investment discourages the accumulation of productive capital; both carry large deadweight costs because they shrink the productive base. Luxury consumption at the very top of the distribution is different: it is highly discretionary, its domestic multiplier is low, and a significant share leaks abroad through imported goods and services. Taxing it therefore raises revenue while displacing relatively little productive activity.

Unlike taxes on labour or business activity, a well-designed luxury consumption tax does not discourage work or investment, has limited impact on productive capacity, falls overwhelmingly on high-income households, and can reduce demand-side inflationary pressure in specific markets. This chapter introduces a comprehensive Luxury Consumption Tax framework, designed to raise revenue, improve fairness, and support macroeconomic stability while preserving economic growth.

7E.1 Strategic Framework

The Luxury Consumption Tax is built around four key principles. The first is the targeting of non-essential consumption: the tax applies only to discretionary, high-value spending well above typical consumption levels. The second is progressivity: the structure ensures that liability increases with the value of consumption, focusing on the top 1 to 5 per cent of households.¹³²

Economic Benefits and Macroeconomic Alignment

The third and fourth principles concern the wider economy. By avoiding taxation of productive activity, the policy maintains strong incentives for investment and enterprise, and it contributes to lower inflationary pressure, an improved balance of payments, and a more efficient allocation of capital. In this way the tax is designed not merely to raise revenue but to improve the structure of the economy alongside it.

7E.2 Policy: Luxury Goods Surcharge

A progressive surcharge is applied to high-value luxury goods at the point of sale or import. It applies to goods above defined thresholds, including high-end vehicles, yachts and marine leisure assets, private aircraft and helicopters, luxury watches and jewellery, and designer fashion and accessories above high-value thresholds. Essential goods and mid-market consumption are fully excluded.

Tax Structure

The surcharge applies only to the value above each threshold: goods valued between fifty thousand and a hundred and fifty thousand pounds are charged at 10 per cent, those between a hundred and fifty thousand and five hundred thousand pounds at 20 per cent, and those above five hundred thousand pounds at 30 per cent.¹³² The banded structure applies progressively at the margin, so that a buyer pays the higher rate only on the portion of the price above each threshold, in the same way as income tax. This avoids the cliff-edges that plague flat luxury taxes, where a small increase in price triggers a large jump in tax and drives transactions just below the threshold. The thresholds are set deliberately high, beginning at fifty thousand pounds, so that the surcharge reaches genuine luxury goods rather than the upper end of ordinary consumer spending; a family car or a mid-range watch falls well below the entry point. The categories chosen, high-value vehicles, marine and aviation assets, and prestige jewellery, are ones where the object itself must be registered, insured or physically delivered in the United Kingdom, which makes the charge far harder to avoid than a tax on easily portable goods.

Rationale and Behavioural Effects

Luxury goods consumption is highly income-elastic and discretionary, and it is frequently import-intensive. Taxing this segment therefore raises revenue efficiently, reduces demand for imports, and does not affect productive capacity. The expected behavioural responses are a moderate reduction in high-end consumption, a shift toward savings or investment, and limited substitution into untaxed goods, since the high thresholds leave few close alternatives. The surcharge is projected to raise approximately 3.5 to 4.0 billion pounds a year.

7E.3 Policy: Ultra-Luxury Asset Acquisition Tax

A targeted tax is applied to ultra-high-value asset purchases that function as wealth storage rather than consumption. This measure targets a specific and economically distinctive category of spending: the purchase of assets whose primary function is to store and display wealth rather than to be consumed or put to productive use. Fine art above a million pounds, rare collectibles, ultra-high-value jewellery and prestige vehicles are bought, in this segment, at least as much as vehicles for parking capital as for enjoyment, and they frequently appreciate in ways that escape the ordinary reach of the tax system. Because the buyers are almost exclusively at the very top of the wealth distribution and the purchases are highly discretionary, a charge at the point of acquisition raises revenue with minimal effect on any productive activity.

Scope and Tax Structure

The tax applies to acquisitions of fine art above one million pounds, rare collectibles, ultra-high-value jewellery, and prestige vehicles above two hundred and fifty thousand pounds. It is charged on a progressive basis: acquisitions between one and five million pounds at 10 per cent, those between five and twenty million pounds at 15 per cent, and those above twenty million pounds at 20 per cent.¹³² The progressive banding ensures that the charge scales with the scale of the purchase, and the high entry threshold keeps ordinary art, collecting and vehicle purchases entirely outside its scope.

Rationale and Behavioural Effects

These assets generate little or no productive output, often serve as tax-efficient wealth storage, and are concentrated among ultra-high-net-worth individuals. By raising the cost of acquiring them, the tax reduces speculative asset accumulation and encourages alternative investment into productive sectors. It is projected to raise approximately 1.0 to 1.5 billion pounds a year.

7E.4 Policy: Luxury Services Consumption Tax

A targeted surcharge is applied to ultra-premium service consumption above high annual thresholds. Extending the luxury framework to services closes what would otherwise be an obvious gap. If only physical goods were charged, spending would simply migrate toward the equivalent services, private jet and yacht charter rather than ownership, concierge and lifestyle management, ultra-premium memberships and bespoke travel, leaving a large and growing category of top-end consumption untaxed. The surcharge is structured around high annual spending thresholds rather than per-transaction, so that it captures sustained patterns of ultra-premium consumption rather than a single exceptional purchase, and it applies only well above the level of ordinary affluent spending. Because these services are consumed domestically at the point of delivery, the charge is difficult to avoid by relocating the transaction, and its incidence falls squarely on those most able to bear it.²¹⁹

Scope and Tax Structure

The surcharge applies to very high levels of spending on private jet and yacht charter, concierge and lifestyle management services, ultra-premium private memberships, and high-end bespoke travel services. Annual spending above one hundred thousand pounds is charged at 15 per cent, and annual spending above two hundred and fifty thousand pounds at 25 per cent.¹³²²¹⁹

Rationale and Behavioural Effects

These services are consumed almost exclusively by high-income individuals, have limited productivity spillovers, and represent discretionary spending. The expected responses are a reduction in ultra-premium service demand and a reallocation toward other uses of income. The surcharge is projected to raise approximately 0.8 to 1.2 billion pounds a year.

7E.5 Policy: Imported Luxury Goods Adjustment

An additional surcharge is applied to imported luxury goods to address external imbalances. It applies to goods already captured under the Luxury Goods Surcharge, in the form of an additional 5 per cent charge on goods above one hundred and fifty thousand pounds.¹³²

Rationale and Impact

Luxury consumption is disproportionately import-driven. The rationale for a specific import adjustment is both economic and behavioural. Top-end luxury consumption leaks abroad to an unusually high degree, since a large share of prestige goods is manufactured overseas, which means that the domestic multiplier from this spending is low and its contribution to the domestic economy limited. A modest additional surcharge on the most expensive imported luxury goods therefore raises revenue while gently encouraging substitution toward domestically produced alternatives, improving the trade balance at the margin. The measure is carefully bounded to remain compatible with the United Kingdom's international trade obligations, applying only to the highest-value goods already within the luxury framework rather than functioning as a general tariff, so that it operates as an extension of a domestic luxury tax rather than as a protectionist barrier. It reduces import demand, improves the trade balance, and encourages domestic substitution where possible, raising approximately 0.7 to 1.0 billion pounds a year.

7E.6 Policy: Luxury Vehicle Emissions and Status Levy

A combined luxury and environmental levy is applied to high-value vehicles. This levy is deliberately designed to bite only where luxury and environmental harm coincide. By requiring a vehicle to exceed both a high value threshold and a defined emissions threshold, it targets the specific category of high-value, high-emission vehicles that combine conspicuous consumption with disproportionate environmental cost, while leaving both ordinary vehicles and cleaner high-value ones, including electric models, outside its scope. The dual criterion is what distinguishes it from a simple luxury charge: it prices an environmental externality at the same time as taxing status consumption, and in doing so it nudges the top of the vehicle market toward lower-emission choices. A buyer who wishes to avoid the levy entirely can do so by choosing a cleaner vehicle, which is precisely the behavioural response the measure is intended to encourage.

Scope and Tax Structure

The levy applies to vehicles that meet both criteria: a value above seventy-five thousand pounds and emissions above defined environmental thresholds. Vehicles valued between seventy-five thousand and a hundred and fifty thousand pounds are charged at 5 per cent, and those above a hundred and fifty thousand pounds at 10 per cent.¹³²

Rationale and Behavioural Effects

This policy addresses both inequality, through the taxation of luxury consumption, and environmental externalities. It encourages a transition toward lower-emission vehicles and reduces high-emission luxury consumption. The economic case for taxing high-end consumption rests on two observations. The first is that demand for genuine luxuries is relatively insensitive to price, so a surcharge raises revenue without materially reducing the activity or displacing employment, in contrast to taxes on production or on middle-income consumption. The second is that a shift in the tax base from production toward non-productive high-end spending improves the structure of the tax system as a whole, taxing what is consumed for status rather than what is earned through work or invested in capacity. The levy is projected to raise approximately 0.5 to 0.8 billion pounds a year.

7E.7 Macroeconomic Considerations

Aggregate Demand and Growth

Luxury consumption has a relatively low multiplier, so reducing it has a limited impact on aggregate demand while supporting a reallocation of resources toward higher-productivity sectors. The estimated effect on GDP is neutral to slightly positive.

Inflation, Investment and the Balance of Payments

By reducing demand in high-end sectors, the policy lowers luxury goods price inflation while leaving core consumption unaffected, for an estimated effect of minus 0.05 to minus 0.1 percentage points. High-income households are likely to increase savings and redirect funds into investment, which supports capital formation and long-term growth. Reduced import demand improves the trade balance, with an estimated improvement of 2 to 4 billion pounds annually.

7E.8 Distributional Effects and Inequality Reduction

The luxury consumption measures are among the most progressive in the Budget, by construction.¹⁰² Because they apply only to high-value discretionary purchases well above the level of ordinary consumption, their incidence falls almost entirely on the top of the income and wealth distribution, while leaving the spending of the great majority of households untouched. The bottom 90 per cent of households face no impact, the top 10 per cent a modest impact, and the top 1 to 5 per cent are the primary contributors.³⁴ In this way the measures reduce post-tax income inequality and target high-consumption inequality rather than earnings.

7E.9 Fiscal Considerations and Revenue

The revenue from this chapter is drawn from five streams: the Luxury Goods Surcharge at 3.5 to 4.0 billion pounds, the Ultra-Luxury Asset Tax at 1.0 to 1.5 billion, the Luxury Services Tax at 0.8 to 1.2 billion, the Import Adjustment at 0.7 to 1.0 billion, and the Vehicle Levy at 0.5 to 0.8 billion. The revenue is relatively stable, being linked to high-income consumption, though moderately cyclical, and compliance is high because most of it is collected at the point of sale. The lower end of the combined range, around 6.5 billion pounds a year, is used as the working assumption elsewhere in this document, reflecting the fact that discretionary luxury spending can be deferred or shifted more readily than land-based taxes.

7E.10 Identified Risks and Mitigation Strategies

Three principal risks attend these measures, and each is met by a specific mitigation. The risk of avoidance is addressed through import controls, asset registration systems, and international cooperation, reinforced by the deliberate focus on categories that must be registered or delivered domestically. The risk to the domestic luxury industry is mitigated by the high thresholds, which protect the premium segment while reaching only genuine ultra-luxury, so that domestic producers are less affected than import-heavy goods. And the risk of behavioural substitution is, in large part, an acceptable outcome: if spending shifts from luxury consumption toward productive investment, the policy has achieved one of its central aims.

Conclusion

The Luxury Consumption Tax provides a targeted, efficient, and economically coherent mechanism for raising revenue from high-income consumption. By focusing on non-essential, high-value spending, it preserves incentives for work and investment while reducing inequality, supporting macroeconomic stability, and improving the balance of payments. Within the broader framework of this Budget, it complements the reforms to land, wealth and investment taxation, contributing to a tax system that is more efficient, more progressive, and better aligned with long-term economic growth.

Financial Summary: Chapter 7E: Luxury Consumption Tax

Policy / Measure	Annual Revenue	5-Year Total
Luxury Goods Surcharge (goods above £50k threshold, progressive 10–30%)	£3.5–4.0bn/yr	≈£18.75bn
Ultra-Luxury Asset Acquisition Tax (fine art, collectibles >£1m)	£1.0–1.5bn/yr	≈£6.25bn
Luxury Services Consumption Tax (private jet/yacht/concierge etc.)	£0.8–1.2bn/yr	≈£5.0bn
Imported Luxury Goods Adjustment (additional 5% on imports >£150k)	£0.7–1.0bn/yr	≈£4.25bn
Luxury Vehicle Emissions and Status Levy (vehicles >£75k)	£0.5–0.8bn/yr	≈£3.25bn
Total Chapter 7E Revenue	£6.5–8.0bn/yr	≈£37.5bn

Chapter 7E raises £6.5–8.0 billion per year from five luxury consumption taxes targeted at the top 1–5% of households.¹³² The Luxury Goods Surcharge is the primary driver. The upper range reflects cyclical variation in luxury spending; consistent with the combined-package treatment set out in Chapter 7A, the lower end of this range, £6.5 billion, is used as the working assumption elsewhere in this document, since consumption taxes on discretionary luxury goods are more easily deferred, substituted, or shifted cross-border than land-based measures.⁷⁰ Revenue is consistent with the Year 1 new revenue envelope of £80 billion in the Conclusion's Fiscal Strategy table.⁷⁰

Chapter 7F: High-Value Land Use and Property Holding Taxes, Improving Land Efficiency and Reducing Inequality

Land Allocation and Usage Challenges

A persistent structural weakness in the UK economy lies not only in how land is taxed, but in how it is allocated and used.¹⁰³ Across high-demand regions, particularly in London, the South East and major cities, large volumes of economically valuable land are not being used in a way that maximises productivity or social value.

Manifestations of Underused Land

This underperformance takes several forms. Prime residential property is often held as a store of wealth rather than lived in, and urban land capable of supporting housing or commercial activity is left idle or underdeveloped.⁹⁸ In other cases, land is allocated to low-productivity uses despite extremely high underlying values driven by location, infrastructure and public investment.¹³⁸

This chapter is careful about whom it reaches. The reforms elsewhere in the Budget already tax the primary home a household actually lives in through the Residential Property Tax and the residential Land Value Tax, and the high-value holding charge in this chapter is explicitly not a second charge on that home: the primary residence is fully exempt from it. What remains in scope is the category that most clearly represents land held as a passive store of value rather than as somewhere to live or somewhere to work, namely second homes, investment properties held vacant, and prime urban sites left undeveloped. This focus is both fairer and more defensible: it concentrates the charge on holdings that impose a social cost, in the form of housing and land withdrawn from use, while leaving ordinary homeownership untouched.

Economic Costs of Land Misallocation

The clearest example is prime residential property held primarily as a store of value. In parts of central London, substantial numbers of high-value homes are owned through corporate or offshore structures and occupied for only a few weeks a year, or not at all. Land that could house working households, or that could be developed more intensively, is instead frozen as a passive asset whose owner benefits from its appreciation while contributing little to the local economy. This is the specific target of the high-value holding tax, and it is important to be precise about what the measure does and does not reach. It applies to second homes, investment properties and vacant high-value dwellings; the primary residence is fully exempt, however valuable, so that a household living in the home it owns is never charged under this measure regardless of the property's worth. The charge is aimed at the use of land as a passive store of wealth, not at the fact of owning a home.¹³⁸

These patterns impose real economic costs. They constrain housing supply, reduce labour mobility, and weaken productivity in the most economically dynamic parts of the country. At the same time, they contribute to rising inequality, as landowners benefit from location-based gains that are not matched by productive contribution.

Why the Land Value Tax Alone Is Insufficient

The Land Value Tax introduced earlier in this Budget addresses a large part of this problem by taxing the underlying value of land. However, even a well-designed Land Value Tax does not fully resolve extreme cases of underutilisation, passive holding, and luxury land consumption. This chapter therefore introduces a complementary set of targeted measures aimed at ensuring that high-value land is used efficiently and contributes fairly to the wider economy.

7F.1 Strategic Framework: Reinforcing the Land Value Tax

The policies in this chapter are designed to reinforce and deepen the incentives created by the Land Value Tax, focusing specifically on areas where additional intervention is required. First, they aim to ensure that land in high-demand areas is not left idle or used in ways that generate minimal economic output. Second, they discourage the use of property, particularly at the top end of the market, as a passive store of wealth detached from economic activity. Third, they support an increase in effective housing and commercial supply by encouraging redevelopment and more intensive land use.

Shifting Toward Productive Land Use

Taken together, these measures shift the system away from one in which land can be held indefinitely at low cost, toward one in which ownership carries a clear expectation of productive or socially beneficial use.

7F.2 Policy: Ultra-Luxury Property Holding Tax

This policy introduces an annual tax on very high-value residential property holdings. The objective is not simply revenue generation, but to address the growing role of ultra-prime property as a vehicle for wealth storage rather than housing. In many high-value areas, properties worth several million pounds are either underoccupied or used only intermittently, which reduces effective housing supply and contributes to localised affordability pressures.

Tax Structure

The charge applies on a progressive marginal basis: properties valued between five and ten million pounds are charged 0.5 per cent annually, those between ten and twenty million pounds 1.0 per cent, and those above twenty million pounds 1.5 per cent.¹³² These rates apply only to the categories the chapter has already identified as passive holdings, and never to a primary residence. They are marginal, so a property worth twelve million pounds is charged the higher rate only on the two million above the ten-million threshold, not on its whole value. The top rate of one and a half per cent may appear modest, but on assets of this value it represents a substantial annual sum, and its purpose is behavioural as much as fiscal: it makes holding an ultra-high-value dwelling purely as a store of wealth materially more expensive, encouraging either genuine occupation or sale to someone who will use the asset. Because the holdings in scope are immobile land and buildings, the charge is difficult to avoid and stable to forecast, and the revenue it raises is correspondingly reliable.

Scope, Impact and Behavioural Effects

This tax applies only to property that is not the owner's main home: a primary residence, however valuable, is taxed under the Residential Property Tax and residential Land Value Tax in Chapter 8 and is fully exempt here, so that no lived-in home is taxed twice. The Ultra-Luxury Property Holding Tax therefore falls on second homes, investment properties and vacant high-value holdings, and it increases the cost of holding high-value property without active use. In response, owners are more likely to occupy the property more consistently, rent it out, or sell it into the market, and over time this improves the effective utilisation of existing housing stock without requiring new construction. The measure raises approximately 1.5 billion pounds a year, affects fewer than 1 per cent of households, and is concentrated primarily in London and the South East.¹³²

7F.3 Policy: Luxury Land Use Tax

This tax applies to high-value land that is used for low-density or low-productivity purposes in areas where land scarcity is a binding economic constraint. In parts of the UK where land values are extremely high, allocating land to low-output uses carries a significant opportunity cost, and this policy ensures that such land use reflects its true economic value.

Tax Structure

The charge is set at between 0.5 and 1.0 per cent of land value annually, with the rate depending on the location value of the site, the density of its current use, and the economic output the land generates.¹³²

Impact and Behavioural Effects

By increasing the holding cost of underutilised high-value land, the policy encourages the subdivision of large plots, redevelopment into higher-density housing, and conversion to more productive uses. This leads to a gradual increase in land supply where it is most needed. The measure raises approximately 1.5 billion pounds a year, with its primary impact falling on high-value suburban and peri-urban land.

7F.4 Policy: High-End Urban Parking Land Use Tax

This policy targets one of the clearest examples of inefficient land use: surface-level parking on high-value urban land. In many city centres, land capable of supporting significant commercial or residential activity is instead used for low-revenue parking, reflecting historical planning decisions rather than current economic realities.

Surface parking on prime urban land is perhaps the starkest illustration of the misallocation this Budget seeks to correct. A plot in a city centre that could accommodate housing or commercial space, generating homes, jobs and activity, instead earns a modest income storing cars, a use that made sense when the land was cheap and demand low but that persists long after those conditions have changed. The reason it persists is that the tax system attaches no cost to holding such land in its lowest-value use; the owner captures the appreciation while contributing little to the surrounding economy. A charge that reflects the underlying value of the land rather than the meagre revenue of the parking use changes that calculation, encouraging redevelopment to a use commensurate with the site's value and location. This is the Land Value Tax principle applied to one of its clearest cases: taxing the land at its potential rather than its current use, so that holding it idle becomes uneconomic.

Tax Structure and Impact

The charge is set at between 1 and 2 per cent of land value annually and applies to prime urban centres, raising approximately 1.0 billion pounds a year.¹³² By significantly changing the economics of holding land for parking, it incentivises owners to redevelop sites into residential or commercial property, increase the density of use, or sell the land to developers, contributing directly to urban regeneration and higher productivity.

7F.5 Macroeconomic Benefits and Housing Supply

The combined effect of these policies is to improve the allocation of one of the economy's most important inputs: land. By bringing underused land and property into active use, the policies increase effective supply, with an estimated increase in developable land availability of 5 to 8 per cent over five years.¹³²

Growth, Inflation and Employment

More efficient land use leads to higher density in productive areas, increased commercial activity, and better matching between jobs and housing, contributing an estimated 0.15 to 0.25 percentage points to GDP. Increased supply, particularly in housing, reduces cost pressures, easing inflation by an estimated 0.1 to 0.15 percentage points, while improved housing availability increases mobility and reduces frictional unemployment by an estimated 0.05 to 0.1 percentage points.

7F.6 Distributional Impact

These policies are highly targeted and progressive in their effects. Those most affected are the owners of ultra-high-value property, the holders of underutilised urban land, and the owners of low-productivity land in high-value areas. Those who benefit include renters and first-time buyers, businesses requiring access to land, and local economies experiencing increased development. The result is a shift in the tax burden away from income and toward wealth embedded in land.

7F.7 Fiscal Impact

The chapter raises approximately 4.0 billion pounds a year across its three measures: the Ultra-Luxury Property Holding Tax at around 1.5 billion pounds, the Luxury Land Use Tax at around 1.5 billion, and the High-End Urban Parking Land Use Tax at around 1.0 billion. The revenue is highly stable, because land cannot be moved offshore, predictable over time, and subject to low avoidance risk, which makes it among the most reliable lines in this Budget.

7F.8 Addressing Challenges and Political Acceptability

Three challenges attend these measures, and each is met by a specific response. Accurate land valuation is essential, and the risk of valuation complexity is addressed through regular revaluations, the use of modern valuation models, and a transparent methodology. Some asset-rich but cash-poor households may face liquidity constraints, which is addressed through deferral mechanisms allowing payment upon sale or transfer, so that no one is forced to sell a property to meet the charge. Political resistance is a genuine consideration, but these policies are focused on visible inefficiencies and high-value assets, and framing them around housing supply, fairness and efficient land use significantly improves their feasibility.

Conclusion

This chapter strengthens the broader tax reform programme by directly addressing how land is used, not just how it is taxed. By targeting underutilisation, passive holding and inefficient allocation, these policies increase housing and commercial supply, improve economic efficiency, reduce inequality, and strengthen the fiscal position. They ensure that land, one of the UK's most valuable and constrained resources, is used in a way that supports long-term growth, fairness, and economic resilience.

Financial Summary: Chapter 7F: High-Value Land Use and Property Holding Taxes

Policy / Measure	Annual Revenue	5-Year Total
Ultra-Luxury Property Holding Tax (residential >£5m; 0.5–1.5% annual)	£1.5bn/yr	£7.5bn
Luxury Land Use Tax (high-value low-density urban/peri-urban land)	£1.5bn/yr	£7.5bn
High-End Urban Parking Land Use Tax (prime urban surface parking)	£1.0bn/yr	£5.0bn
Total Chapter 7F Revenue	£4.0bn/yr	£20.0bn

Chapter 7F raises £4.0 billion per year from three targeted measures reinforcing the Land Value Tax by addressing extreme underutilisation and passive holding.¹³² All measures are highly stable given land immobility. Revenue is consistent with the Year 1 new revenue envelope of £80 billion in the Conclusion's Fiscal Strategy table.¹³²

Chapter 7G: Land Hoarding, Planning Delay, and Commercial Vacancy Reform

Introduction

A central but often overlooked constraint on the performance of the UK economy is not simply the quantity of land available for development, but the way in which that land is held, managed, and brought forward into productive use. Across both the residential and commercial sectors, a substantial share of developable land remains idle or underutilised for extended periods of time. In many cases, land that has already received planning permission, often after lengthy and resource-intensive processes, is not developed at pace.

The gap between permissions granted and homes actually built is one of the most consequential and least understood features of the housing market. In a typical year the number of residential planning permissions granted substantially exceeds the number of homes completed, and the difference accumulates into a large stock of unbuilt consents.⁶⁹ Part of this reflects genuine constraints such as finance, infrastructure and construction capacity, but a material part reflects the commercial logic of the largest housebuilders, whose profitability depends on releasing homes at a pace that protects local sale prices rather than at the maximum rate the site could physically sustain. The result is a rational private strategy that produces a poor social outcome: land sits with permission while the housing shortage persists. A charge that rises with the length of time a permission goes unbuilt changes that calculation, rewarding developers who build out quickly and penalising those who hold consents as options on future price rises.^{163,162}

Land Speculation and Vacancy in Active Markets

Similarly, commercial properties in economically active areas are frequently left vacant despite underlying demand, while large land banks are accumulated and held by corporate entities as long-term financial assets.

Incentives Driving Land Holding Behaviour

These patterns are not the result of market failure in the narrow sense. Rather, they reflect a set of incentives embedded within the current system. Landowners are able to benefit from rising land values, driven largely by external factors such as infrastructure investment, population growth and planning decisions, without needing to actively develop or utilise their assets. As a result, delaying development or restricting supply can be financially rational.

Economic Consequences

However, these behaviours generate significant economic costs. They slow the delivery of new housing, increase rents and property prices, constrain business formation, and reduce the overall efficiency of land allocation within the economy. In high-demand regions, these effects are particularly pronounced, contributing directly to reduced productivity and weaker economic growth.

Policy Framework for Land Use Optimisation

The policies set out in this chapter are designed to address these issues directly. Rather than relying solely on planning reform or public investment, they change the underlying incentives faced by landowners and developers. By increasing the cost of inactivity and delay, they encourage the timely and productive use of land, helping to close the gap between potential and actual supply.

7G.1 Persistent Behaviour Beyond the Land Value Tax

The Land Value Tax introduced earlier in this Budget establishes a broad-based incentive for land to be used efficiently. However, in practice, certain forms of behaviour persist even under a Land Value Tax framework. These include deliberate delays in development, strategic land banking, and the maintenance of vacancy in commercial property markets.

Drivers of Land Hoarding

These behaviours arise because the gains from rising land values can outweigh the costs of holding land, particularly in high-demand areas. In addition, institutional factors, such as financing structures, corporate strategies and market expectations, can reinforce incentives to delay or restrict development.

Consequences of Unused Land

This creates a structural imbalance. Land that is technically available for development does not translate into actual housing or commercial space, and the result is an artificial scarcity that drives up costs across the economy.

Policy Objectives

The policies in this chapter are designed to correct this imbalance by ensuring that land ownership carries an active obligation to either develop, utilise or release assets into the market. In doing so, they reinforce the broader objectives of the tax reform programme: increasing supply, improving productivity, and reducing inequality.

7G.2 Policy: Land Banking Levy

The Land Banking Levy introduces a graduated annual charge on developable land that is held without meaningful progress toward development, applying to corporate and institutional landholders. It applies to land that has clear development potential but is not being actively brought forward, either because construction has not commenced or because development has stalled without valid justification.

The levy is aimed at a specific and well-documented practice. Large housebuilders and institutional investors routinely hold substantial banks of land with planning permission, releasing plots for construction only slowly so as not to depress local prices by building too many homes at once.⁶⁸ From the individual firm's perspective this is entirely rational, but in aggregate it throttles the supply of new housing and keeps prices higher than they need be. A graduated annual charge on permitted but undeveloped land alters that calculation by attaching a rising cost to delay, so that the profit-maximising strategy shifts toward building sooner rather than holding for future appreciation. The charge applies only to sites where permission has been granted and development could lawfully proceed, so it penalises deliberate withholding rather than the ordinary time that site preparation and construction require.¹⁴⁷

Objective and Rationale

The purpose of the levy is not to penalise legitimate development timelines, but to address situations in which land is held primarily for speculative gain. By increasing the cost of holding such land over time, the policy encourages owners to make active decisions: either to proceed with development or to transfer the land to those who will.

Economic Incentives and Impact

Under current conditions, the financial return from rising land values can often exceed the costs associated with holding land, which creates a strong incentive to delay development, particularly in markets where prices are expected to increase. The levy reverses this dynamic. As holding costs rise over time, the relative attractiveness of delay diminishes, shifting behaviour toward earlier development, increased turnover of land assets, and more efficient use of capital. The measure raises approximately 4.0 billion pounds a year, is expected to reduce average land holding periods by 20 to 30 per cent, and to increase housing delivery by 5 to 7 per cent.³⁵

7G.3 Policy: Levy on Vacant Commercial Properties

In many commercial property markets, particularly in town centres and high streets, landlords face a choice between lowering rents to attract tenants or maintaining higher asking rents and accepting periods of vacancy. In a significant number of cases the latter option is chosen, resulting in persistent vacancy even where demand exists at lower price points. This policy introduces a levy on commercial properties that remain vacant beyond a defined period, applying to smaller-scale vacant commercial units and complementing the larger-scale measures in Chapter 7D. The aim is to shift incentives toward active occupation, encouraging landlords to adjust rents or lease terms to reflect market conditions.

Landlord Rationality and Macroeconomic Harm

Vacancy can be financially rational where landlords expect future rental increases or wish to preserve valuation benchmarks. However, at the macroeconomic level, this behaviour reduces economic activity, limits business formation, and weakens local economies.

Impact on Behaviour and Market Dynamics

By increasing the cost of vacancy, the policy encourages landlords to prioritise occupancy over price maintenance. This leads to higher utilisation rates, greater business activity, and more dynamic local markets. The measure raises approximately 0.5 to 0.9 billion pounds a year, and is expected to reduce vacancy rates by 10 to 15 per cent and to increase high street occupancy by 5 to 10 percentage points.¹³²

7G.4 Macroeconomic Effects

The combined effect of these policies is to improve the speed, efficiency and intensity of land use across the economy. By addressing delays and underutilisation, they increase the effective supply of both housing and commercial space without requiring additional land or major regulatory expansion.

Core Economic Advantages

First, the measures increase housing supply, helping to stabilise rents and house prices. Second, they support business formation and expansion by improving access to commercial space. Third, they raise overall productivity by ensuring that land in high-value locations is used in ways that generate higher economic output. In quantified terms, housing supply rises by an estimated 5 to 10 per cent over five years, GDP by 0.2 to 0.3 percentage points, and employment by 50,000 to 80,000 jobs, while inflation eases by 0.1 to 0.2 percentage points.¹³²

Taken together, these effects illustrate the central argument of the chapter: that a more efficient use of the land the country already has can deliver a meaningful increase in housing and commercial supply, and a measurable gain in output, without a single additional acre being released or a single planning rule relaxed. The housing-supply increase of between five and ten per cent over five years is achieved by bringing idle and hoarded sites into use rather than by building on new land, which makes it both faster to realise and less contentious than conventional supply measures. The gains in growth and employment, and the modest downward pressure on inflation, follow from putting underused assets to work, reinforcing the wider fiscal strategy by raising output and easing price pressure at the same time.

7G.5 Fiscal Implications and Revenue

These policies generate stable and predictable revenue streams while also improving economic efficiency. The Land Banking Levy raises approximately 4.0 billion pounds a year and the Commercial Vacancy Levy between 0.5 and 0.9 billion, giving a chapter total of 4.5 to 4.9 billion pounds a year.

7G.6 Risks and Mitigations

While these policies are targeted and economically grounded, careful implementation is required to avoid unintended consequences. The primary risk is that genuine development delays, arising from financing constraints, supply chain issues or regulatory processes, could be penalised; this is addressed through clearly defined exemptions and flexibility within the system. There is also a risk that rapid changes in development behaviour could create short-term market volatility, which is mitigated through phased implementation and gradually increasing tax rates. Finally, effective administration requires accurate and up-to-date data on land ownership and development status, which will be supported through integration with existing planning and land registry systems.

Conclusion

This chapter addresses a fundamental inefficiency in the UK economy: the ability to generate returns from land ownership without bringing land into productive use. By aligning incentives with development, utilisation and economic activity, these policies ensure that land plays a more active role in supporting growth. They accelerate housing delivery, revitalise commercial areas, and improve the overall allocation of resources within the economy. In combination with the broader tax reforms set out in this Budget, they represent a decisive shift toward a system in which economic value is created through activity and investment, rather than passive ownership and delay.

Financial Summary: Chapter 7G: Land Hoarding, Planning Delay and Commercial Vacancy

Policy / Measure	Annual Revenue	5-Year Total
Land Banking Levy (corporate/institutional undeveloped land)	£4.0bn/yr	£20.0bn
Levy on Vacant Commercial Properties	£0.5–0.9bn/yr	≈£3.5bn
Total Chapter 7G Revenue	£4.5–4.9bn/yr	≈£23.5bn

Chapter 7G raises £4.5–4.9 billion per year from a strengthened Land Banking Levy and a narrowly-scoped levy on smaller vacant commercial properties.¹³² Revenue is expected to decline over time as the behavioural objective is achieved and development timelines shorten by 20–30%.¹³² These figures are consistent with the Year 1 new revenue envelope of £80 billion in the Conclusion’s Fiscal Strategy table.¹³²

This declining-revenue profile is a feature of the design, not a weakness in it. The purpose of a land-banking levy is not to raise money indefinitely but to change the calculation that leads developers and landowners to hold permitted sites without building on them. When a site with planning permission carries an annual holding cost that rises the longer it stands undeveloped, the incentive shifts from waiting for land values to appreciate toward commencing construction. If the levy works, build-out rates accelerate, the stock of hoarded permissions falls, and the revenue base shrinks accordingly. The Budget therefore treats this as a transitional revenue stream: it is scored conservatively in the early years, and the fiscal projections do not rely on it persisting at its initial level. The measure is judged a success by the number of homes built, not by the revenue it sustains.¹⁴⁷

Chapter 7H: Capturing Windfall Gains and Rebalancing Passive Property Income

Introduction

While inefficiencies in land use and delayed development constrain the supply side of the UK economy, a parallel issue exists in how gains from land and property are generated and distributed. A substantial share of wealth accumulation in the UK does not arise from productive investment or entrepreneurial activity, but from windfall increases in land and property values. These increases are typically driven by external factors such as public infrastructure investment, planning permission decisions, local economic growth, and population density and demand. In many cases, these gains accrue to landowners without requiring any corresponding economic activity.

The principle at the heart of this chapter is old and well established in economic thought: that increases in land value which arise from the actions of the community rather than the owner should accrue, at least in part, to the community. When a new railway station, a rezoning decision or a public investment raises the value of nearby land, the owner receives a windfall they did nothing to create. Capturing a share of that uplift is not a tax on enterprise but a recovery of value the public itself has generated, and it has the additional merit of helping to fund the very infrastructure that created the gain. The measures in this chapter are designed to capture betterment of this kind at the points where it is largest and most clearly attributable to public action, principally the grant of planning permission and the arrival of major infrastructure, while leaving untouched the ordinary returns to genuine development and improvement.^{146,142}

Lessons from Previous Attempts at Betterment Capture

Britain has attempted to capture betterment before, and the history is instructive.⁹⁸ Post-war development charges, the Land Commission of the 1960s and the Development Land Tax of the 1970s were each repealed within a few years, undone by complexity, by the ease of deferring transactions until a friendlier government arrived, and by uncertainty over how the charge interacted with development viability.⁵⁶ The lesson is not that betterment capture is unworkable, since many countries operate it successfully, but that it must be simple, predictable and tied to clear trigger events rather than to discretionary valuations. The measures here are designed accordingly: they attach to identifiable moments at which public action crystallises a private gain, such as the grant of planning permission or the completion of a named infrastructure scheme, and they use transparent, formula-based rates rather than case-by-case negotiation, so that the charge is knowable in advance and cannot be bargained away.^{183,146}

Rebalancing Passive Property Income

The chapter's second theme, rebalancing passive property income, follows the same principle applied to a flow rather than a one-off gain. A significant share of rental income represents a return not to any effort or investment by the landlord but to the underlying scarcity of land and the public infrastructure that makes a location valuable. Taxing that element more consistently, while preserving the return to genuine improvement, maintenance and the provision of good-quality housing, shifts the tax base toward economic rent and away from productive activity, which is the guiding logic of the whole land-tax programme. The design is careful to protect responsible landlords who invest in and maintain their properties, and to distinguish them from those who simply extract the unearned return that location and scarcity confer.

The Disconnect Between Private Gain and Public Cost

At the same time, segments of the property market, particularly large-scale passive rental ownership, generate income streams that are only loosely connected to productive contribution. This creates a structural imbalance: economic rents derived from land and property are captured privately, while the costs of generating those rents, through infrastructure, planning systems and public services, are borne collectively. The policies set out in this chapter address this imbalance, and are designed to ensure that unearned gains are shared more fairly, while encouraging capital to move away from passive rent extraction and toward productive investment.¹³⁵

7H.1 Strategic Rationale: Beyond the Land Value Tax

The Land Value Tax captures a broad share of location-based value on an ongoing basis. However, certain forms of economic rent arise in more concentrated or discrete ways, particularly at the point of planning permission being granted, land being reclassified or assembled, infrastructure projects being delivered, or property being used as a large-scale passive income asset. These moments generate significant windfall gains that are not fully captured under existing taxation frameworks.

In addition, the structure of the property market allows for the accumulation of large rental portfolios that generate income streams with relatively low levels of active management or productive input. While rental markets play an important role in the economy, excessive concentration in passive ownership can contribute to higher rents, reduced ownership opportunities, and increased inequality.

Policy Objectives

The policies in this chapter are therefore designed to capture windfall gains more effectively, align private returns with public investment, reduce incentives for speculative land trading, and moderate the concentration of passive rental income.

7H.2 Policy: Windfall Land Option and Strategic Land Trading Tax

This policy targets profits generated through land option agreements and strategic land trading, particularly where land is acquired or controlled prior to planning permission and then sold following a significant uplift in value. These transactions often involve minimal capital investment and limited productive activity; instead, gains are realised through changes in planning status or expectations of future development. The tax applies to the uplift in land value realised at the point of sale, specifically where that uplift is driven by planning or strategic positioning rather than development.¹⁴⁶

Land option agreements are a particular focus because they are among the purest forms of the speculation this chapter targets.⁶⁸ A developer or investor secures the right to buy land at today's price should planning permission later be granted, often paying only a small fee for the option, and then profits from the very large uplift in value that permission brings, an uplift created not by any investment or effort on their part but by the planning decision itself and the surrounding public infrastructure. The activity ties up land, adds a layer of speculative cost to development, and captures for a middleman value that arises from public action. Taxing the gains from such option trading and strategic land dealing recovers a share of that unearned uplift for the public, and by making pure speculation less profitable it also gently discourages the practice, which can help bring land forward for actual development rather than repeated trading.

Economic Implications and Impact

The current system allows substantial profits to be made through early-stage land speculation, which encourages the accumulation of land options and the trading of sites prior to development, rather than the delivery of housing or commercial projects. By taxing these gains more effectively, the policy reduces the attractiveness of purely speculative activity and shifts incentives toward development-based returns. This leads to faster progression from land acquisition to construction, reduced speculative churn in land markets, and greater alignment between land ownership and development objectives. The measure raises approximately 2.0 to 2.5 billion pounds a year and is expected to reduce speculative land trading activity by 15 to 25 per cent.¹³²

7H.3 Policy: Infrastructure Uplift Capture Levy

This levy captures a share of the increase in land value that arises directly from public infrastructure investment and planning decisions. Major infrastructure projects, such as transport links, regeneration programmes and public amenities, can lead to substantial increases in surrounding land values, and these increases are largely unearned from the perspective of landowners, as they result from collective investment.

This is the principle of betterment capture in its most direct and defensible form. When the public builds a new railway line, funds a regeneration scheme or grants planning permission, the value of nearby land can rise dramatically, and that rise is created entirely by the collective action of the community rather than by anything the landowner has done. Under the current system the landowner keeps the whole of that windfall, which is both inequitable and a missed opportunity, since capturing even a share of it could help fund the very infrastructure that created the gain. By applying the levy at the point where the value is realised, and by tying it to clear trigger events rather than to discretionary valuations, the measure avoids the complexity that undid earlier attempts at betterment capture in Britain, and it turns the uplift from public investment into a partial source of funding for further public investment.

Application and the Infrastructure Funding Gap

The levy applies at the point where value is realised, such as the sale of land, the commencement of development, or a change in planning status. Without intervention, the benefits of public investment are capitalised into private land values, creating a disconnect between who pays for infrastructure and who benefits from it. The levy corrects this by ensuring that a portion of these gains is returned to the public sector.

Benefits and Revenue

The measure improves the fiscal sustainability of infrastructure investment, reduces speculative behaviour around infrastructure announcements, and encourages more efficient land use in newly connected areas. It raises approximately 3.1 to 4.4 billion pounds a year, capturing between 25 and 35 per cent of value increases linked to public investment.¹³²

7H.4 Policy: Passive Rental Portfolio Surcharge

This policy introduces a surcharge on large-scale passive rental portfolios, focusing on individuals or entities holding substantial numbers of residential properties primarily for income generation rather than active management or development. It applies to landlords whose portfolios are structured as passive investment holdings rather than actively managed businesses, which are exempt under Chapter 7A. The surcharge is applied progressively based on the scale of holdings, with thresholds designed to exclude small landlords while targeting large, concentrated portfolios.

The distinction this surcharge draws is between active provision of housing and passive extraction of rent. A landlord who actively manages, maintains and improves properties, or who develops new housing, is providing a genuine service and is treated accordingly, remaining outside the scope of the charge in the same way that active business assets are exempt under Chapter 7A. What the surcharge targets is the accumulation of large residential portfolios held primarily as passive income-generating assets, where the return derives from the underlying scarcity of housing rather than from any service the owner provides. The progressive structure, with thresholds set to exclude small landlords entirely, ensures that the ordinary buy-to-let owner with one or two properties is unaffected, while the charge falls on the large-scale passive holdings that most directly compete with owner-occupiers and first-time buyers for the existing housing stock.

Economic Impact and Rationale

Large passive rental portfolios can contribute to higher house prices through investor demand, increased rent extraction without corresponding improvements in housing quality, and reduced opportunities for owner-occupation. By increasing the cost of holding large portfolios, the policy encourages greater turnover in the housing market, a redistribution of property ownership, and increased investment in productive sectors. It also reduces the relative attractiveness of housing as a purely financial asset. The surcharge raises approximately 1.9 to 2.3 billion pounds a year, affects the top 5 to 10 per cent of portfolio holders, and is expected to reduce large portfolio concentration by 10 to 15 per cent.¹³²

7H.5 Macroeconomic Effects and Capital Redirection

The policies in this chapter operate primarily through the reallocation of economic rents and the redirection of capital. By reducing the returns to speculative and passive activities, they encourage investment in more productive areas of the economy, including housing development, business investment, and infrastructure-related activity. At the same time, capturing windfall gains improves the efficiency of public investment by ensuring that returns are shared more broadly.

Quantified Effects

The measures are estimated to contribute between 0.15 and 0.25 percentage points to GDP, to shift between 10 and 15 billion pounds of investment toward productive uses, and to ease inflation by 0.05 to 0.1 percentage points, with a moderate but persistent improvement in housing affordability.

7H.6 Distributional Consequences

These policies are strongly progressive in their effects. They primarily affect landowners benefiting from planning-related windfalls, investors engaged in speculative land trading, and large-scale passive landlords. At the same time, they generate broader benefits for first-time buyers, renters, businesses requiring access to land and property, and the taxpayers who fund infrastructure. By shifting the tax burden toward unearned gains, the policies reduce inequality while preserving incentives for productive investment.

7H.7 Revenue and Fiscal Outlook

These measures provide a significant and stable source of revenue, particularly as land and property markets remain large and relatively immobile. The Windfall Land Option Tax raises approximately 2.0 to 2.5 billion pounds a year, the Infrastructure Uplift Levy 3.1 to 4.4 billion, and the Rental Portfolio Surcharge 1.9 to 2.3 billion, giving a chapter total of 7.0 to 9.2 billion pounds a year.

7H.8 Risks and Mitigations

Three risks attend these measures, and each is met by a specific response. One potential risk is that higher taxation of land transactions could reduce market activity; this is mitigated by focusing the tax specifically on windfall gains, rather than on routine transactions or development profits. There is also a risk that rental supply could be affected if large landlords reduce holdings, though this is expected to be offset by increased owner-occupation and more diversified ownership structures. Finally, accurate valuation of land and identification of uplift sources is essential, and this will be supported through improved data integration across planning, land registry and tax systems.

Conclusion

This chapter completes the tax reform framework by addressing one of the most important sources of inequality and inefficiency in the UK economy: the private capture of publicly generated and location-driven economic rents. By taxing windfall gains and moderating the concentration of passive rental income, these policies improve fairness in the distribution of wealth, strengthen the public return on infrastructure investment, encourage more productive use of capital, and support housing affordability and economic growth. Together with the broader reforms in this Budget, they help to build a tax system that rewards activity, investment and contribution, while reducing the role of passive and unearned gains in shaping economic outcomes.

Financial Summary: Chapter 7H: Windfall Gains and Passive Property Income Taxation

Policy / Measure	Annual Revenue	5-Year Total
Windfall Land Option and Strategic Land Trading Tax	£2.0–2.5bn/yr	≈£11.25bn
Infrastructure Uplift Capture Levy (25–35% of uplift from public investment)	£3.1–4.4bn/yr	≈£18.75bn
Passive Rental Portfolio Surcharge (large-scale landlords)	£1.9–2.3bn/yr	≈£10.5bn
Total Chapter 7H Revenue	£7.0–9.2bn/yr	≈£40.5bn

Chapter 7H raises £7.0–9.2 billion per year from three complementary measures targeting windfall gains and passive rental concentration.¹³² The Infrastructure Uplift Levy is the largest single measure, capturing 25–35% of land value increases attributable to public investment.¹³² Revenue is moderately cyclical, varying with property transaction volumes. The upper range reflects a buoyant market; the lower range reflects conservative transaction assumptions. These figures are consistent with the Year 1 new revenue envelope of £80 billion in the Conclusion's Fiscal Strategy table.¹³²

Chapter 7I: Closing the Gap, Taxing Rent, Windfall and Passive Income

Introduction

The measures in Chapters 7A to 7H, together with the land and property reforms of Chapter 8, transform how wealth and land are taxed in the United Kingdom. They do not, on their own, close the fiscal gap. The reason is structural rather than a failure of design: the largest elements of the property reform are replacements rather than additions. The commercial Land Value Tax raises £30.1 billion but removes £25 billion of business rates.¹²⁸ The Residential Property Tax and the residential Land Value Tax together raise £42.4 billion but remove £46 billion of council tax.¹²⁸ The net contribution of both swaps combined is under £8 billion a year.

Alongside them, the abolition of stamp duty and the removal of network charges and policy levies from electricity bills give away a further substantial sum with no replacement attached. These are the right reforms, and the chapters that set them out make the case for each, but a Budget that abolishes one tax and introduces another in its place has changed the structure of taxation without materially changing its yield. The investment programme in Chapters 1 to 6, and the participation and planning reforms of Chapters 9 to 11, require revenue that the property reforms alone do not generate.¹⁹¹

This chapter therefore sets out the additional revenue required to place the programme on a sound footing. It raises approximately £48 billion a year by Year 5, and it is built on the same principle as the rest of Part 7: it taxes economic rent, windfall and passive income rather than work, enterprise or production.³⁷ Every measure that follows falls on a return arising from ownership, licence, scarcity or externality, and none falls on the act of creating value. No measure in this chapter increases the rate of income tax, of employee or employer National Insurance on wages, or of corporation tax on ordinary trading profits.

7I.1 The Principle: Same Income, Same Treatment

The single largest measure in this chapter rests on an anomaly that is difficult to defend once stated plainly. A person who earns thirty thousand pounds from employment pays National Insurance on it. A person who receives thirty thousand pounds in rent from property, or thirty thousand pounds in dividends from shares held outside a pension or an Individual Savings Account, pays none. The same sum of money, supporting the same standard of living, is taxed differently according to whether it was earned by working or received by owning.

That difference is not a considered policy choice but an accident of history. National Insurance originated in the Beveridge settlement as a contributory scheme tied to employment, in which payments bought entitlement to specific benefits.¹²¹ That link has long since weakened: the contributory principle now determines little beyond the state pension, and National Insurance functions in practice as a second income tax levied only on earnings. Its practical effect today is to place a wedge of eight percentage points between the taxation of labour and the taxation of unearned income.

The consequences run through the whole system. It is why a company director is advised to take income as dividends rather than salary, why the self-employed and the employed are taxed differently for the same work, and why the burden of funding public services falls so heavily on those who earn their living rather than on those who own the assets. The Office for Budget Responsibility and successive independent reviews have identified the differential treatment of earned and unearned income as one of the largest remaining distortions in the tax system.⁴² Correcting it is the natural conclusion of the argument this Budget makes throughout Part 7, and it is the measure in this chapter with the strongest claim to be a matter of simple fairness rather than of fiscal necessity.

71.2 Policy: National Insurance on Rental and Dividend Income

A charge equivalent to employee National Insurance is applied to rental profits and to dividend income above a threshold. The rate is 8 per cent, matching the main employee rate, with 2 per cent applying above the equivalent of the upper earnings limit, so that the structure mirrors the treatment of earnings exactly.³⁷ Holdings within pensions and Individual Savings Accounts remain entirely exempt, so ordinary savers, pension investors and the great majority of small shareholders are unaffected.

Scope and Yield

The base comprises approximately fifty billion pounds of declared rental profits and approximately fifty-five billion pounds of taxable dividend income held outside pensions and Individual Savings Accounts, giving a combined base of around one hundred and five billion pounds.³⁷ The measure raises six billion pounds in Year 1 as it is introduced, nine billion in Year 2, and twelve billion a year from Year 3 once fully in force. It reaches around 2.7 million landlords and 2.5 million recipients of significant dividend income.

Design and Thresholds

The charge applies to profits rather than to gross receipts, so mortgage interest, maintenance, insurance and management costs are deducted before the charge is calculated, exactly as they are for income tax. A threshold set at the level of the primary earnings limit ensures that a person with a single modest source of rental or dividend income falls outside the charge altogether. Losses may be carried forward against future rental profits in the same way as for income tax, and the charge is collected through Self Assessment rather than through a new mechanism, so the administrative cost is minimal.

Rationale and Behavioural Effects

Beyond fairness, the measure closes a well-known avoidance route. A company director who takes income as dividends rather than salary currently avoids National Insurance on the whole amount, which is why the salary and dividend split is standard advice for owner-managed businesses. Equalising the treatment removes the distortion that pushes people to incorporate for tax reasons rather than commercial ones, and it removes the incentive to characterise what is in substance a wage as a return on capital.⁴⁴ The estimated effect is a reduction of 0.05 percentage points in GDP and a possible increase of 0.05 percentage points in the Consumer Price Index if landlords pass the charge into rents.

Why Pass-Through Is Limited

The objection most often made is that landlords will simply raise rents. Pass-through depends on pricing power, and pricing power depends on scarcity. This Budget would deliver 300,000 homes a year through Chapter 3, an additional 95,000 completions a year through the planning reform of Chapter 9, and brings empty and underused property back into use through Chapters 7C and 7G.⁶⁶ In a market where supply is rising and vacancy is falling, the capacity of landlords to pass a cost increase to tenants is materially weaker than in the market as it stands today. Where landlords do choose to sell rather than absorb the charge, the properties are bought predominantly by owner-occupiers and other landlords, so the housing stock is unchanged and the shift toward ownership is itself a stated objective of this Budget.

71.3 Policy: Monopoly Rent Charge on Regulated Utilities

Water companies, electricity and gas network operators, and the major airports are licensed monopolies. They do not compete for customers, and their revenues are set by a regulator against an approved asset base and an allowed rate of return. Where they earn returns above that allowed rate, the excess is not a reward for competitive success but a rent arising from the licence itself. It is precisely the category of income that Chapter 7A identifies as the proper object of taxation.

Structure and Yield

A charge applies to returns above the allowed weighted average cost of capital plus two percentage points, across a combined regulated asset base of approximately one hundred and eighty-five billion pounds in water, energy networks and airports.⁴⁸ The two percentage point margin is deliberate: it preserves a genuine reward for operational efficiency and for beating regulatory targets, and charges only the surplus beyond that. Extended to ports, rolling stock leasing companies and spectrum holdings, the measure raises two billion pounds in Year 1 rising to six billion from Year 3.

Why This Does Not Deter Investment

The objection most often raised against taxing regulated utilities is that it will reduce network investment at precisely the moment the grid needs rebuilding for electrification. The design answers that directly. Investment in a regulated utility is driven by the regulatory settlement, which allows a return on approved capital expenditure; it is not driven by outperformance against that settlement. A network operator that invests in approved reinforcement earns its allowed return on that investment whether or not this charge exists. By charging only the excess above the allowed return plus a margin, the measure leaves every incentive to invest intact while recovering the portion of profit that arises from holding a monopoly licence rather than from performing well.¹⁹⁴

Distributional and Price Effects

The incidence falls on the shareholders of regulated utilities, which include overseas infrastructure funds and pension schemes. The effect on consumer prices is mildly negative, at around 0.02 percentage points on the Consumer Price Index, because the charge exerts downward discipline on regulated returns and strengthens the regulator's hand in future price control determinations. This is the most straightforwardly popular measure in the package, and it is also among the most defensible in principle.

71.4 Policy: Aviation Duty Reform

Air Passenger Duty raises approximately four billion pounds a year through crude bands that distinguish only between short and long haul and between cabin classes. It takes no account of how often a passenger flies, with the result that a family taking one holiday a year is taxed at the same rate per journey as a passenger taking a dozen. Aviation is also among the least taxed forms of consumption in the economy, paying no fuel duty and no value added tax on tickets.

Structure

The reform introduces finer distance banding, a frequency element that rises with each return journey taken beyond the first in a year, and a surcharge on private aviation. The first return flight each year is charged at the existing rate. The second attracts an additional 50 per cent, the third an additional 100 per cent, and the fourth and subsequent journeys an additional 200 per cent.¹³² Frequency is tracked through the existing Advance Passenger Information system, so no new reporting obligation falls on travellers. The measure raises three billion pounds in Year 1 rising to five billion from Year 3, on top of existing receipts.

Distribution

Flying is highly concentrated. Approximately 48 per cent of adults take no flights in a given year, while the most frequent 15 per cent account for around 70 per cent of journeys, and the top income decile flies three to four times as often as the bottom.³⁴ The measure is therefore strongly progressive, with around 35 per cent of the yield falling on the top tenth of earners, 45 per cent on the middle four deciles, and 20 per cent on the bottom half of the distribution, who between them take only about a fifth of all flights.³⁴⁹⁵

Protected Groups

Three groups require explicit protection and receive it. Because the frequency element applies only from the third journey, families visiting relatives abroad once or twice a year are unaffected, which matters particularly for diaspora communities for whom air travel is not discretionary leisure but the only means of maintaining family ties. Highlands, Islands and other lifeline routes retain their existing exemption in full. The domestic band is held at its current rate to protect Northern Ireland connectivity, which depends on air links in a way that no part of Great Britain does. Business travel is met by firms as a deductible cost rather than by households.

71.5 Policy: Permitted-Use Valuation for Land Value Taxation

Land assessed for the Land Value Tax is valued at the use for which planning permission has been granted, rather than at its current use. A consented development site operating as a surface car park is therefore taxed on what it is permitted to become, not on the modest income it presently earns from storing vehicles.

Rationale and Yield

This is the standard design of a land value tax and the form in which the idea has always been advanced, because it is what makes the tax do its work. Valuing land at its current use rewards the owner who does least with it; valuing it at its permitted use charges the owner for the opportunity the community has granted and is not being taken up. The measure raises two billion pounds in Year 1 rising to four billion, and it sharpens the incentive to develop on which the housing delivery figures in Chapters 3 and 9 depend. Where permission has not been sought or granted, land continues to be assessed at current use, so the charge cannot fall on speculative potential that planning has not endorsed.

7I.6 Policy: Residential Property Tax High-Value Slice

An additional slice of 0.5 per cent applies to residential property value above one million pounds, reaching approximately 1.2 million homes and raising two billion pounds in Year 1 rising to four billion.¹³² The cumulative incidence cap described in Chapter 8 continues to apply, so that no household pays more than 1.2 per cent of the value of its home up to four million pounds however the individual charges combine.¹³² The deferral mechanism set out in Chapter 8B applies in full, so that asset-rich but cash-poor owners, and in particular pensioners in homes that have appreciated around them, may defer payment until sale or transfer without interest penalty.

Replacing Stamp Duty Properly

This slice, together with the other measures in this chapter, replaces the revenue lost through the abolition of stamp duty, but does so through an annual charge rather than a transaction tax. The distinction matters more than the arithmetic. Stamp duty is charged only when a property changes hands, which means it functions as a penalty on moving: on taking a job in another city, on downsizing after children leave, on moving closer to elderly parents. Economists across the spectrum regard it as among the most damaging taxes in the system precisely because it discourages the transactions that put people in the right homes and the right jobs.⁴² An annual charge on the same base raises comparable revenue with none of that effect.

7I.7 Policy: Broadening the Passive Wealth Surcharge

The threshold for the surcharge introduced in Chapter 7A is lowered from two million pounds to one and a half million, and an additional band is added above twenty million pounds, raising a further two billion pounds in Year 1 rising to three billion. The top rate remains 1 per cent and the exemptions that define the original measure are unchanged: the primary residence, pension assets, active business ownership, venture capital investment, infrastructure investment and agricultural land in active use all remain entirely outside the base.¹³²

The broadening is modest by design. Chapter 7A sets out at length why annual net wealth taxes fail when rates are set too high or bases drawn too wide, and why this Budget deliberately follows the Swiss and Norwegian model rather than the French one.⁴⁵ Lowering the threshold by half a million pounds and adding a band at the very top does not alter that judgement; it extends a cautious measure slightly further while leaving its architecture and its top rate of 1 per cent intact.³⁴

71.8 Supporting Measures

Non-Domicile and Offshore Enforcement

Enhanced enforcement, building on the international framework of Chapter 7B and the expanded automatic exchange of information it describes, raises one billion pounds in Year 1 rising to three billion. This is a compliance measure rather than a rate change: it funds additional specialist capacity at HMRC, extends the beneficial ownership register, and applies the penalty surcharge for non-registration set out in Chapter 8. Revenue from enforcement is inherently less certain than revenue from rates, which is why the figure is stated conservatively against an avoidance gap that Chapter 7B estimates at five to seven billion pounds.¹⁵³

Gambling Duty Reform

Reform of gambling duties, in particular the alignment of remote gaming duty with the rates applied to machine gaming in licensed premises, raises one billion pounds in Year 1 rising to three billion. The present position is difficult to justify: online gaming, which carries the greatest risk of harm because it is available continuously and without the friction of attending a premises, is taxed at a materially lower rate than the machines in a bookmaker's shop. Alignment corrects an anomaly, raises revenue, and carries a public health benefit that the Department of Health has separately quantified in reduced treatment demand.

Tobacco and Alcohol Duty Escalator

A duty escalator on tobacco and alcohol raises one billion pounds in Year 1 rising to two billion. These are the classic externality taxes, and the case for them is unchanged: consumption imposes costs on the health service and on families that the price does not reflect. The escalator adds approximately 0.05 percentage points to the Consumer Price Index, which is the one measure in this chapter with a directly regressive profile, and it is included on the basis that the health benefit outweighs that cost.

Digital Services Tax Expansion

Expansion of the digital services tax raises one billion pounds in Year 1 rising to two billion, broadening the scope beyond search, social media and online marketplaces to cover cloud infrastructure and digital advertising intermediation. The measure remains aligned with the international framework and is designed to be superseded by a multilateral agreement should one be concluded.

Commercial Vacancy and Dereliction Escalator

The commercial vacancy and dereliction escalator, extending the measures in Chapter 7D, raises one billion pounds in Year 1 rising to two billion. It applies a rising charge to commercial premises left derelict rather than merely vacant, closing the gap between the vacancy levy and the point at which a building becomes uninhabitable and therefore falls outside the rating system altogether.

7I.9 Financial Summary

Table 7I.1: Additional revenue measures (£bn)

Measure	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
National Insurance on rental and dividend income	6.0	9.0	12.0	12.0	12.0
Monopoly rent charge on regulated utilities	3.0	5.0	7.0	8.5	8.5
Aviation duty reform	3.0	4.0	5.0	5.0	5.0
Permitted-use valuation for Land Value Tax	2.0	3.0	4.0	4.0	4.0
Residential Property Tax high-value slice	2.0	3.0	4.0	4.0	4.0
Accelerated commercial Land Value Tax	1.3	2.7	0.0	0.0	0.0
Passive wealth surcharge broadened	2.0	3.0	3.0	3.0	3.0
Non-domicile and offshore enforcement	1.0	2.0	3.0	3.0	3.0
Gambling duty reform	1.0	2.0	3.0	3.0	3.0
Tobacco and alcohol duty escalator	1.0	2.0	2.0	2.0	2.0
Digital services tax expansion	1.0	2.0	2.0	2.0	2.0
Commercial vacancy and dereliction escalator	1.0	2.0	2.0	2.0	2.0
Total Chapter 7I Revenue	24.3	39.7	47.0	48.5	48.5

Alongside these revenue measures, the future economy programme in Chapter 6 is rephased so that funding rises from eight billion pounds in Year 1 to thirteen and a half billion by Year 3 rather than starting at its full rate. This reflects the capacity of research institutions, fusion facilities and quantum testbeds to absorb funding in their first year of operation, and it is a matter of delivery realism rather than a reduction in ambition. It contributes a further two billion pounds a year to the fiscal position, giving a combined contribution from this chapter of approximately forty-eight and a half billion pounds a year at maturity.

7I.10 Macroeconomic Effects

Taken together the measures reduce GDP growth by approximately 0.10 percentage points and raise the Consumer Price Index by approximately 0.10 percentage points relative to a path without them. Both effects are small because the measures fall predominantly on rent, windfall and passive income rather than on production, and because two of them work in the opposite direction: the permitted-use valuation and the vacancy escalator accelerate development and bring assets into use, adding to output rather than subtracting from it.

The composition of the growth effect matters as much as its size. The measures that reduce output are those that fall on consumption, principally the aviation reform and the duty escalator, and those that marginally reduce the return to holding rental property. The measures that increase output are those that penalise leaving land and buildings idle. A tax package of the same yield built on income tax or National Insurance on wages would carry a growth cost several times larger, because it would fall directly on the incentive to work.

7I.11 Distributional Analysis

The distributional profile is strongly progressive. The National Insurance extension falls on landlords and dividend recipients, groups concentrated in the upper half of the income distribution. The aviation reform falls on frequent flyers, with roughly a third of the yield borne by the top income decile. The monopoly rent charge falls on the shareholders of regulated utilities. The property measures fall on owners of high-value and underused assets, and the wealth surcharge broadening on holders of net passive wealth above one and a half million pounds.

Two measures have a less progressive profile. The tobacco and alcohol escalator falls more heavily on lower-income households as a share of income, and is justified on health grounds rather than distributional ones. The gambling duty reform is formally levied on operators, but to the extent it is passed to customers it falls on a group that is not concentrated at the top of the income distribution; here too the justification is harm reduction rather than fairness.

Set against those two, no measure in this chapter increases the rate of income tax or of National Insurance on wages, none increases corporation tax on ordinary trading profits, and none increases value added tax on essentials. The overall effect of the package is to shift the burden of taxation away from earned income and toward income received from ownership.

7I.12 Risks and Mitigations

The first risk is that the National Insurance extension reduces rental supply as landlords exit the market. The mitigation has three parts: phased introduction over three years, so that the charge does not arrive as a sudden shock; the substantial increase in housing supply delivered elsewhere in this Budget, which weakens the pricing power that would otherwise permit full pass-through into rents; and the fact that properties sold by exiting landlords are bought predominantly by owner-occupiers, so that the housing stock is unchanged and the tenure shift is itself a policy objective. A residual risk remains that in the areas of greatest scarcity, and before the supply measures mature, some pass-through into rents will occur.¹⁴⁵

The second risk is that the monopoly rent charge is presented as an attack on infrastructure investment at the moment the grid most needs rebuilding. The answer, set out above, is that the charge applies only above the allowed regulatory return and therefore leaves the investment incentive untouched, but the argument will nonetheless be made forcefully by the companies affected and will need to be met with the regulatory detail rather than with assertion.

The third risk is that aviation reform is characterised as a tax on family holidays. The frequency threshold is specifically designed to prevent this, since it does not bite until the third journey in a year, and the protections for lifeline routes and Northern Ireland connectivity are explicit. The presentational task is to ensure the threshold is understood before the measure is judged.

The fourth risk is common to the enforcement and compliance measures: revenue from improved enforcement is inherently less predictable than revenue from rate changes, and forecasts of it have often disappointed. The three billion pounds attributed to non-domicile and offshore enforcement is therefore stated against an estimated avoidance gap several times larger, and the fiscal path in the Conclusion does not depend on the upper end of that range being achieved.

7I.13 Interaction with the Wider Tax System

This chapter is designed to sit within the framework of Part 7 rather than alongside it. The cumulative incidence safeguard described in Chapter 8 applies to the measures here as it does to the others, so that no individual faces an unreasonable combined burden across the whole package. The permitted-use valuation and the high-value slice are modifications to taxes introduced in Chapters 8 and 8B rather than new charges, and are administered through the same registers and appeal mechanisms. The broadening of the passive wealth surcharge operates within the architecture of Chapter 7A, including its exemptions and its deferral provisions.

The measures that are genuinely new, the National Insurance extension, the monopoly rent charge and the aviation reform, are each administered through existing machinery: Self Assessment, the regulatory price control process and the Advance Passenger Information system respectively. None requires a new register, a new valuation exercise or a new collection mechanism, which is why the administrative cost of this chapter is low relative to its yield and why it can be delivered on the timetable the fiscal path assumes.

7I.14 Conclusion

This chapter completes the fiscal architecture of the Budget. The land and property reforms of Chapters 7 and 8 change what is taxed and how, and they are the more important reforms in the long run because they alter the incentives that govern how land and buildings are used. But because they replace existing taxes rather than adding to them, they cannot on their own fund the investment programme this Budget sets out.

The measures here supply the difference, and they do so without departing from the principle that has governed every revenue decision in this document: that the tax system should fall on rent, windfall and passive ownership, and should bear as lightly as possible on work, enterprise and the creation of value. The largest of them, the extension of National Insurance to rental and dividend income, is not a novel imposition but the removal of an exemption that has never been justified on its merits. Taken together they raise approximately forty-eight billion pounds a year, reduce growth by a tenth of a percentage point, and make the difference between a Budget that describes a better economy and one that can pay for it.

Chapter 8: Land Value Tax Reform, Energy Cost Reduction and Local Tax Modernisation

8.1 Overview and Strategic Rationale

The United Kingdom's current system of property and local taxation places excessive burdens on productive economic activity while failing to capture a significant proportion of the economic value created by land itself.¹⁰⁰

Business rates directly penalise commercial occupation, investment, property improvement, and physical expansion.³⁶ Firms that modernise premises, invest in automation, expand industrial capacity, or improve retail and commercial sites are frequently subjected to higher tax liabilities as a consequence of productive investment.

At the same time, council tax is based on outdated property valuations dating back several decades and increasingly produces regressive outcomes between regions and households.¹²⁸ Meanwhile, substantial increases in land values generated through public investment, infrastructure expansion, transport improvements, and planning decisions are only partially captured under the existing tax system.

This chapter introduces a Land Value Tax (LVT) designed to modernise the property tax system while improving economic efficiency, reducing business costs, lowering electricity prices, and replacing council tax with a fairer, land-based Residential Property Tax (RPT).⁴⁰ The reform is calibrated on the basis of a full sensitivity analysis incorporating the effects of capital flight, land price capitalisation, avoidance, valuation disputes, and offsetting behavioural uplifts.

The reform draws heavily on the economic principles set out in the Mirrlees Review conducted by the Institute for Fiscal Studies, which argued that efficient tax systems should minimise distortions on productive activity while taxing economic rents more effectively.⁴² The reforms also reflect proposals developed by the Labour Growth Group and other centre-left economic reform organisations advocating a shift away from taxes on investment, production, and employment toward taxes on unearned land value and speculative economic rents.

Together the Land Value Tax and the Residential Property Tax replace three of the least efficient taxes in the system, namely business rates, stamp duty and council tax, with a single coherent charge on land and property value. The reform is built around four central objectives:

- Abolishing business rates, cut by a quarter in Year 1, by half in Year 2 and abolished in full from Year 3
- Abolishing Stamp Duty Land Tax in full, on residential and commercial property, phased over four years
- Replacing council tax with a fairer Residential Property Tax, phased in over four years, fully live by Year 4
- Generating a growing fiscal buffer from Year 6 for further tax cuts or debt reduction

The overall purpose is not to increase the tax burden on productive economic activity, but to shift taxation toward the unimproved value of land while reducing the taxes that fall on investment, business expansion and moving home. It is close to revenue-neutral before growth: a switch in what is taxed, not a net rise.

8.2 Rate Structure and Revenue Framework

The rate structure is set at the minimum level needed to meet each commitment on time, after all sensitivity effects are applied. It follows a full sensitivity analysis incorporating land price capitalisation effects, capital flight from overseas institutional investors, avoidance and band fragmentation, valuation disputes, and litigation delays.

The key insight is that LVT's downward pressures are front-loaded (heaviest in Yr 1–3) while its upward pressures, land release, GDP growth, anti-avoidance recovery, infrastructure uplift, compound from Year 3 onwards. Rates have been set so that net revenue after all effects meets each commitment with a small buffer, while avoiding unnecessary rate levels that would amplify the downward pressures.

LVT Rate Structure, No Rates Below £1 Million

No LVT is charged on land valued below £1 million. This protects all residential owner-occupiers below that value, all small commercial premises, and all agricultural and rural land. Revenue forgone below the threshold is recovered through steeper progression in the upper bands, with eight distinct taxable bands above £1m.¹³²

Table 8.1: LVT Rate Structure

Land Value Band	Rate	Taxable base	Revenue	Notes
RESIDENTIAL LAND — progressive, by region				
London residential land	0.05%–0.90%	~£1.59tn	£1.4bn	With RPT; capped at 1.2% of value to £4m
South East / East residential land	0.12%–0.70%	~£1.68tn	£2.7bn	With RPT; capped at 1.2% of value to £4m
Rest of UK residential land	0.15%–0.70%	~£2.84tn	£5.2bn	With RPT; capped at 1.2% of value to £4m
COMMERCIAL AND INDUSTRIAL — progressive, slice-based				
First £50k	3.19%	~£92bn	£2.94bn	Small sites and independents

Land Value Band	Rate	Taxable base	Revenue	Notes
£50k – £250k	4.06%	~£194bn	£7.86bn	
£250k – £1m	4.74%	~£207bn	£9.80bn	
£1000k – £5m	5.30%	~£121bn	£6.41bn	
Above £5m	5.41%	~£21bn	£1.12bn	Prime and institutional land
Previously unassessed and undervalued land	4.50%	~£45bn	£2.02bn	Vacant plots, land banks
AGRICULTURAL — slice-based, no exemption				
First £2m of agricultural land	0.05%	~£157bn	£0.08bn	Small and average farms
£2m – £10m	0.15%	~£118bn	£0.18bn	Larger commercial farms
£10m – £30m	0.50%	~£54bn	£0.27bn	Large estates
Above £30m	1.00%	~£36bn	£0.36bn	Sporting and institutional estates
GROSS TOTAL			£40.3bn	Residential £9.3bn · Commercial £30.1bn · Agricultural £0.9bn

Note: Agricultural land in active use is charged at the reduced slice rates set out above rather than exempted; public service and charitable land (partial exemption), social housing providers (targeted relief), and low-income owner-occupier deferral mechanisms. Rates are set so that ordinary landholders pay materially less than the taxes they replace, while no holding is exempt.

Revenue Framework

The gross steady-state revenue of £28.6bn reflects a base anchored to the Office for National Statistics national balance sheet, which values all UK land at £7.1 trillion: lower rates reduce the severity of the downward sensitivity pressures, particularly land price capitalisation and capital flight in the top bands, while still generating sufficient net revenue to meet all commitments.³⁵

- Gross steady-state revenue: £28.6bn¹³²/yr, commercial and agricultural (full coverage, Years 4–5)
- Average effective rate: ~1.26% across the £3.5tn base (~1.73% on the £2.5tn¹³² taxed above £1m)

- Net revenue after all sensitivity effects: £30.1bn/yr commercial by Year 5, plus £39.1bn¹³² from the Residential Property Tax
- Year 1 commitment requirement: £8.3bn (business rates cut 25 per cent³⁶ + first phase of electricity relief)
- Year 2 commitment requirement: £18.0bn (business rates cut 50 per cent³⁶ + electricity relief widened)
- Year 3 commitment requirement: £47.5bn¹²⁸ (business rates fully abolished, electricity relief complete, council tax replacement begins)

8.3 Full Sensitivity Analysis, Downward and Upward Pressures

The gross revenue figures above assume full valuation coverage and no behavioural response. In practice, a number of factors will reduce revenue below the gross level in the early years, while other factors will increase revenue above the gross level from Year 3 onwards. This section sets out each factor and its estimated impact on net annual revenue. The rates in this chapter are set against three economic tests. First, no rate may exceed the annual rent that land yields, conventionally 3.5 to 5 per cent of land value, because a tax above that level confiscates the asset rather than taxing its return.¹²⁸ The commercial Land Value Tax is charged on a progressive, slice-based schedule rather than a single rate, running from 3.19 per cent on the first £50,000 of land value to 5.41 per cent above £5m, with agricultural land taxed separately on a slice schedule that rises to 1.00 per cent on estates above £30m so that large sporting and institutional estates contribute materially while working farms remain in the gentle first band.¹²⁸ The agricultural rates are deliberately held well below those on commercial land, because farmland yields far less rent, typically one to two-and-a-half per cent of its capital value against five to seven per cent for commercial land, so a rate that is modest on a shop would exceed the entire rent of a field. Even the top agricultural rate of 1.00 per cent takes no more than about half the rent of a low-yielding estate, which keeps the charge affordable from income rather than forcing a sale of land. The tax also brings onto the roll around £45bn of commercial land that business rates currently omit or undervalue, vacant plots, land held in land banks, and sites assessed below market, raising a further £2bn a year. The Land Value Tax also applies to the land beneath every home, on a gentle progressive schedule that is calibrated jointly with the Residential Property Tax so that the two together fall below council tax for the great majority of households. Residential land contributes £9.3bn, commercial land £30.1bn and agricultural land £0.9bn, giving a Land Value Tax of £40.3bn in total. Because it is a slice system, every holding pays the lower rates on its lower slices, so a small site faces an effective rate of about 3.3 per cent while prime central land approaches 5.5 per cent. Even the top rate sits at 90 per cent of the rent commercial land yields, inside the ceiling at which a land tax begins to consume the asset. The commercial schedule distributes the burden toward the most valuable land: a corner shop pays about 25 per cent less than under a flat rate, a City office tower about 13 per cent more. Second, the two residential taxes are designed together. The Residential Property Tax raises £39.1bn on property value and the residential Land Value Tax a further £9.3bn on the land beneath, giving £48.4bn from homes against the £46bn of council tax they replace; because the combined charge is calibrated to fall below council tax for every home up to roughly 1.4 times its regional average value, the modest surplus comes entirely from property above that level. Third, the top slices remain inside the land-rent ceiling on every class of land, so the tax reduces land values somewhat but never consumes them. The whole package, Land Value Tax of £40.3bn and Residential Property Tax of £39.1bn, raises £79.4bn, set against the £25bn of business rates, £46bn of council tax and £12bn of stamp duty it abolishes. It is therefore close to revenue-neutral before growth: a switch from taxes on transactions, buildings and occupation to a tax on land, rather than a net tax rise. Its dividend is growth, not revenue, and is set out in the following section.

Abolishing Stamp Duty Land Tax

Stamp Duty Land Tax is among the most economically damaging taxes in the system.⁴³ Because it is levied on the transaction rather than the asset, it penalises every move: it discourages downsizing by older owners, deters workers from relocating for better jobs, and gums up the chain on which first-time buyers depend. The independent economic literature, from the Mirrlees Review onward, is close to unanimous that stamp duty destroys more value per pound raised than almost any other tax, with estimates that each pound of revenue costs the wider economy well over a pound in lost mobility and forgone transactions. This Budget abolishes Stamp Duty Land Tax in full, on residential and commercial property alike, phased over four years so that the market adjusts in an orderly way rather than through a sudden rush of delayed transactions.¹⁹³

Abolition is funded from the Land Value Tax, and the switch is coherent in principle: stamp duty is a clumsy, one-off proxy for taxing the value of property that a recurring land tax captures far better. There is one transitional consideration. A transaction tax falls on those who move; an annual land tax falls on those who own, including long-settled owners who would never have paid stamp duty again. For most households this is beneficial, because the combined annual charge on an ordinary home is below the council tax it replaces. The deferral option described above protects the minority who are asset-rich but cash-poor, so that no owner faces a forced sale as a result of the transition. The growth prize is substantial: removing the friction stamp duty imposes on the housing and commercial-property markets is estimated to add several tenths of a percentage point to output over the medium term, and it is among the most cost-effective supply-side measures available to any government.

Why LVT is Uniquely Resistant to Capital Flight

Unlike a wealth tax or offshore levy, land is physically immobile.⁹⁷ Capital flight from LVT means overseas investors sell UK land to domestic buyers, the land stays, the tax base stays, only assessed values temporarily dip at the next revaluation cycle. This is structurally different from financial capital flight, which removes the tax base entirely. It is the single most important reason LVT is more fiscally robust than the other new taxes in this budget.

Table 8.2: Full Sensitivity Analysis, All Factors Affecting LVT Net Revenue

Table 8.2: LVT Revenue Sensitivity, Downward and Upward Pressures (Year 5 central case)

Factor	Central	Range	Timing
DOWNWARD PRESSURES			
Land value capitalisation	-£6.0bn	-£3.5–9bn	Year 1 announcement, permanent

Factor	Central	Range	Timing
Avoidance	-£3.0bn	-£1.5–5.5bn	Yr 1–2
Foreign exit	-£2.5bn	-£1–5bn	Yr 1–3
Valuation disputes	-£2.0bn	-£0.5–4bn	Yr 2–3
Agricultural	-£1.5bn	-£0.5–3bn	Yr 1–3
Deferral drag	-£1.0bn	-£0.5–2bn	<i>Deferred</i>
Total downward	-£16bn/yr		
UPWARD PRESSURES			
Land banking ends hoarded land enters base	+£3.0bn	£1.5–5bn	<i>Builds Years 2–5</i>
GDP growth expands commercial land values	+£3.0bn	£1.5–5bn	<i>Compounds Years 3–7</i>
Anti-avoidance register closes gaps	+£2.0bn	£1–4bn	<i>Matures Years 2–5</i>
Infrastructure investment uplifts values	+£2.0bn	£1–3.5bn	<i>Revaluation cycles</i>
Housing programme, new land enters base	+£1.5bn	£0.5–3bn	<i>Years 3–5</i>
Total upward (Year 5 central)	+£11.5bn/yr		
NET ADJUSTED REVENUE, Year 5 central	£30.1bn/yr		<i>commercial component; residential shown separately in Table 8B.1</i>

Bear case assumptions (Year 1): land values fall 25%; 30% foreign institutional exit; avoidance register delayed; major litigation backlog; minimal behavioural uplifts.³⁵ Bull case: land values stable; minimal foreign exit; GDP 2.5%+; register operational Year 1.³⁵

8.4 Phased Commitment Schedule and Carry-Forward Mechanism

The schedule is sequenced so that each commitment is matched by the revenue stream that funds it, rather than by a transitional reserve. In Years 1 and 2 the commercial Land Value Tax is phased in alongside a matching reduction in business rates, so the two move together and the net position is close to neutral. From Year 3 the commercial swap is complete and self-financing. The Residential Property Tax is introduced only from Year 3, once the residential valuation register is sufficiently advanced, and reaches full coverage in Year 5. The residual cost during the transition is set out in Table 8.9 and peaks at £5.9bn in Year 3.³⁶

Table 8.3: Phased Commitment Schedule with Carry-Forward

Year	Business Rates	Stamp Duty	Council Tax	LVT (all land)	RPT	Position
1	Cut 25% (– £6.3bn)	Cut (– £3.0bn)	—	£7.5bn	—	Commercial-first; part-year
2	Cut 50% (– £12.5bn)	Cut (– £6.0bn)	—	£17.1bn	—	Residential LVT begins
3	Abolished (– £25bn)	Cut (– £9.0bn)	–£13.5bn	£35.6bn	£11.0bn	RPT phase-in begins
4	Abolished (– £25bn)	Abolished (– £12bn)	–£32.0bn	£40.3bn	£26.5bn	Council tax fully replaced
5	Abolished (– £25bn)	Abolished (– £12bn)	–£46.0bn	£40.3bn	£39.1bn	Fully live; buffer emerges

Transition note: business rates and the commercial Land Value Tax are moved in step, so no bridging facility is required for the commercial swap. The residual transitional cost arises on the residential side, where council tax is withdrawn slightly faster than the Residential Property Tax reaches full coverage. This is met from the growth dividend set out in Table 8.9, which exceeds the transitional cost from Year 3 onwards.

8.5 Bear, Central and Bull Scenario Analysis

The following table shows net LVT revenue under three scenarios across Years 1–10. In the central and bull cases, all commitments are met in every year, with the Year 2 shortfall in the central case covered by the Year 1 carry-forward. The bear case is more demanding: shortfalls against commitment arise in Year 1 (£2.0bn), Year 2 (£8.0bn), Year 3 (£3.0bn) and Year 4 (£3.5bn), a cumulative £16.5bn, before revenue first covers commitment in Year 5.¹²⁸ Sustaining the full commitment schedule under bear-case conditions would therefore require bridging finance across the first four years, or a slower phasing of the council tax reduction and the threshold increases, which are the discretionary elements of the package.

Table 8.4: Scenario Analysis, Bear / Central / Bull Cases (£bn/yr)

Year	Commitment	Bear Case	Central Case	Bull Case	Bear vs Commitment
1	£6.3bn	£5.8bn	£7.0bn	£8.1bn	✓ commercial LVT covers rates cut
2	£12.5bn	£11.6bn	£14.1bn	£16.3bn	✓ +£1.6bn surplus central
3	£25.0bn	£24.2bn	£28.4bn	£31.5bn	✓ +£3.4bn surplus central
4	£25.0bn	£24.6bn	£31.0bn	£32.0bn	✓ +£3.6bn surplus central
5	£25.0bn	£24.8bn	£31.0bn	£32.1bn	✓ +£3.6bn surplus central
10	£25.0bn	£25.6bn	£31.0bn	£32.4bn	✓ stable surplus

The bear case assumes the most adverse combination of all sensitivity factors simultaneously. Under these conditions the business rate and electricity commitments remain affordable throughout, but the discretionary elements, the council tax reduction and the threshold increases, would need to be deferred until revenue recovers in Year 5.

8.6 Early-Revenue Mechanisms, Commercial-First Delivery

The formal national land valuation framework takes two to three years to build, and the residential register takes longer than the commercial one. The mechanisms below use data already held by HMRC, the Valuation Office Agency and Land Registry to begin collecting the commercial Land Value Tax from the highest-value land immediately, without waiting for full revaluation. They are calibrated to the Year 1 commercial phase set out in Table 8.9, not to the full steady-state yield.

- Interim Land Registry Surcharge, a 1.5% flat charge on commercial land above £1m using existing registered title data.¹³² Day 1 operational. Estimated Year 1 revenue: £2.5bn.¹³²
- VOA Commercial-First Valuation, the VOA already maintains valuations for 2.1m commercial properties for business rates.⁴⁶ Converting to unimproved land values is a methodology adjustment, not a ground-up exercise. Commercial LVT reaches £13.9bn in Year 2 and its full £30.1bn from Year 3.³⁶
- Listed Land Fast-Track, a Listed Land Register of ~2,500 holdings above £50m is compiled from Land Registry and VOA data.⁴⁶ Full LVT rates applied from Year 1 via provisional valuations. Year 1 revenue: £2.0bn.⁴⁶
- Compulsory Land Ownership Register, all land above £500k must be registered within 12 months with a 10% penalty surcharge for non-registration.¹³² Closes an estimated £5–7bn avoidance gap in the top bands.¹³² Legislation on Day 1.
- Voluntary Early Settlement Discount, a 4% discount for institutional landholders (REITs, pension funds, developers) who self-declare and pay upfront before formal assessment.¹³² Estimated Year 1 advance: £1.0bn.¹³²

- Residential High-Value Provisional Valuation, for residential land not already captured by the Listed Land Fast-Track register, a provisional land value is calculated from an automated property valuation (using the same Land Registry price-paid data and comparable-sales models already used by lenders and by HMRC for Inheritance Tax and Capital Gains Tax purposes), minus a standardised regional build cost per square metre published annually by MHCLG, the same residual value methodology used routinely in development appraisal. This is cross-checked against local planning authority records for any additional uplift from planning permission. A provisional charge is only issued where the estimated land value clears the applicable regional exemption threshold, £750,000 in London, £500,000 in the South East and East, and £420,000 elsewhere, by a margin robust to normal valuation uncertainty; borderline properties are held over for full valuation rather than provisionally charged.⁶⁹ Owners may request an independent revaluation before payment is due, and all provisional assessments are reconciled against the final valuation once complete, with overpayments refunded with interest. This mechanism applies to the residential base only and therefore begins in Year 3, when the Residential Property Tax is introduced. Estimated Year 3 contribution: £5bn, forming part of the Year 3 residential total set out in Table 8.9 rather than an addition to it.⁶⁹⁷⁸

This same margin-of-safety principle applies across all six mechanisms: because each relies on proxy or automated data rather than a full individual valuation, no provisional charge is issued unless the estimate clearly clears the applicable exemption threshold with room for normal valuation error. This is a deliberate design choice to ensure the exemption protection for owner-occupiers, small commercial premises, and agricultural and rural land holds in practice during the interim period, not just once the formal valuation framework is complete.

Cumulative Incidence Safeguard and Overlap Reconciliation

Several chapters in this Budget place more than one charge on land or property, by design. The primary residence is deliberately removed from this layering. A main home, however valuable, is taxed only through the Residential Property Tax and the residential Land Value Tax of Chapter 8; it is fully exempt from the Ultra-Luxury Property Holding Tax in Chapter 7F and from the Net Passive Wealth Surcharge in Chapter 7A. The Ultra-Luxury Property Holding Tax therefore applies only to second homes, investment properties and vacant high-value holdings, not to the home someone lives in, and the passive wealth surcharge applies only to genuinely passive financial and investment wealth, never to the family home. Land Value Tax (Chapter 8) applies to the land value beneath high-value residential property in addition to the Residential Property Tax (Chapter 8B), which taxes land and buildings together, since LVT specifically targets very large or high-value landholdings that RPT's per-property residential framing is not designed to capture. Chapter 7B's offshore levy applies to offshore-held wealth and does not apply to UK land or property held through offshore structures, which is already fully taxed under Chapters 7C–8 regardless of the owner's residence or the ownership vehicle used.

To ensure deliberate layering does not become confiscatory in the small number of cases where several measures could plausibly apply to the same asset, no landholding or property may face a combined annual charge across all applicable measures in Chapters 7C, 7D, 7F, 7G, 7H, 8, and 8B exceeding 5% of its assessed value in any year.¹³² Any liability above this cap is deferred rather than cancelled, spread over subsequent years. Based on the Listed Land Register of approximately 2,500 holdings above £50 million described in Section 8.6, and assuming that no more than 2–3% of these, the most heavily-stacked institutional and commercial sites subject to LVT, the Infrastructure Uplift Levy, and a vacancy or hoarding measure simultaneously, would otherwise exceed the cap, the deferred liability is estimated at approximately £150–250 million in Year 1, falling as valuations settle and landholders adjust use to avoid repeated triggering of the cap.¹³² This has been deducted from the Year 1 revenue figures set out in this chapter and reflected in the Implementation and Appeals Risk Reserve above, rather than treated as costless.

A single wealthy individual holding a large portfolio of investment properties, rather than a primary residences, which are exempt from the stacked measures, could still face the Residential Property Tax, the Ultra-Luxury Property Holding Tax (up to 1.5%) and the Net Passive Wealth Surcharge (up to 1% at the top), a cumulative charge that without a backstop could approach 3–3.5% of asset value on the most heavily stacked investment holdings.⁵² That is still above the level at which comparable wealth taxes have triggered documented capital flight elsewhere: Norway's wealth tax, at approximately 1.1%, produced a well-documented wave of high-net-worth emigration in 2022–2023, and France's wealth tax, at a top rate of 1.5% on total net worth, is estimated to have driven out several thousand million-euro-plus households over its lifetime before its 2018 abolition.⁵² A stacked rate of 3–3.5% on a single asset class remains above both precedents, which is why the safeguard below caps the worst case; but because primary residences are exempt and the passive wealth rate is capped at 1 per cent, the number of cases reaching even this level is very small.

The Cumulative Incidence Safeguard is therefore extended to cover Chapters 7A and 7H in addition to 7C–8: no individual or entity may face a combined annual charge exceeding 5% of the assessed value of a given asset across all applicable measures in this Budget, not just the land-specific ones.¹³² This bounds the worst case to within the range observed not to trigger mass emigration internationally. Because this affects the revenue base for the small number of ultra-high-net-worth households and institutional landlords who would otherwise face the full stack, approximately £0.3–0.4 billion per year has been set aside within the Implementation and Appeals Risk Reserve to reflect the deferred liability this cap creates, in addition to the £150–250 million already provided for the land-only version of the cap.¹³²

The per-asset cap protects against any single property or landholding being taxed confiscatorily, but it does not by itself prevent a taxpayer who holds several separate assets, each individually near the 5% cap, from facing a high aggregate burden across their whole portfolio.⁵² To address this, a second, aggregate cap applies at the level of the individual or entity: total annual liability across all measures in Chapters 7A–8 and 8B may not exceed 4% of the taxpayer's total UK asset value subject to these measures, modelled on the principle behind France's tax shield (*bouclier fiscal*), which capped total wealth-related taxation as a share of income specifically to prevent the aggregate, cross-asset burden from driving emigration.⁵² Liability above this aggregate cap is deferred in the same way as the per-asset cap. This is expected to affect fewer than 100 of the largest diversified holders in Year 1 and has been costed within the same Implementation and Appeals Risk Reserve set out above, rather than as a separate addition.

Implementation and Appeals Risk Reserve (Chapters 7C–8)

Land cannot relocate, but it can be revalued on appeal, and large new property tax packages of this kind reliably attract legal challenge in their early years, particularly where provisional or automated valuation methods are used.⁷⁹ Rather than assume this risk away, a dedicated Implementation and Appeals Risk Reserve is held back from the net fiscal improvement generated by Chapters 7A–8 in the years when this risk is highest: approximately £2.65 billion in Year 1, £1.65 billion in Year 2, and £0.8 billion in Year 3, falling to zero from Year 4 once the formal valuation framework and the Cumulative Incidence Safeguard have been tested through a full appeals cycle.¹³² This reserve covers the Cumulative Incidence Safeguard across all applicable chapters. It reduces the net fiscal improvement available in Yr 1–3 but does not reduce the revenue collection figures stated elsewhere in this chapter or in Chapters 7A–7H, and it does not affect the Year 5 fiscal position or the public debt target, since it is fully unwound by Year 4.

8.7 Abolition of Business Rates

The abolition of business rates represents one of the largest structural reductions in business taxation contained within the Budget. Business rates currently function as a direct tax on commercial occupation, business expansion, property improvement, and productive investment. The system particularly disadvantages manufacturing, logistics, hospitality, retail, industrial production, and energy-intensive sectors.

Under this reform, business rates are cut by a quarter in Year 1, by half in Year 2 and abolished in full from Year 3, funded entirely through Land Value Tax revenues. The timetable is set by the pace at which the commercial Land Value Tax comes on stream, which reaches £7.5 billion in Year 1, £14.9 billion in Year 2 and £30.1 billion in Year 3.³⁶ Removing business rates faster than that would open an unfunded gap of approximately £10 billion in Year 2, which is why the relief is matched to the ramp rather than granted ahead of it.³⁶ This delivers immediate relief to all commercial occupiers while the formal valuation framework is built out.

Land is assessed at the use for which planning permission has been granted rather than at its current use, so that a consented site held as a car park is charged on what it is permitted to become.⁹⁸ This is the standard basis for a land value tax and is what gives the charge its effect on development. The measure removes approximately 25 billion pounds a year of business taxation from Year 2 onwards, saving a typical medium-sized commercial site between 250,000 and 350,000 pounds annually.⁶⁹ It is estimated to raise business investment by around 4 per cent and productivity by around 0.4 percentage points.⁶⁹

As LVT revenues grow beyond the commitment threshold from Year 3 onwards, surpluses are deployed to raise the LVT-free threshold, the land value below which no LVT is charged. This is the practical equivalent of continued business rate relief: businesses on lower-value land pay nothing. See Section 7.10 for the full ten-year threshold schedule.

8.8 Energy Cost Reduction (see Chapter 2)

The removal of network charges, environmental and social levies, balancing and system costs and the debt allowance from electricity bills is set out in full in Chapter 2, Energy and Cost-of-Living Transformation, together with the removal of VAT on electricity and the resulting household and business savings.¹⁶ Those measures are funded from general revenue as part of the energy package and are not hypothecated to the Land Value Tax; they are noted here only because they form part of the same programme of reducing the fixed costs that fall on households and firms.

8.9 LVT Macroeconomic and Employment Effects

The reform improves economic performance through several reinforcing mechanisms. The abolition of business rates reduces taxes on productive investment and lowers the cost of commercial expansion. The removal of electricity network costs lowers industrial operating costs, reduces household bills, and improves international competitiveness. The LVT itself discourages speculative land hoarding by imposing a carrying cost on unused or inefficiently used land.

Taken together, these effects are estimated to raise GDP by around 0.6 percentage points, business investment by around 4 per cent, housing supply by 5 to 6 per cent, and productivity by around 0.4 percentage points, while reducing inflation by around 0.2 percentage points and unemployment by around 0.15 percentage points.¹³² The employment gain of between 50,000 and 70,000 jobs delivers approximately 1.375 billion pounds a year in welfare savings, and the additional growth generates around 5.2 billion pounds a year in further tax revenue.⁷²

8.10 Ten-Year Surplus Allocation and Business Rate Threshold Raising

As LVT revenues grow beyond committed spending from Year 3, annual surpluses are allocated in the following priority order: (1) raising the LVT-free threshold to provide further business rate relief; (2) increasing council tax/RPT reduction above the committed £5bn; (3) building a fiscal buffer.¹²⁸

The commercial Land Value Tax raises £30.1bn against the £25bn of business rates it replaces, a surplus of about £5.1bn once fully phased in.³⁶ That surplus, together with the small agricultural yield, is what the schedule above allocates: it funds the part-year cost of the electricity relief in Year 1, contributes to the transition reserve in Years 3 and 4, and settles into a modest discretionary surplus of about £5.1bn a year from Year 5.³⁶ This is a deliberately conservative figure, and it reflects the commercial Land Value Tax alone. It is not the gross yield of the tax, which is £30.1bn, but the surplus remaining once business rates have been replaced pound for pound. The distinction matters because the commercial Land Value Tax, the Residential Property Tax and the business rates being withdrawn are separate flows, and adding them together would overstate the available surplus several times over.

The effect on an individual business depends entirely on how land-intensive it is relative to its turnover, and this is the point of the reform. Consider two businesses on the same high street. A productive independent shop or workshop, occupying a modest footprint but employing people and generating turnover, pays business rates today on the rental value of the whole property; under the Land Value Tax it pays only on the value of the land beneath it, which for an active, built-up site is a smaller and more predictable base, so its bill typically falls. By contrast, a speculator holding an empty plot or a derelict building on the same street pays little or nothing under the current system, which taxes occupation rather than ownership; under the Land Value Tax that same idle plot carries the full charge on its land value regardless of whether anything is built on it. The reform therefore shifts the burden from those who use land productively toward those who hold it idle, which is precisely the incentive a high street needs.

Table 8.5: Ten-Year Land Value Tax Revenue and Surplus Allocation

Yr	LVT	Rates	Council tax	Surplus	Notes
1	£7.0bn	Cut 25%	—	—	Commercial-first; roll building
2	£14.1bn	Cut 50%	—	—	Commercial roll maturing
3	£28.4bn	Abolished	−£15.5bn	+£3.4bn	RPT begins; rates replaced
4	£31.0bn	Abolished	−£36.8bn	+£6.0bn	Stamp duty phase-out complete
5	£31.0bn	Abolished	−£46.0bn	+£6.0bn	Council tax fully replaced
6	£31.0bn	Abolished	−£46.0bn	+£6.0bn	First discretionary surplus
7	£31.0bn	Abolished	−£46.0bn	+£6.0bn	Revaluation cycle 1 complete
8	£31.0bn	Abolished	−£46.0bn	+£6.0bn	—
9	£31.0bn	Abolished	−£46.0bn	+£6.0bn	—
10	£31.0bn	Abolished	−£46.0bn	+£6.0bn	Sustained fiscal headroom

*Fiscal buffer from Year 6 is unallocated structural surplus available for income tax cuts, NHS investment, debt reduction or any other fiscal priority. By Year 10, the £7bn/yr annual buffer is equivalent to 1.5p off the basic rate of income tax.*¹³²

Chapter 8B: Residential Property Tax, Replacing Council Tax

8B.1 Overview and Rationale

Council tax is one of the most regressive and economically distorting taxes in the United Kingdom. Its fundamental structural problems are threefold. First, it is assessed on 1991 property valuations, a Band H property in Hartlepool pays the same nominal charge as a Band H property in Kensington, despite market values differing by a factor of 15–20. Second, it is profoundly regressive across the wealth distribution: a £50,000 house pays approximately 40–50% of what a £5 million house pays in nominal terms, despite the latter being worth around 100 times more.¹²⁸ Third, it taxes improvements, renovating or extending a property can increase its band and therefore its tax liability, directly discouraging investment in the housing stock.

This chapter introduces the Residential Property Tax (RPT) to replace council tax entirely by Year 4. The RPT applies the same logic as the commercial LVT: it taxes the unimproved value of residential land, not the building, not improvements, and not the rental value. It is assessed at progressive rates across eight bands. Two binding constraints have been applied throughout the design: the average farmer must not pay more than under current council tax, and neither must the average Londoner.¹²⁷

Both constraints are met. The Residential Property Tax generates £39.1bn a year on property value, and the residential Land Value Tax a further £9.3bn on the land beneath, and the two are calibrated together so that a household at up to about 1.4 times its own regional average price pays no more in combination than it does under council tax today.¹²⁸ The lower bands of each are set a little above the bare minimum needed for that test, so that households well below the regional average still make a modest contribution rather than paying almost nothing; an average home pays several hundred pounds less than its council tax, but more than the floor the schedules could bear. Around 82 per cent of households pay less in combined Land Value Tax and Property Tax than in council tax today.¹²⁸ The schedules are calibrated so that the Residential Property Tax and the residential Land Value Tax, taken together, leave every home up to roughly 1.4 times its regional average value paying less than its current council tax; homes above that level pay more, rising steeply for genuinely expensive property, so that the combined burden falls on high-value homes rather than on ordinary or just-above-average ones. The combined charge is subject to an overall cap: no household pays more than 1.2 per cent of its property value a year in Residential Property Tax and residential Land Value Tax together, on the value up to £4m.¹²⁸ On the portion of a property worth more than £4m the progressive schedule resumes, so that a £4m home pays £40,000, and homes above that pay more, reaching about 1.3 to 1.5 per cent of value at £10m. The cap serves two purposes. It sets a clear and defensible ceiling, no ordinary reading of the schedule can produce a charge above one per cent of value on any home short of the genuinely prime market, and it removes an anomaly that would otherwise arise between regions, whereby an expensive house in a low-value area could face a higher charge than an identically priced house in London simply because it is a larger multiple of its local average. With the cap in place a £2m home pays between about £13,000 and £20,000 depending on region, and a £4m home pays £40,000 everywhere, with full progressivity above. London is charged on its own lower schedule for both taxes, because London council tax is unusually low relative to property and land values; this protects homes up to about £760,000 in the capital while asking considerably more of prime and ultra-prime property. Because the combined charge falls below council tax for the great majority of homes, the classic objection to a property tax, the asset-rich, cash-poor owner in a family home, does not arise for ordinary households, who pay less, not more. It can still arise for those above the regional threshold who have low incomes, and for them the Budget provides a deferral option: any owner over state pension age, or on a qualifying low income, may defer the amount by which their combined charge exceeds their previous council tax, with the deferred sum rolling up as a charge on the property and settled on sale or from the estate. This removes any risk of a forced sale while ensuring the liability is met in full over time; because it is deferred rather than forgone, its cost to the Exchequer is small. The mid-to-large commercial band between £1m and £5m of land value is set at 5.30 per cent, asking slightly more of the institutionally owned offices, retail parks and logistics sites that dominate that band. Second homes, empty property and residential land banking are taxed separately and more heavily under Chapter 7C, whose rates this Budget now escalates: the second-homes and short-term-let premium rises from a range of 1 to 2 per cent of value to 2 to 4 per cent; the residential vacancy levy escalates from 1 per cent in the first year to 4 per cent by the third year of continuous vacancy; and the residential land-banking levy rises from 1 to 2 per cent to a flat 3 per cent, escalating to 5 per cent on sites left unbuilt for more than three years after permission. These higher rates raise roughly £3bn more than the rates they replace, net of the behavioural response, and for the vacancy and land-banking levies a

falling yield over time is the intended outcome, because it means homes are returning to use and permissioned sites are being built out. London is charged on a separate schedule with lower rates on the middle of the market and steeper rates at the top, which reflects that London council tax is unusually low relative to land value; this keeps homes around the London average, and up to roughly £800,000, below their current council tax while asking more of prime and ultra-prime London property. No household is exempt: every band carries a positive charge, so that the levy is a genuine local contribution rather than a withdrawal from local taxation. Across the United Kingdom approximately 86 per cent of households pay less than they do under council tax, while rates rise steeply at the top: a prime London home on £2.8m of land pays £32,362 against council tax of £3,000. Marginal rates rise monotonically in every region, with no band charged at a lower rate than the band beneath it and no step larger than 1.53 times the preceding rate, so there is no incentive to under-declare a valuation or to split a title. The top marginal rate of 2.80 per cent is set deliberately below the rental yield on prime residential land, so that the levy is charged out of the income the land produces rather than out of the asset itself. The Residential Property Tax and residential Land Value Tax together yield £48.4bn against the £46bn council tax they replace, a net contribution of £2.4bn, so no balancing draw on the land-aligned measures in Chapters 7C, 7G and 7H, which are set out in the funding reconciliation below, and is phased in over four years so no household faces a sudden transition.

8B.2 Policy Design, What is Taxed

The RPT is assessed on the value of residential land in its bare state, what the plot would be worth without any building on it. Improvements, renovations, extensions, and quality of construction do not affect the charge. This eliminates the perverse incentive in council tax whereby improving a home can increase the tax burden.

Three distinctions are critical to understanding the design.

Farmers: residential plot only

Only the residential curtilage, the plot the farmhouse sits on, typically 0.1–0.5 acres worth £30–80k, is assessed under the RPT.¹²⁸ At £60k, the average farmhouse plot falls in the lowest band and is charged at 0.40 per cent, a levy of £240 a year.¹²⁸ No band is exempt: the levy is a genuine local contribution from every household, but at a fraction of the council tax it replaces. Agricultural land, the fields, is separately charged under the Land Value Tax at slice-based rates beginning at 0.05 per cent, so that an average 80-hectare farm pays approximately £860 a year on its land. There is no agricultural exemption and no cliff edge: every holding pays, and the rate rises only with the value of the land held. There is no overlap or double-taxation. A farmer with a £60k residential plot pays £240 in place of their full council tax bill of approximately £2,000 per year, and faces no LVT charge on their fields if actively farmed.

Londoners in flats: land value divided between units

The average Londoner lives in a flat, not a house. When a residential block of 10 flats sits on a site worth £1.8m, each flat's land value share is £180,000, not £1.8m.¹²⁸ At 0.35%, the annual RPT is £630 per flat, well below the £1,600 London average council tax.¹²⁸ For the minority of Londoners in houses, the average residential land value is approximately £340,000. At 0.40%, this yields £1,360/yr, below the £1,600 London average.

Deferral and hardship protections

Any household where RPT exceeds 3% of gross household income may defer payment.¹³² The liability is secured as a charge against the property and collected at sale or transfer, with interest accruing at Bank Rate.⁷⁴ This protects retired homeowners and those on fixed incomes in high-value properties. A three-year transition discount (25% in Year 1, 15% in Year 2, 5% in Year 3) protects all households facing an RPT increase.⁷⁴ Social housing providers receive a ring-fenced relief ensuring no rent increases in the social housing sector.

8B.3 RPT Rate Structure

Table 8B.1: Residential Property Tax, Rate Structure and Revenue

<i>Band</i>	<i>RPT Rate</i>	<i>Homes</i>	<i>At band top</i>	<i>Revenue</i>	<i>Typical property</i>
LONDON — RPT on property value (separate lower schedule)					
£0 – £400k	0.17%	1.23m	£672	£2.21bn	<i>Flats, shared ownership</i>
£400k – £750k	0.19%	1.50m	£1,344	£1.07bn	<i>Average / above-average</i>
£750k – £1.2m	0.48%	0.69m	£3,504	£1.18bn	<i>Upper-quartile</i>
£1.2m – £2m	0.96%	0.24m	£11,184	£0.91bn	<i>Prime</i>
£2m – £5m	1.20%	0.04m	£47,184	£0.22bn	<i>Ultra-prime</i>
Above £5m	1.20%	0.00m	—	£0.00bn	<i>Trophy</i>
SOUTH EAST / EAST					
£0 – £300k	0.34%	2.72m	£1,008	£5.69bn	<i>Terraces, flats</i>
£300k – £550k	0.50%	2.46m	£2,268	£3.06bn	<i>Regional average</i>
£550k – £1m	0.84%	1.18m	£6,048	£2.45bn	<i>Home Counties</i>
£1m – £2m	1.08%	0.23m	£16,848	£0.74bn	<i>Prime commuter</i>
Above £2m	1.20%	0.01m	—	£0.05bn	<i>Estates</i>
REST OF UK					

<i>Band</i>	<i>RPT Rate</i>	<i>Homes</i>	<i>At band top</i>	<i>Revenue</i>	<i>Typical property</i>
£0 – £250k	0.38%	11.48m	£960	£13.45bn	<i>Terraces, flats</i>
£250k – £500k	0.62%	5.73m	£2,520	£5.53bn	<i>National average</i>
£500k – £900k	0.90%	1.32m	£6,120	£2.09bn	<i>Larger detached</i>
£900k – £2m	1.08%	0.17m	£18,000	£0.41bn	<i>Substantial</i>
Above £2m	1.20%	0.00m	—	£0.01bn	<i>Estates</i>
TOTAL RPT		29.0m		£39.1bn	<i>Combined RPT+LVT capped at 1.2% of value up to £4m</i>

Note: Rates are applied to the unimproved value of residential land only, assessed every two years by the Valuation Office Agency. The worked examples in this chapter apply a fixed regional land-to-value ratio, 70 per cent in London, 62 per cent in the South East and East, and 60 per cent elsewhere, as a transitional proxy for the site value of each home.⁴⁶ This is a simplification used only until the national land-value map is complete; the tax itself is charged on the assessed site value of the plot, not on a proportion of the property price. The distinction matters most for expensive houses. Under proper site-value assessment, a modest house standing on extraordinarily valuable land, the small period house on a prime central London street, where the plot may be eighty-five or ninety per cent of the value, is taxed on that full land value, which is higher than the flat ratio implies. A large newly built house on cheaper land is taxed only on its plot, not on the cost of the building, so that investment in the home itself is never penalised. Two identical plots pay the same tax whether one carries a mansion and the other a bungalow. This is the defining feature of a land value tax: it falls on the value of the location, which is created by the community and the public infrastructure around it, and never on the bricks and mortar the owner has added. In prime areas the effect of moving from the transitional ratio to true site-value assessment is to raise the charge on the most expensive houses, because their land is worth more than the flat proportion assumes. Farm fields, agricultural land, charitable land, and social housing receive the same protections as under the commercial LVT.

The Cost of Doing Nothing

The case for replacement does not rest only on the unfairness of the present system. It rests also on where that system is heading if left alone. Figures submitted by the Government to the Office for Budget Responsibility, released following a parliamentary question, project council tax income rising from £41.2 billion in 2024-25 to £58.8 billion by 2030-31, an increase of 43 per cent.^{29,130} On those projections the average Band D household would face something in the order of £556 a year more by 2031.²⁹ None of that increase requires a decision to raise the tax: it follows from annual referendum-limit rises compounding on a base that is never revalued.

This is the position the Prime Minister has acknowledged in describing the big decisions that lie ahead on council tax, and in saying that he has been persuaded by the case for reforming it.¹³⁰ The point is not merely that the present system is regressive, though it is. It is that its regressiveness compounds. Every year the tax rises by a uniform percentage across bands frozen at 1991 values, the gap between what a modest home pays as a share of its value and what an expensive one pays widens further. Doing nothing is not a neutral option; it is a decision to let an unfair tax become steadily more unfair and steadily more expensive.

Set against that trajectory, the Residential Property Tax is not a tax rise dressed as a reform. It replaces a charge that is already scheduled to reach nearly £59 billion by the end of the decade with one assessed on current values, banded progressively, and paid by the owner rather than the occupier.¹³⁰ Households in the lower and middle bands pay less than they would have done under the existing system's own projections, and the increase falls on the properties whose value has risen furthest since 1991 and which the frozen bands have sheltered.

8B.4 Distributional Analysis, Who Pays What

The table below shows the RPT for a range of representative household types alongside the current council tax charge, confirming that both binding constraints are met and that the majority of typical households pay less under the RPT than under council tax.

Table 8B.2: RPT vs Current Council Tax, Key Household Types

Household type	RPT	Res. LVT	Combined	Current CT	Change	%
N England terrace, £150k	£576	£162	£738	£1,500	–£762	–51%
Welsh rural cottage, £180k	£691	£195	£886	£1,400	–£514	–37%
Midlands semi, £240k	£922	£259	£1,181	£1,900	–£719	–38%
SE flat, £250k	£840	£223	£1,063	£1,600	–£537	–34%
UK average home, £290k	£1,210	£313	£1,523	£2,100	–£577	–27%
SE average, £365k	£1,336	£326	£1,662	£2,200	–£538	–24%
Larger detached, £406k	£1,639	£461	£2,100	£2,100	£0	0%
Country house, £900k	£6,120	£1,956	£8,076	£2,900	+£5,176	+178%
Northern mansion, £2m	£18,000	£6,000	£24,000	£3,500	+£20,500	+586%
Estate, £5m	£57,600	£8,640	£66,240	£3,500	+£62,740	+1,793%

★ Average Londoner constraint: RPT £1,148 against council tax of £1,600, a saving of £452 a year.¹²⁸ ✓
 Constraint met. Average farmer constraint: RPT £240 on the farmhouse plot against council tax of £2,000, a saving of £1,760 a year.¹²⁸ ✓ Constraint met, and the charge is a positive contribution rather than an exemption.

Where the Top Rate Should Sit

The cumulative charge on any home is capped at 1.2 per cent of its value up to four million pounds, however the Residential Property Tax and the residential Land Value Tax combine.¹³² That ceiling is a judgement about where the optimal rate lies, and it is worth setting out the reasoning, because the usual argument against higher rates does not apply here in the form it usually takes.

The standard objection to a high marginal rate is behavioural: that the base moves, or shrinks, or disappears offshore, so that revenue falls short of what the rate implies and may fall absolutely. That objection has real force against taxes on income, on financial wealth and on transactions, and this Budget takes it seriously in Chapter 7A, where the passive wealth surcharge is deliberately capped at 1 per cent for exactly that reason.^{132,53} It has very little force against a tax on residential land. Land cannot be relocated, concealed or restructured into another jurisdiction. Every plot has a registered address, a known owner and a valuation. The elasticity of the base with respect to the rate is close to zero, which is precisely why economists from Ricardo onward have identified it as the most efficient thing a government can tax.⁹⁷

What does constrain the rate is not avoidance but liquidity and politics. A household may be asset-rich and cash-poor, particularly a pensioner in a home that has appreciated around them, and a charge that cannot be paid from income is a charge that will not be paid. The deferral mechanism addresses this directly by allowing payment to be postponed until sale or transfer without penalty, and it is the reason the ceiling can be set where it is rather than lower. The political constraint is that a charge which visibly exceeds international norms invites the argument that it is confiscatory rather than fiscal.²⁰⁸

International comparison therefore sets the ceiling. Annual property taxes in the United States average approximately 1.1 per cent of value nationally, and exceed 2 per cent in New Jersey and Illinois.⁵² Denmark's land tax reaches approximately 1.6 per cent.⁵² France's *taxe foncière* is typically below 1 per cent.⁵² A ceiling of 1.2 per cent places the United Kingdom slightly above the American average and well below the American maximum, and below the Danish land tax. It is a level that is demonstrably collectable in comparable economies, which is the relevant test.

Above four million pounds the ceiling lifts, and the charge rises with value. This affects a very small number of properties and is the point at which the argument shifts from efficiency to fairness: a home worth ten million pounds paying the same proportion as one worth four hundred thousand is not an outcome any account of a progressive property tax would defend. The rates above that threshold are set to raise revenue from a base that cannot move, at a level that remains below the property taxes routinely paid on equivalent homes in New York, Paris and Sydney.

The Council Tax Guarantee

The rates are set so that the replacement raises more than the tax it replaces. The Residential Property Tax raises £39.1 billion and the residential Land Value Tax a further £9.3 billion, giving £48.4 billion against the £46 billion currently raised by council tax in England, a net contribution of £2.4 billion.¹²⁸ The reform is therefore a genuine replacement rather than a reduction dressed as one, and it does not depend on other taxes to make up a shortfall.

To ensure that the reduction reaches every household and not merely most of them, a guarantee applies for the first five years: no household pays more under the Residential Property Tax and residential Land Value Tax combined than it paid in council tax in the year before the reform. Where the assessed charge would exceed that figure, it is held at the council tax level and rises only with the general uprating thereafter.

The guarantee binds in a narrow band of cases. For the great majority of households the assessed charge falls far below their current bill, by between a quarter and a half, so the cap never comes into play. It matters chiefly for homes in the region of four hundred thousand pounds, where the assessed charge and the current council tax bill are close together, and it holds those households harmless rather than exposing them to a small increase. The cost of the guarantee is approximately £0.6 billion a year, which is reflected in the revenue figures above.¹²⁸

The guarantee does not extend to properties whose assessed value places them well above the average. A home worth nine hundred thousand pounds pays more than it does today, and one worth two million pays considerably more. That is the intended effect of replacing a tax frozen at 1991 values with one assessed on current values: the homes that have appreciated most since 1991, and which the frozen bands have sheltered from that appreciation for a generation, pay in proportion to what they are now worth.

8B.5 Four-Year Transition Timeline

Council tax cannot be abolished overnight. Residential land valuations for 29 million properties must be built, legislation must pass in all four nations, and local authority billing systems must be updated. The RPT is therefore phased in over four years, running alongside a declining council tax charge so that no household faces a cliff-edge in any single year.

- Year 3: RPT introduced across all bands at approximately one third of full rate, once the residential valuation register is sufficiently advanced. Council tax reduced correspondingly. Estimated RPT revenue: £13.0bn.¹²⁸ Council tax reduced to £30.5bn.¹²⁸
- Year 4: RPT at approximately four fifths of full rate. England and Wales valuation complete. Revenue: RPT £31.3bn, council tax reduced to £9.2bn.¹²⁸
- Year 5: RPT at full rates across all bands. Scotland and Wales valuation complete. Council tax abolished. Revenue: RPT £39.1bn, council tax £0.¹²⁸

- Three commitments are funded from three distinct sources, and none of them depends on the growth dividend. The commercial Land Value Tax is charged on a progressive schedule from 3.19 to 5.41 per cent, raising £30.1bn.¹³² Of that, £25.0bn replaces business rates pound for pound and the remaining £5.1bn funds part of the electricity network relief.¹³³ That rate is 79 per cent of the annual rent commercial land yields, inside the ceiling at which a land tax begins to consume the asset rather than tax its return. The Residential Property Tax and the residential Land Value Tax together raise £48.4bn against the £46bn of council tax they replace, so that side of the reform contributes £2.4bn rather than requiring one. The electricity network relief costs £23.7bn, of which £5.1bn is met from the commercial Land Value Tax surplus over business rates and £2.4bn from the residential contribution, leaving £16.2bn to be met by a draw on the land and wealth measures in Part 7. The network relief has first call on the more secure of these sources: the £5.1bn commercial Land Value Tax surplus over business rates, which rests on an immobile and reliably assessed tax base, is applied to it before any draw on the land-aligned measures, so that only the residual depends on the wealth and land taxes in Part 7. Ordering the funding this way means the part of the package most visible to households, the standing charges removed from the electricity bill, is secured against the steadiest revenue in the Budget, and the more behaviourally sensitive measures fund only the remainder. That draw is about 16 per cent of the £100.2bn the Part 7 land and wealth measures raise in total, leaving the balance for the rest of this Budget. Because those measures tax underused land, land hoarding, windfall gains from public investment and passive wealth, none of them falls on average earners, working businesses, ordinary farmers, ordinary Londoners or Home Counties households. The result is that each of those groups gains twice over. For the great majority of households the combined Land Value Tax and Property Tax is lower than the council tax it replaces, and the separate energy package set out in Chapter 2 reduces bills further, so these households gain on both fronts. Business gains in the same way: it pays less than under business rates wherever its land is worth less than 10.8 times its rateable value, which covers the substantial majority of the 2.1 million rated properties: a North East factory pays 81 per cent less, a distribution warehouse 72 per cent less and a small-town shop 68 per cent less, while prime London retail pays 86 per cent more. The remaining land-aligned measures in Chapters 7C, 7G and 7H, which target underused land, hoarding and windfall gains and are already scheduled to be operational by Year 3.¹⁴

The transition is designed to be revenue-neutral in aggregate across Years 1–4, with LVT revenues covering the costs of council tax reduction in each transition year.

8B.6 Macroeconomic and Social Effects

The RPT produces a number of important macroeconomic and social effects beyond simple revenue replacement.

- Progressivity: the RPT raises average payments for the wealthiest 10–15% of households by land value while reducing them for the majority.¹²⁸ The Gini coefficient is projected to fall by 0.004–0.008 points from the RPT alone over five years, reflecting the direct redistribution from regressive council tax to progressive land value levy. A higher reduction requires significant behavioural change in housing wealth distribution which is unlikely to fully materialise within the five-year window.
- Housing supply: LVT logic applied to residential land incentivises development and discourages land banking. High-value undeveloped residential plots face carrying costs that make holding them unproductive.
- Labour mobility: by taxing land rather than transactions, the RPT removes the council tax 'cliff' that currently discourages households from moving to higher-opportunity areas.
- Regional equity: the RPT is assessed on current land values rather than 1991 property valuations, correcting the long-standing regional inequity of council tax where southern households on modest incomes pay proportionally more than northern households on higher incomes.
- Inflation: the RPT imposes no cost on productive housing improvements, unlike council tax banding which penalises renovation.

These effects are mutually reinforcing rather than separate. Because the Residential Property Tax is assessed on current land and property values and falls more heavily on the most valuable homes, it is materially more progressive than the council tax it replaces, which still rests on valuations from 1991 and taxes a modest home in the north at a higher effective rate than a valuable one in the south. Because it taxes holding rather than transactions, it does not penalise people for moving, which removes a long-standing drag on labour mobility and on the efficient use of the existing housing stock. And because it leaves genuine improvements untaxed, it does not discourage the maintenance and upgrading of homes. Taken together, the tax is fairer, less distorting and more supportive of growth than the system it replaces.

8B.7 RPT Sensitivity Analysis, Downward and Upward Pressures

Like the commercial LVT, the Residential Property Tax is subject to a range of factors that will cause actual net revenue to differ from the gross rate-structure figure of £39.1bn.¹³² The sensitivity profile of the RPT is different from the commercial LVT in important ways: the RPT is more heavily exposed to valuation timing risk (29 million properties take longer to assess than 2.1 million commercial sites) but less exposed to capital flight (residential land is less frequently held by overseas investors, and primary residences are essentially immobile as an asset class).

Why the RPT is more resilient than council tax to avoidance

Council tax is trivially easy to reduce, through under-valuation in 1991, banding challenges, and single-person discounts. The RPT is assessed on current land values using systematic VOA data and is much harder to game. The key anti-avoidance challenge is the agricultural boundary and social housing definition boundary, both of which are addressed in the legislation. Unlike wealth taxes or offshore levies, there is no meaningful avoidance route that removes residential land from the UK tax base, the land cannot be relocated.

Table 8B.3: RPT Revenue Sensitivity, Downward and Upward Pressures (Year 5 central case)

Factor	Direction	Central	Range	Timing
DOWNWARD PRESSURES				
Residential land valuation lag (29m properties)	Reduces	-£4.5bn	-£2–7bn	Yr 1–3 (fades as register builds)
Income-constrained deferral uptake	Reduces	-£2.0bn	-£1–3.5bn	Permanent cash-flow effect
Agricultural disputes (farmhouse vs farm)	Reduces	-£0.5bn	-£0.2–1.2bn	Years 1–2 (HMRC guidance mitigates)
Social housing definition disputes	Reduces	-£0.3bn	-£0.1–0.8bn	Year 1 only
Legal challenge to transitional valuations	Reduces	-£1.5bn	-£0.5–3bn	Peaks Year 2–3, largely resolved Yr 4
Total downward (Year 5 central)		-£8.8bn		
UPWARD PRESSURES				
Labour mobility uplift, households move to higher-opportunity areas	Increases	+£1.5bn	£0.5–3bn	Years 3–7
Residential development, new plots above £75k threshold	Increases	+£1.2bn	£0.5–2.5bn	Years 2–5
GDP growth raises residential land values in growth corridors	Increases	+£2.0bn	£1–4bn	Compounds Yr 3–7
Anti-avoidance: ownership structures revealed	Increases	+£0.8bn	£0.3–1.5bn	Yr 2–4
Total upward (Year 5 central)		+£5.5bn		
NET RPT REVENUE, Year 5 (post-transition)		~£32.4bn/yr		Rises to full £39.1bn gross by Year 6 as register matures

The RPT's net Year 5 revenue of approximately £32.4bn rises to the full £39.1bn gross by Year 6 as the residential valuation register reaches near-complete coverage.¹³² Unlike the commercial LVT, there is no capital flight risk and minimal avoidance risk on the residential base. The dominant downward risk is the speed of the 29m-property valuation exercise.

8B.8 RPT Bear, Central and Bull Scenarios

The RPT's scenario range is narrower than the commercial LVT because the residential tax base is more stable and the avoidance routes are more limited. The primary uncertainty is the pace of valuation coverage.

- Bear case: Valuation delayed, only 60% coverage by Year 4.¹²⁸ Legal challenges to valuations in high-value areas. Deferral uptake higher than expected at 8% of above-£600k band.¹²⁸ Net Year 4 revenue: ~£33bn.¹²⁸ Council tax abolition delayed by one year (Year 5 not Year 4).
- Central case: As modelled, with 100% coverage by Year 4.¹³² Normal litigation. 5% deferral uptake in above-£600k band.¹³² Net Year 4 revenue: approximately £31.0bn rising to £39.1bn by Year 5.¹³²
- Bull case: VOA accelerates using AI-assisted valuation tools. 95% coverage by Year 3.¹²⁸ Deferral uptake lower than expected. Net Year 3 revenue: ~£38bn.¹²⁸ Council tax abolished a year early in Year 3.

The bear case does not threaten the fiscal position because the RPT is not relied upon to fund Year 1–3 commitments, those are covered by the commercial LVT. The RPT replaces council tax revenue, which continues to flow at a declining rate during the transition. Any shortfall in Year 4 RPT relative to the abolished council tax is therefore temporary and self-correcting.

8B.9 RPT and the Social Housing Sector

Social housing providers, housing associations and local authority housing stock, receive a ring-fenced relief under the RPT equivalent to the existing council tax charge applicable to each property. This ensures that the reform does not trigger rent increases in the social housing sector and does not create perverse incentives against social housing development.

The relief is administered as a direct credit against RPT liability, calculated annually on the basis of the applicable council tax band that would have applied to the property. Where land values have risen significantly above the 1991 valuation basis, the relief is calculated on the higher RPT liability, ensuring social housing providers are fully protected against the reform's distributional effects.

Social housing land currently exempt from council tax, void properties, communal areas, and service infrastructure land, retains full exemption under the RPT.

8B.10 Interaction Between LVT and RPT

The commercial LVT and the Residential Property Tax are separate taxes with distinct bases, rates, and administrative arrangements. However, several categories of land require clear rules to prevent double-assessment or gaps in coverage.

- Mixed-use developments: commercial ground floor with residential above. The commercial element of the site is assessed under LVT; the residential element under RPT. Where site values are indivisible, VOA determines the split using planning use proportions.
- Live-work units and home businesses: assessed under RPT if the primary use is residential; LVT if the primary use is commercial. The primary use test is based on the planning permission, not actual use.
- Farmhouses: the residential curtilage (the plot the farmhouse sits on) is assessed under RPT; the agricultural land is assessed under LVT with agricultural discount. There is no double-charging.
- Development land with planning permission: assessed under LVT once planning consent is granted, regardless of current residential occupancy. This prevents the RPT from being used to defer the higher LVT liability on sites with imminent development potential.
- Temporary structures and caravans on residential land: assessed under RPT on the land value; the temporary structure itself is not assessed.

The governing principle in every one of these cases is that each parcel of land is assessed once, under whichever of the two taxes matches its primary use, and never under both. The commercial Land Value Tax and the Residential Property Tax are designed as complementary halves of a single system rather than as overlapping charges, and the boundary rules above exist to make that division unambiguous at the margins where residential and commercial use meet. This matters for fairness and for predictability: an owner should be able to determine, in advance and without dispute, which charge applies to their property, and the rules are written so that mixed and borderline cases resolve to a single clear answer rather than to double taxation or to a gap through which liability escapes.

8B.11 Conclusion

The Residential Property Tax replaces one of the UK's most regressive and distorting taxes with a progressive, economically efficient, and fairer system. Both binding political constraints are fully met: the average farmer pays nothing, and the average Londoner pays less than under council tax. The transition is phased to avoid cliff-edges, and hardship protections are built in for income-constrained households.

Together with the commercial Land Value Tax in Chapter 8, the RPT completes a comprehensive reform of the UK property tax system, shifting taxation from productive activity, buildings, and improvements toward the underlying unimproved value of land, improving economic efficiency, reducing inequality, and generating a growing fiscal surplus for future tax cuts or debt reduction.

8B.12 Anti-Avoidance Provisions and Administrative Framework

The LVT introduces risks of avoidance that are qualitatively different from those in the existing tax system. Unlike income tax or VAT, where avoidance typically involves the routing of financial flows, LVT avoidance primarily involves the fragmentation of land ownership across connected parties to stay below rate thresholds, or the misdescription of land use to claim exempt status. Both are addressed through a comprehensive anti-avoidance framework built into the primary legislation.

Connected-Party Aggregation

The single most important anti-avoidance provision is the connected-party aggregation rule. All land held by connected persons, spouses, civil partners, controlled companies, trusts with common beneficiaries, and corporate structures under common control, is aggregated and assessed as a single holding for the purposes of band determination. A £100m holding split across five £20m nominees would be assessed as £100m and taxed in the £50m–£150m band at 2.95%, not five separate holdings in the £10m–£25m band at 1.55%.³⁶ This rule mirrors the existing connected-party provisions in Stamp Duty Land Tax and Capital Gains Tax and is therefore legally well-established.

Offshore and Nominee Structures

Approximately 12–18% of high-value UK commercial land is currently held through structures that are partially or wholly invisible to HMRC, offshore companies, nominee arrangements, trust structures, and complex corporate chains.¹³² The Compulsory Land Ownership Register addresses this directly. All land above £500,000 in value must be registered within 12 months of the legislation taking effect.¹³² Failure to register attracts a 10% surcharge on the LVT liability, calculated from the date of first assessment.¹³² Criminal liability attaches to deliberate non-disclosure. The register builds on the Overseas Entities Register enacted under the Economic Crime Act 2022, which already requires foreign entities holding UK land to register their beneficial owners.

Agricultural Boundary Rules

The agricultural exemption, which provides discounted treatment for land in active farming use, will face aggressive boundary-testing. High-value land on the urban fringe, greenbelt land adjacent to major cities, development-option land held by housebuilders, and equestrian estates will seek to qualify. The legislation addresses this through a statutory definition of 'actively farmed': minimum productivity thresholds verified by Rural Payments Agency data, explicitly excluding land with live planning consent or development options. Greenbelt land within two kilometres of settlements above 10,000 people is explicitly excluded from agricultural relief regardless of its farming status.¹³²

Valuation Dispute Management

The single largest administrative risk is the volume of valuation disputes. The business rates system currently has a multi-year backlog of appeals, LVT will generate a second wave. The framework addresses this through three mechanisms: first, a new specialist LVT Valuation Tribunal with dedicated panel members and an 18-month resolution target; second, a published comparables database providing market evidence for each valuation zone, reducing the grounds on which disputes can be brought; third, ring-fencing of disputed amounts rather than refunding during appeal, so that cash is collected and held in escrow, eliminating the cash-flow risk of disputed revenue.

Table 8.6: Administrative and Anti-Avoidance Framework

Administrative Element	Responsible Body	Key Features
National Land Valuation Framework	Valuation Office Agency (VOA)	2-year revaluation cycle; GIS mapping; Land Registry integration; unimproved value only; published methodology and comparables database
Land Ownership Register	HMRC / Companies House / Land Registry	Compulsory for all land >£500k; 10% penalty surcharge; criminal liability for non-disclosure; linked to Overseas Entities Register (Economic Crime Act 2022)
LVT Collection	HMRC, Large Landholdings Unit	Annual self-assessment with HMRC cross-check; connected-party aggregation rules; quarterly payment option for large sites
RPT Collection	Local Authorities (billing); HMRC (valuation)	Annual billing integrated with existing council tax infrastructure; deferral applications processed by local authority; VOA provides valuations
Anti-Avoidance, Connected Parties	HMRC	All land held by connected persons, trusts, and corporate structures under common control aggregated as a single holding for band assessment; mirrors SDLT connected-party rules
Anti-Avoidance, Offshore Structures	HMRC / NCA	Overseas Entities Register cross-referenced; UK land held via offshore entities subject to full LVT/RPT plus 10% surcharge if not registered; tax information exchange agreements enforced
Dispute Resolution	LVT Valuation Tribunal (new specialist body)	Ring-fenced disputed amounts during appeal; published comparables reduce dispute volume; 18-month target resolution; estimated 40–50% volume reduction vs business rates experience
Deferral Scheme (RPT)	Local Authority	Available where RPT exceeds 3% of household gross income; secured as charge against property; interest at Bank Rate; maximum 20-year deferral; collected at sale or death

Note: The LVT Valuation Tribunal is modelled on the Upper Tribunal (Lands Chamber) but with enhanced specialist capacity and an accelerated procedure for routine band disputes below £10m site value.¹³² It is intended to resolve the dispute backlog within four years of introduction.

8B.13 Timeframe for Tax Cuts, When Does the Fiscal Buffer Emerge?

A key question for business and household planning is when the LVT and RPT reforms generate sufficient surplus to fund further tax cuts beyond the commitments already made. The answer depends on the pace of the revenue ramp-up, the resolution of early-year sensitivity pressures, and the rate at which upward behavioural pressures compound. The central projection is as follows.

Years 1–5: Full deployment, no discretionary buffer

In the first five years, every pound of LVT and RPT revenue is deployed on committed reductions. There is no discretionary fiscal buffer in this period. The Year 1 surplus of £7.8bn is ring-fenced as the Year 2 carry-forward rather than being available for additional tax cuts.¹²⁸ Years 3–5 generate modest surpluses that are deployed on raising the LVT-free threshold (business relief) and increasing council tax reduction above the committed £5bn level.¹²⁸ Any government seeking to deploy Year 1–5 surplus for other purposes, income tax cuts, welfare improvements, would need to either delay the threshold raising programme or accept a narrower buffer on the commitment schedule.

Year 6: The first discretionary surplus of £1.3bn

The first meaningful discretionary fiscal buffer emerges in Year 6 at approximately £1.3bn per year.¹³² This is the point at which LVT revenues, growing through upward behavioural pressures, exceed the sum of all commitments plus the threshold relief programme. At £1.3bn, the options are limited: a partial income tax reduction of approximately 0.25 percentage points on the basic rate, or a specific targeted investment such as an NHS capital fund or a tranche of debt reduction.¹³² Year 6 is not the year for a headline tax cut but it marks the beginning of a structurally improving fiscal position that compounds rapidly thereafter.

Years 7–8: Substantive tax cut capacity of £3–4.5bn

By Year 7, the annual buffer reaches £3.1bn, sufficient for approximately a 0.5 percentage point cut in the basic rate of income tax, saving the average basic-rate taxpayer approximately £115 per year.¹³² By Year 8, at £4.5bn, a full 1 percentage point cut becomes affordable, saving approximately £230 per year for basic-rate taxpayers.¹³² These are not trivial sums. A 1 percentage point income tax cut in Year 8 would represent the first permanent reduction in the basic rate since 2008 and would mark a visible and politically significant milestone in the reform programme.¹⁶⁹

Years 9–10: Historic fiscal headroom of £6–7bn

By Year 10, the annual fiscal buffer reaches £7bn per year, the largest structural surplus generated by a single tax reform in modern UK budget history.¹³² At this scale, the options include: a 1.5 percentage point income tax cut (saving about £350 a year for the average earner), a major social care reform package, a substantial increase in NHS or infrastructure capital investment, or a significant debt reduction programme.¹³² The cumulative buffer over Years 6–10 reaches approximately £22bn, sufficient to make a material dent in the national debt if directed to that purpose.¹³²

Table 8.7: Tax Cut Timeframe, Annual Buffer and Illustrative Uses (Years 1–10)

Year	Annual Buffer	LVT Threshold	CT Relief Total	Potential Additional Tax Cuts (illustrative)
1	,	£1m	,	No buffer, all revenue deployed on biz rates and elec.
2	,	£5m	,	No buffer, carry used for threshold; all deployed.
3	,	£9m	,	No buffer, surplus to threshold. Year 3 CT relief begins (£1.9bn).
4	,	£10m	£5bn	No buffer, tight year, CT deployment uses surplus.
5	,	£16m	£7.4bn	No buffer, strong surplus fully deployed on threshold + CT.
6	£1.3bn	£22m	£8bn	0.25p off income tax OR NHS capital fund OR debt repayment.
7	£3.1bn	£28m	£8bn	0.5p income tax cut (saves avg earner ~£115/yr) OR significant debt reduction.
8	£4.5bn	£34m	£8bn	1p income tax cut (~£230/yr avg) OR a substantial NHS capital fund.
9	£5.8bn	£40m	£8bn	1.5p income tax cut OR major NHS + social care package.
10	£7.0bn	£46m	£8bn	1.5p income tax cut AND meaningful debt reduction, historic structural surplus.

Illustrative uses only. Income tax estimates: approximately £5.5bn per 1 percentage point on the basic rate.¹²⁸ All surplus allocations are subject to full Budget decisions and macroeconomic conditions at the time. The threshold raising programme and council tax relief take priority over discretionary cuts in Years 1–5.

8B.14 Introduction Timeline, When Each Tax Takes Effect

The following table provides a comprehensive timeline of when each element of the LVT and RPT reform takes legal and operational effect. This is intended to provide certainty for businesses, households, and local authorities planning around the reform programme.

Table 8.8: Full Introduction Timeline, LVT and RPT

Period	Tax/Levy	Action	Revenue Effect	Household / Business Impact
Day 1	Commercial LVT	Interim Registry Surcharge operational on registered commercial land	+£7.0bn Year 1	<i>Business rates cut 25% at the same time</i>
Day 1	LVT	Compulsory Land Ownership Register; beneficial ownership disclosure	Closes £5–7bn avoidance gap	<i>Penalty surcharge of 10% for non-registration</i>
Day 1	Electricity	Network charges, levies, system operation and debt allowance removed	–£23.7bn/yr	<i>Household saves £400/yr; business bills cut about 18%¹⁸</i>
April, Year 1	Business rates	Cut by 25% for all commercial occupiers	–£6.3bn	<i>Immediate relief, weighted to low-land-value sites</i>
Year 1	RPT	National residential land valuation register begins (29m properties)	—	<i>No RPT charge; council tax continues in full</i>
April, Year 2	Business rates	Cut by 50%	–£12.5bn	<i>Commercial LVT reaches £13.9bn</i>
Year 2	Commercial LVT	VOA commercial-first valuation live; 60% coverage	+£13.9bn	<i>Valuation uses existing rating data</i>
April, Year 3	Business rates	Abolished in full; commercial LVT on the progressive schedule	–£25.0bn / +£30.1bn	<i>All commercial occupiers pay land value only</i>
Year 3	RPT	Introduced across all bands at approximately one third of full rate	+£12.0bn	<i>Council tax reduced to £26.5bn</i>
Year 4	RPT	England and Wales valuation complete; RPT at four fifths of full rate	+£28.0bn	<i>Council tax reduced to £8.0bn</i>
April, Year 5	RPT	Scotland and Wales complete. Council tax abolished	RPT £39.1bn, CT £0	<i>All households on land-value basis; 81% pay less</i>
Year 5+	Both	Revaluation cycle 1 complete; two-yearly revaluation thereafter	£63.9bn combined	<i>Land taxes fully operational</i>

Note: All dates are subject to passage of primary legislation. The Land Value Tax (Commercial) Bill and the Residential Property Tax Bill are introduced simultaneously in the first parliamentary session. The LVT commercial provisions are designed to be operational in Year 1 via existing data sources, without waiting for the full valuation framework. The RPT provisions require a full national residential valuation and are therefore phased in over four years.

8B.15 Combined Fiscal Impact, LVT and RPT Together

The LVT and RPT reforms together represent the most significant restructuring of the UK property tax system since the abolition of the rates in 1990. Together they generate substantial revenues, abolish the most distortive elements of the existing system, and create a growing structural surplus. The following table shows the combined fiscal impact of both reforms across the ten-year period.

Table 8.9: Combined Fiscal Impact, LVT and RPT (£bn/yr)

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Commercial LVT (replaces business rates)	+£7.5bn	+£14.9bn	+£30.1bn	+£30.1bn	+£30.1bn	+£30.1bn
Business rates abolished	-£6.3bn	-£12.5bn	-£25.0bn	-£25.0bn	-£25.0bn	-£25.0bn
Agricultural LVT (slice-based, all farms)	£0	+£0.2bn	+£0.5bn	+£0.9bn	+£0.9bn	+£0.9bn
Residential LVT (land beneath homes)	£0	+£2.0bn	+£5.0bn	+£8.4bn	+£9.3bn	+£9.3bn
Residential Property Tax	£0	£0	+£13.0bn	+£31.3bn	+£39.1bn	+£39.1bn
Council tax abolished	£0	£0	-£15.5bn	-£36.8bn	-£46.0bn	-£46.0bn
Stamp duty abolished	-£3.0bn	-£6.0bn	-£9.0bn	-£12.0bn	-£12.0bn	-£12.0bn
Chapter 7C escalation (second homes, vacancy, land banking)	£0	+£0.8bn	+£2.0bn	+£3.0bn	+£3.0bn	+£3.0bn
Land-aligned measures (Ch. 7A, 7C, 7G, 7H)	£26.0bn	£26.0bn	£26.0bn	£26.0bn	£26.0bn	+£17.7bn
Electricity cost removal package (network, levies, system, debt)	-£14.0bn	-£19.0bn	-£23.7bn	-£23.7bn	-£23.7bn	-£23.7bn
VAT removed from electricity (domestic and business)	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	-£1.2bn
Valuation and administration	-£0.5bn	-£0.7bn	-£0.6bn	-£0.5bn	-£0.5bn	-£0.4bn
Transitional relief (business)	-£0.5bn	-£1.0bn	-£1.5bn	-£1.0bn	-£0.5bn	£0

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Deferral relief (cash-poor owners)	–£0.2bn	–£0.3bn	–£0.3bn	–£0.3bn	–£0.3bn	–£0.2bn
Lower inflation: debt interest and uprating savings	£0	+£2.0bn	+£4.0bn	+£5.3bn	+£5.3bn	+£5.3bn
NET FISCAL POSITION	+£9.0bn	+£6.4bn	+£5.0bn	+£5.7bn	+£5.7bn	+£5.7bn
Growth dividend (additional receipts)	£0	+£3.0bn	+£8.0bn	+£14.0bn	+£21.0bn	+£34.0bn
NET INCLUDING GROWTH	+£9.0bn	+£9.4bn	+£13.0bn	+£19.7bn	+£26.7bn	+£39.7bn

CT columns: 'CT full' = council tax continues at full rate in Year 1 (RPT not yet introduced). 'CT –50%' = CT reduced by 50% in Year 2 as RPT phases in.¹²⁸ 'CT –75%' = Year 3 transition.¹²⁸ £0 = fully abolished from Year 4.¹²⁸ GDP growth additional revenue is indirect, from LVT/RPT economic effects on investment and productivity, not from the taxes themselves.

8B.16 Overall Conclusion: A Modern, Efficient Property Tax System

The Land Value Tax and Residential Property Tax together deliver a comprehensive, coherent reform of the UK's entire property tax system. The commercial LVT replaces business rates, one of the most economically distortive taxes in the current system, with a land-based charge that incentivises development, discourages speculation, and generates a growing revenue stream that funds electricity bill reductions and council tax replacement. The RPT replaces council tax, the most regressive element of the local tax system, with a progressive, current-value, land-based charge that protects average farmers, average Londoners, and the majority of typical households while asking those who hold the highest-value residential land in the country to contribute proportionately more.

The reform is carefully sequenced:

- Year 1: Business rates cut by a quarter. Network costs removed from Day 1. Full revenue flowing from early mechanisms.
- Year 2: Business rates fully abolished. LVT threshold raised to £5m via Year 1 carry-forward surplus.³⁶
- Year 3: LVT threshold rises to £9m.¹²⁸ RPT at 75% coverage, most households saving significantly versus council tax.¹²⁸
- Year 4: Council tax fully abolished. RPT at full rates. £5bn council tax reduction delivered.¹²⁸ LVT threshold at £10m.¹²⁸
- Year 5: Council tax relief grows to £7.4bn.¹²⁸ Threshold reaches £16m.¹²⁸ Revenue surplus building toward Year 6.
- Year 6 onwards: Growing fiscal buffer of £1.3bn rising to £7bn/yr by Year 10, available for income tax cuts, debt reduction, or further welfare improvement.¹³²

The reform draws on the strongest intellectual foundations in modern tax economics, the Mirrlees Review, the Labour Growth Group, and a substantial body of international evidence from jurisdictions including Estonia, Singapore, Hong Kong, and Denmark, all of which have demonstrated that land-based taxation supports stronger growth, lower inequality, and more efficient housing markets than the property tax systems it replaces.

Because the reform is broadly fiscally neutral at introduction, LVT and RPT revenues directly replace the taxes they abolish, it achieves these structural improvements without relying on unsustainable borrowing or increases in taxes on labour or productive investment. Over time, stronger economic growth, lower welfare spending, improved productivity, and the compounding of upward revenue pressures contribute to a steadily improving fiscal position and a growing structural surplus that provides genuine room for future tax relief.

The result is a more efficient, lower-cost, progressive, and economically sustainable property tax framework that supports long-term growth, improves competitiveness, reduces inequality, strengthens public finances, and provides the foundations for sustained tax cuts in the second half of the decade.

Chapter 9: Planning and Land Use Reform

9.1 Why Planning Is the Binding Constraint

Britain's planning system is discretionary rather than rules-based. Every significant development requires a case-by-case judgement, which makes outcomes uncertain, timelines long and costs high. The effect is not merely fewer homes. It raises the cost of commercial floorspace, restricts the growth of the most productive cities, and prevents workers moving to where their labour is most valuable. Of every supply-side reform in this Budget, planning liberalisation carries the largest single productivity effect.

The scale of the constraint is easiest to see in prices. In the most productive parts of the country the market value of a house is often two or three times the cost of building it, and that gap is not the value of the bricks and mortar but the value of the permission to build. Where permission is scarce, that scarcity is capitalised into land prices, into rents, and ultimately into the wages firms must pay to attract workers to high-cost cities. The result is an economy in which the most productive places are the places most people cannot afford to live, so that labour is repelled from precisely the locations where it would be most valuable. Even conservative estimates place the cost of this misallocation in the tens of billions of pounds of lost output a year. Demand-side subsidy does not correct it, because subsidy raises the price of a fixed supply rather than expanding supply; only reform that increases the number of homes and the quantity of commercial floorspace that may lawfully be built addresses the underlying problem.

This chapter is deliberately paired with the Land Value Tax in Chapter 8. The two reforms are complements rather than alternatives. The Land Value Tax places a holding cost on land kept idle; planning reform ensures there is something the owner is permitted to build. Either measure alone is substantially weaker than both together.

The policy replaces discretion with rules. A discretionary system asks, for every proposal, whether it ought to be permitted; a rules-based system sets out in advance what may be built and grants permission automatically to anything that complies. This is the model used across most of the developed world, and it is the single most important change of principle in the chapter. The specific measures that follow all flow from it.

9.2 Policy: A Rules-Based System

- Zoning by right. Local authorities designate zones with binding development codes covering height, density, use and design. Proposals complying with the code receive permission automatically, within eight weeks.
- Street votes and gentle density. Residents of a street may vote by supermajority to permit upward extension and subdivision, sharing in the resulting uplift in land value.
- Station-corridor release. Land within 800 metres of an existing or committed rail station is presumed developable at a minimum density, including on lower-amenity green belt land, subject to design codes.

- Infrastructure consenting. The Development Consent Order process is reduced to a single examination stage with a statutory eighteen-month determination limit, and statutory consultees are placed under a duty to respond within fixed periods.
- Delivery cost control. A standing Infrastructure Cost Commission benchmarks UK unit costs against European comparators and publishes binding standard designs. Britain builds rail and road at a substantial multiple of comparable European cost, and reducing that multiple raises the output of the capital programme without additional expenditure.

9.3 Phasing and Deliverability

Planning reform has been attempted repeatedly and abandoned repeatedly, generally at the point where national legislation meets local opposition. This Budget therefore assumes legislation in Year 1, transitional provisions in Year 2, and material effect only from Year 3. No housing or productivity benefit is claimed in the first two years.

This deliberately cautious phasing reflects the political history of the policy rather than any technical obstacle. Planning reform has repeatedly foundered at the point where national ambition meets local objection, and a credible plan must budget for that friction rather than assume it away. By legislating early, allowing a full year of transition, and claiming no benefit until the third year, the Budget builds in time for local plans to be redrawn, for design codes to be written and consulted upon, and for the first zoned permissions to work through to completions. The figures that follow are therefore back-loaded, and the front of the five-year period carries the legislative and administrative cost of the reform without yet showing its output.

Expected outcomes by Year 5 are an additional 95,000 completions a year and a contribution to trend productivity growth of 0.45 percentage points.¹³² Both figures sit within the central delivery scenario set out in the Conclusion and are reduced proportionately in the downside case.

Table 9.1: Expected outcomes of planning reform

Outcome by Year 5	Central scenario	Downside scenario
Additional homes completed a year	95,000	~55,000
Contribution to trend productivity	+0.45 pp	+0.25 pp
First year of material effect	Year 3	Year 3
Infrastructure build-cost benchmark	European unit costs	European unit costs

9.4 The Cost of Planning Reform

Planning reform is the cheapest measure in this Budget relative to its effect, and that asymmetry is the central fiscal fact about it. The reform does not buy anything: it changes what the law permits, and the output it generates is produced by private capital responding to a rule change rather than by public spending. Its cost is therefore confined to the administrative machinery required to make the new system work, and it is modest.

There are three components. The largest is the capacity local planning authorities need to write the binding development codes and zoning plans on which the whole reform depends, at £0.4 billion in Year 1 rising to £0.5 billion in Year 2 as the bulk of the code-writing is done, then falling back to £0.3 billion as the work moves from creation to maintenance.^{80,132} The second is the additional capacity required by the Planning Inspectorate and the statutory consultees to meet the fixed determination periods, including the eighteen-month limit on Development Consent Orders, at £0.15 billion a year.¹³² The third is the Infrastructure Cost Commission and the administration of the street-vote mechanism, at £0.05 billion a year combined. Against this, planning fees move to full cost recovery, which offsets £0.1 billion in Year 1 and £0.2 billion a year thereafter.

Table 9.2: Cost of planning reform (£bn)

Component	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	5-yr total
Local plan and design code capacity	0.40	0.50	0.40	0.30	0.30	1.90
Planning Inspectorate and consenting capacity	0.15	0.15	0.15	0.15	0.15	0.75
Infrastructure Cost Commission and street votes	0.05	0.05	0.05	0.05	0.05	0.25
Gross cost	0.6	0.7	0.6	0.5	0.5	2.9
Planning fees at full cost recovery	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Net cost	0.5	0.5	0.4	0.3	0.3	2.0

The net cost of £2.0 billion over five years should be set against the output the reform is expected to generate: an additional 95,000 homes a year by Year 5 and a contribution of 0.45 percentage points to trend productivity growth.⁶⁶ On the central scenario this is the highest return per pound of any measure in this Budget by a wide margin, which is precisely what one would expect of a reform whose binding constraint is legal rather than financial. It is also why the reform is worth pursuing even on the downside scenario, where the productivity contribution falls to 0.25 percentage points and completions to around 55,000 a year: the cost is small enough that the measure remains strongly positive even if it substantially underdelivers.⁶⁶

The costs in this chapter are additional to, and distinct from, the planning measures funded in Chapter 3. Those measures modernise the machinery of the existing discretionary process, through the brownfield fast-track and digital planning systems, so that it works faster in the interim; the costs here fund the transition to a rules-based system that eventually supersedes it. The two are sequenced rather than duplicated, and neither figure is counted twice.

9.5 Who Gains and Who Loses

The gainers are those currently excluded from the housing market or priced out of the most productive places: prospective first-time buyers, renters in high-demand cities, and workers whose earnings would be higher in a location they cannot presently afford to live in. Hsieh and Moretti have estimated that constraints of this kind, by preventing workers from moving to the cities where they would be most productive, impose a substantial cost on aggregate output, and Cheshire, Nathan and Overman have documented how the British planning system in particular converts that constraint into land prices rather than into building.^{105,107} Businesses gain through cheaper commercial floorspace and through access to a larger labour pool in the cities where they most need one. Construction firms and their supply chains gain from a larger and more predictable pipeline of work. Residents who participate in street votes gain directly, since the mechanism is designed to share the resulting uplift in land value with them rather than to impose development upon them.

Those who lose are, principally, existing owners of land whose value derives from the scarcity of permission rather than from the land itself. Where permission becomes easier to obtain, the premium attaching to consented land falls, and that premium is a substantial part of the value of strategic land holdings. This is not an incidental side effect but the intended mechanism: the gap between the value of a house and the cost of building it is the value of the permission, and reducing that gap is how the reform lowers housing costs.¹⁰⁷ Some existing homeowners in areas of new development may also see slower house price growth than they would otherwise have enjoyed, though the evidence suggests the effect on established property is considerably smaller than opponents of reform typically assert, and it is offset for most households by the improved position of their children.

9.6 Risks and Mitigations

The principal risk is political rather than technical, and the history of the policy is unambiguous on this point: planning liberalisation has been attempted and abandoned repeatedly, almost always at the moment when national legislation meets organised local opposition. The mitigation adopted here is the phasing itself. Legislation in Year 1, transition in Year 2 and no claimed benefit until Year 3 gives local authorities time to write codes and consult on them, and it means the Budget's fiscal path does not depend on the reform delivering early. The street-vote mechanism is included partly for the same reason: by giving existing residents a direct financial stake in development on their own street, it converts a group that reliably opposes change into one with a reason to support it.

The second risk is capacity. A rules-based system requires local authorities to produce binding development codes of a quality that can withstand challenge, and the planning profession has lost substantial capacity over the past decade. This is met by the funding in Table 9.2, which is deliberately front-loaded into the code-writing years, and by the publication of model codes that authorities may adopt rather than draft from scratch. The third risk is that design quality falls as discretion is removed. The answer is that a rules-based system does not mean an absence of standards but the setting of standards in advance: the codes govern height, density, use and design, and a proposal that does not comply does not receive automatic permission. Jurisdictions that operate this way do not, in general, build worse buildings than Britain does.

The fourth risk is legal challenge during the transition, when old and new systems coexist. The transitional provisions in Year 2 are intended to close that gap, and the Implementation and Appeals Risk Reserve set out in Chapter 8 provides a fiscal buffer against a slower start than assumed.

9.7 Conclusion

Planning is the binding constraint on housing supply, on the growth of productive cities and on the cost of infrastructure, and it is the constraint that public money alone cannot relieve. The reform set out here costs £2.0 billion net over five years, which is less than a tenth of what this Budget spends on housing delivery directly, and it is projected to deliver an additional 95,000 homes a year and 0.45 percentage points of trend productivity growth by Year 5.⁶⁶ Paired with the Land Value Tax in Chapter 8, which makes holding land idle expensive, it ensures that there is both a reason to build and something that may lawfully be built.

Chapter 10: Health, Participation and the Labour Market

10.1 The Largest Growth Policy in This Budget

Approximately 2.8 million people are economically inactive because of long-term sickness, a figure that has risen substantially since 2019 and is unusual among comparable economies.⁶¹ This is simultaneously the largest untapped source of economic growth available to government and a profound waste of human potential. Returning a significant proportion of these people to work contributes more to national output than the entire land taxation package in this Budget.

The rise in health-related inactivity is one of the defining economic developments of the post-pandemic period, and it is largely peculiar to the United Kingdom: most comparable economies saw participation recover after 2021, while Britain's did not. The causes are contested and overlapping, spanning long waiting lists for treatment, a rise in reported mental-health conditions among younger adults, and a benefits system whose interaction with work is poorly designed. What is not contested is the cost. Every person who moves from long-term sickness into employment reduces spending on health-related benefits, adds to income-tax and National Insurance receipts, and raises national output directly. The public-finance return on measures that achieve this is among the highest available to any government, which is why the chapter treats health-related inactivity as an economic priority and not solely a matter of health policy.¹⁷⁰

It should be stated plainly that this is also the least certain measure proposed here. No comparable country has demonstrably reversed a rise in health-related inactivity at the scale assumed. The central scenario assumes 800,000 returns to work over five years; the downside scenario assumes fewer than half that number, and the fiscal path set out in the Conclusion remains sound in both cases.¹³²

The honesty of that downside assumption matters. A budget that depended on the most optimistic participation figures to balance would not be credible, and the projections in the Conclusion are therefore constructed so that they hold even if these measures deliver only a fraction of their central estimate. The upside, if the central case is achieved, is correspondingly large: a sustained increase in the size of the workforce is the rarest and most valuable thing a supply-side programme can produce, because it raises output without raising inflation and improves the public finances on both the spending and the revenue side at once.

10.2 Policy

Clearing the Elective Backlog

Sustained capital and workforce investment is directed at clearing the elective backlog, prioritising the musculoskeletal and mental health conditions that account for the largest share of health-related inactivity. These two categories matter disproportionately because they are the conditions most likely to keep a working-age person out of employment while remaining treatable: a hip or knee replacement, a course of therapy or a managed return plan can restore capacity that a waiting list is currently holding idle. The capacity itself is funded through the NHS expansion in Chapter 5, which pays for additional operating hours at weekends and in the evenings and for expanded diagnostic capacity; what this chapter adds is the instruction to prioritise within that capacity according to employment impact as well as clinical urgency.

Occupational Health as a Universal Service

Every employer above a threshold size gains access to subsidised occupational health provision, together with a statutory right for employees to a phased return and to workplace adjustment. Occupational health is the point at which a health problem either ends a working life or does not. Large employers routinely purchase it and their staff retention reflects that; most small and medium-sized firms cannot, and their employees are correspondingly more likely to leave work permanently after a health event. Extending provision universally addresses that gap directly, and the statutory right to phased return matters as much as the service itself, because the most common path out of the workforce is not a refusal to work but an inability to return gradually. The subsidy is concentrated on smaller firms, with larger employers required to make a co-payment.

Integrated Employment and Health Support

Employment advisers are placed within primary care and mental health services, replacing referral between separate systems. The current arrangement asks a person managing a health condition to navigate two unconnected bureaucracies, one clinical and one administrative, at precisely the moment they are least equipped to do so, and the attrition between them is severe. Placing the adviser in the clinical setting removes the referral step altogether, so that the conversation about work happens alongside the conversation about treatment rather than months later in a different building. Delivery is through the Employment Hubs established in Chapter 5B, extended into health settings.

Removing the Cliff Edges

Benefit rules are reformed so that attempting work does not risk the loss of entitlement. This is currently among the strongest deterrents to a return to employment, and it operates through fear rather than through arithmetic: a person receiving health-related support who is uncertain whether a job will last is asked to gamble a secure entitlement against an insecure wage, and the rational response is frequently not to try. The reform guarantees that entitlement can be resumed without a fresh assessment if work does not succeed, which converts an irreversible decision into a reversible one. The change is delivered through the taper reform and the guarantee in Chapter 5B that no current claimant receives less.

Childcare and Older Workers

Expanded childcare provision raises parental participation, and pension and taxation changes are directed at retaining workers aged 50 to 64.⁵² These are the two largest sources of participation outside the health-related group. The cost of childcare in the United Kingdom is among the highest in the developed world relative to earnings, and for a second earner on modest wages it frequently exceeds the net gain from working, which suppresses participation among mothers in particular. Older workers leave the labour market for different reasons, most often a health event, a caring responsibility or a redundancy from which return proves difficult, and the response combines a mid-life career review, greater flexibility in drawing pension entitlements without penalty, and targeted National Insurance relief for employers who retain or recruit workers in this age group.

10.3 Youth Mobility

A reciprocal youth mobility scheme for those aged 18 to 30 provides time-limited work and study rights, without permanent settlement, without access to income-related benefits, and without any restoration of general freedom of movement. Comparable arrangements already exist with Australia, Canada and Japan. The scheme is expected to add approximately 575,000 workers over five years, concentrated in hospitality, agriculture, care and construction, where shortages are most acute and most inflationary.⁷²

A youth mobility scheme is carefully bounded. It is reciprocal, so that young British people gain the same rights abroad; it is time-limited and carries no route to permanent settlement; it excludes access to income-related benefits; and it restores none of the general freedom of movement that ended with the United Kingdom's departure from the European Union. It is, in short, the kind of arrangement Britain already maintains with several non-European partners, extended to the continent where the labour-market complementarities are greatest. Its value lies in filling acute shortages in sectors where they are most inflationary, easing the wage pressures that feed through into prices across the wider economy.

Taken together, the measures in this chapter add approximately 1.8 million people to the workforce by Year 5, contributing 1.09 percentage points to annual growth during the transition. Because these are additions to supply rather than to demand, their effect on inflation is downward.

Table 10.1: Additions to the workforce and their growth contribution

Source of workforce addition	Central, by Year 5	Contribution to growth
Health and participation (returns to work)	800,000	Largest single measure
Youth mobility scheme (18–30)	575,000	Concentrated in shortage sectors
Older-worker retention and childcare	425,000	Raises participation
Total addition to the workforce	~1.8 million	+1.09 pp annual growth

10.4 The Cost of the Programme

A chapter that claims the largest growth contribution in this Budget must state what it costs. The measures in this chapter fall into two groups. The first group is already funded elsewhere in this Budget and carries no additional cost here: the elective capacity needed to clear the treatment backlog is provided by the NHS Capacity and Productivity Expansion in Chapter 5, at £5.4 billion a year, which explicitly funds additional operating hours and diagnostic capacity; and the integrated employment support and the removal of the benefit cliff edges are delivered through the Employment Hubs and the taper reform in Chapter 5B, at £2.5 billion and £3.5 billion a year respectively.¹³² Counting those sums again in this chapter would be double-counting, and they are therefore excluded from the costings below.

The second group is genuinely new spending introduced by this chapter, and it consists of three measures. Subsidised occupational health provision is extended to every employer above the threshold size, at a net cost of £1.0 billion a year rising to £1.3 billion by Year 5, stated after the employer co-payment that larger firms are required to make.¹³² Expanded childcare provision, which is the principal instrument for raising parental participation, costs £2.0 billion a year rising to £3.0 billion.¹³² Older-worker retention, comprising the mid-life career review, pension flexibilities and targeted National Insurance relief for those aged 50 to 64, costs £0.6 billion a year rising to £1.0 billion. The youth mobility scheme carries an administrative cost only, met in full by visa application fees, and therefore appears at nil net cost.

Table 10.2: Cost of the programme, welfare savings and net fiscal position (£bn)

Measure	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	5-yr total
Occupational health (net of employer co-payment)	1.0	1.1	1.2	1.3	1.3	5.9
Childcare expansion	2.0	2.3	2.6	2.8	3.0	12.7
Older-worker retention	0.6	0.7	0.8	0.9	1.0	4.0
Youth mobility scheme (fee-funded)	0.0	0.0	0.0	0.0	0.0	0.0
Gross cost of new measures	3.6	4.1	4.6	5.0	5.3	22.6
Health-related welfare savings	-0.5	-1.8	-3.4	-5.3	-7.2	-18.2
Net fiscal position	+3.1	+2.3	+1.2	-0.3	-1.9	+4.4

The welfare savings line follows directly from the return-to-work figures in Table 10.1. The central scenario assumes 800,000 people move from health-related inactivity into employment by Year 5, phased as 60,000 in Year 1, 200,000 in Year 2, 380,000 in Year 3, 590,000 in Year 4 and 800,000 in Year 5.⁷² Each such return saves an average of approximately £9,000 a year in health-related benefit payments, comprising the health element of Universal Credit and the associated housing support.^{50,72} The saving is stated conservatively: it excludes the income tax and National Insurance receipts those individuals also generate, which are accounted for separately in the growth and welfare gains column of the Budget's fiscal strategy.

10.5 How the Programme Is Paid For

The programme is a net cost in its first three years and a net saving thereafter. It requires £3.1 billion in Year 1, £2.3 billion in Year 2 and £1.2 billion in Year 3, before turning to a net saving of £0.3 billion in Year 4 and £1.9 billion in Year 5.¹³² Across the five-year period the cumulative net cost is £4.4 billion, and the programme is self-financing from Year 4 onwards.

That front-loaded profile is characteristic of participation measures and is the reason they are so often deferred: the spending must be committed before the returns arrive, and a government working to a single-year horizon will always find something more immediately rewarding to do with the money. The £4.4 billion of net cost concentrated in the first three years is met from the Budget's overall spending envelope set out in the Conclusion, in the same way as the welfare reform in Chapter 5B, whose transition costs are similarly front-loaded and similarly recovered later in the period.⁷² The gross cost of this chapter enters the spending column of the fiscal strategy table, and the health-related welfare savings enter the growth and welfare gains column, so that the Net improvement and the debt path set out in the Conclusion already reflect both sides of this programme.

It is worth stating plainly what the alternative costs. Health-related inactivity currently costs the Exchequer in the region of £25 billion a year in benefit payments alone, before any account is taken of foregone tax receipts or lost output.⁷² A programme that costs £22.6 billion in gross spending over five years and recovers £18.2 billion of it within the same period, while adding 800,000 people to the workforce, compares favourably with the cost of allowing the present position to continue.⁷² The measures are not, on any reasonable view, expensive relative to the problem they address.

10.6 The Fiscal Return and Why It Is Counted Once

Care is needed to avoid claiming the same benefit twice, because a person returning to work improves the public finances through several channels at once. The convention adopted here is that the health-related benefit saving, at approximately £9,000 per return, is set against the cost of this chapter in Table 10.2 and is therefore visible in the chapter's own net position.⁷² The income tax and National Insurance receipts that the same person generates, together with the wider output effect of a larger workforce, are not counted in this chapter at all; they form part of the growth and welfare gains column in the Conclusion's fiscal strategy table, which rises from £3 billion in Year 1 to £50 billion in Year 5 and reflects the combined effect of every measure in this Budget.⁷²

This division matters for the credibility of the whole document. The 1.09 percentage point contribution to annual growth attributed to this chapter, and the 1.8 million addition to the workforce, are supply-side effects that raise output; they are not a second source of cash to be spent. Treating them as though they would be the most common error in budgets of this kind, and it is avoided here by keeping the cash accounting in this chapter narrow and conservative.

10.7 Distributional Impact

The measures are strongly progressive, and unusually so for a growth policy. The principal beneficiaries are people currently out of work through ill health, who are concentrated in the lowest income deciles and in the regions with the weakest labour markets; parents, and disproportionately mothers, whose participation is constrained by the cost and availability of childcare; and workers aged 50 to 64, who face the sharpest fall in employment rates after a health event or redundancy. Employers benefit through access to occupational health provision that most small and medium-sized firms cannot currently purchase, and through the easing of shortages in the sectors where recruitment is hardest.

Those who pay are, in the first instance, larger employers, through the co-payment required for occupational health provision, and general taxpayers through the modest net cost in the first three years. No group loses entitlement: the reform of the benefit cliff edges in Chapter 5B removes the risk of losing support by attempting work rather than reducing what anyone receives, and the guarantee in that chapter that no current claimant receives less applies here without qualification. The distributional effect of the programme as a whole is therefore to raise the incomes of those with the least, funded by a small and temporary call on the general envelope that is repaid from Year 4.

10.8 Risks and Mitigations

This chapter carries more risk than any other in the Budget. The first and largest is that the return-to-work response is smaller than the central scenario assumes. No comparable country has demonstrably reversed a rise in health-related inactivity at this scale, and the honest position is that the evidence base supports the direction of the measures more strongly than it supports their magnitude. The mitigation is arithmetic rather than rhetorical: the downside scenario assumes fewer than 400,000 returns rather than 800,000, which halves both the welfare savings and the growth contribution, and the fiscal path in the Conclusion is constructed to hold in that case.⁷² If the response is weaker still, the cost of the programme is bounded by its gross spending of £5.3 billion a year at its peak, which is a little over four per cent of the Budget's Year 5 spending.⁷²

The second risk is that occupational health provision is taken up mainly by employers whose workforces are already healthy, so that the subsidy substitutes for private spending rather than adding to it. This is met by concentrating the subsidy on small and medium-sized firms, which currently have the lowest provision, and by requiring a co-payment from larger employers who can and do already purchase such services. The third risk is delivery capacity: expanded childcare depends on recruiting and retaining staff in a sector with high turnover and low pay, and the provision is therefore phased over the period rather than promised immediately, with the funding profile rising from £2.0 billion to £3.0 billion as capacity is built.⁷² The fourth is that the youth mobility scheme is presented politically as a return to freedom of movement. It is not, and the design points are stated explicitly in this chapter for that reason: it is reciprocal, time-limited, confers no route to settlement and excludes income-related benefits, on the model of the arrangements Britain already operates with Australia, Canada and Japan.⁷⁶²²⁷

10.9 Conclusion

Health-related inactivity is the largest single economic problem addressed in this Budget and the one with the highest return to successful intervention. The measures set out here cost £22.6 billion in gross spending over five years, recover £18.2 billion of that in health-related welfare savings within the same period, and leave a cumulative net cost of £4.4 billion concentrated in the first three years, after which the programme pays for itself.⁷² In exchange they add approximately 1.8 million people to the workforce by Year 5 and contribute 1.09 percentage points to annual growth during the transition, without adding to inflation, because they expand the supply side of the economy rather than its demand.

The case for acting is not only economic. Two point eight million people are currently out of work through long-term sickness, many of them waiting for treatment that would allow them to return, and the cost of leaving that position unaddressed is borne first by them and only afterwards by the Exchequer. A programme that removes the obstacles between people who want to work and the work itself is the rare kind of policy that improves the public finances and individual lives at the same time, and it should be judged on both.

Chapter 11: Trade Normalisation with the European Union

11.1 Scope and Limits

This chapter proposes the removal of specific, identifiable frictions in trade with the European Union. It does not propose membership of the single market or the customs union, and it does not propose the restoration of freedom of movement. The youth mobility scheme described in Chapter 10 is time-limited, reciprocal and confers no settlement rights, and is not freedom of movement in either law or effect.

The measures below are proposed because each is separable from the others, technically deliverable, and preceded in existing agreements between the European Union and third countries.¹⁵⁹

This deliberately bounded approach reflects both political and practical judgement. The question of Britain's relationship with the European Union remains contested, and a proposal to rejoin the single market or customs union, whatever its economic merits, would reopen a division that much of the country regards as settled and would have little prospect of implementation. The measures set out here take a different route: they leave the constitutional settlement untouched while removing specific, well-documented frictions that raise costs for British businesses and consumers without serving any clear purpose. Each has been chosen because it can be negotiated on its own terms, does not depend on the others, and has a precedent in an agreement the European Union already maintains with a third country, which makes it a realistic ask rather than an aspiration. The aim is to recover as much as possible of the economic value lost to trade friction while respecting the political limits within which any government must operate.

11.2 Measures

- A sanitary and phytosanitary agreement. Dynamic alignment on food and animal health standards removes the substantial majority of checks on agri-food trade.¹³² This is the highest-value single measure available and reduces food prices directly, which carry material weight in the consumer price index.
- Mutual recognition of conformity assessment. Recognition of United Kingdom testing and certification bodies removes duplicate testing for manufactured goods. The European Union has previously declined this, and it is accordingly treated as uncertain within the delivery scenarios.
- Customs facilitation. Trusted trader status, shared electronic documentation, and simplified rules-of-origin procedures for smaller exporters.
- Regulatory cooperation. Standing consultation on divergence, with impact assessment before new divergence is introduced.

The measures are listed in rough order of value and deliverability. The sanitary and phytosanitary agreement is by some distance the most valuable, because checks on food and animal products are among the most burdensome of all post-departure frictions, falling on a trade flow that is large, time-sensitive and perishable, and their removal feeds directly through to food prices. Customs facilitation and trusted-trader arrangements are technically straightforward and largely within the United Kingdom's own gift to prepare for, which makes them reliable. Mutual recognition of conformity assessment would remove costly duplicate testing for manufactured goods, but the European Union has previously been reluctant to grant it, so it is treated cautiously and excluded from the downside scenario. Regulatory cooperation, finally, is less a single measure than a standing mechanism to prevent new frictions from accumulating, ensuring that future divergence is deliberate and assessed rather than accidental.

11.3 Expected Effect

These measures are estimated to raise trade intensity by approximately 2.5 per cent and to contribute 0.3 percentage points to annual productivity growth.¹³² Because the mechanism is lower import costs and reduced administrative burden, the effect on inflation is downward, with the agri-food measures feeding through most directly to household bills.

Delivery depends on negotiation with a counterparty, and this Budget does not assume agreement in the first year. The sanitary and phytosanitary agreement is assumed to conclude in Year 2 and to take effect in Year 3. Mutual recognition of conformity assessment is excluded entirely from the downside scenario.

The honesty of these assumptions matters to the credibility of the whole chapter. Unlike the domestic measures in this Budget, which a government can legislate and deliver on its own timetable, trade normalisation depends on the agreement of a counterparty whose priorities cannot be taken for granted. The projections therefore assume no agreement in the first year, phase the most valuable measure in only from the third, and strip the least certain measure out of the downside case entirely. Even on these cautious assumptions the gains are meaningful, because the frictions being removed are pure deadweight cost: they raise prices and administrative burden without protecting any domestic interest. Reducing them lowers food prices and business costs, which feeds through to lower inflation and higher productivity, and does so in a way that reinforces rather than competes with the domestic growth strategy set out in the rest of the Budget.

11.4 Cost and Fiscal Effect

The measures in this chapter are unusual in this Budget in that they are negotiated rather than purchased. None of them involves a transfer, a subsidy or a programme of public spending; what they require is the administrative capacity to negotiate the agreements and the systems capacity to operate them. The cost is correspondingly small, and it falls over the period as implementation gives way to steady-state operation.

Negotiation and implementation capacity across the Department for Business and Trade, the Cabinet Office and the relevant regulators accounts for £0.05 billion a year.¹³² The sanitary and phytosanitary agreement requires investment in veterinary certification and inspection systems in its first two years, at £0.1 billion a year, falling to £0.05 billion once operating.¹³² Customs facilitation, comprising trusted trader accreditation and the shared electronic documentation systems, costs £0.15 billion in Year 1 and £0.1 billion in Year 2 as the systems are built, then £0.05 billion a year to run.⁷⁰ From Year 3 the sanitary and phytosanitary agreement begins to reduce the cost of physical border inspection, which offsets £0.05 billion in Year 3 and £0.1 billion a year thereafter.

Table 11.1: Cost of trade normalisation measures (£bn)

Component	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	5-yr total
Negotiation and implementation capacity	0.05	0.05	0.05	0.05	0.05	0.25
SPS certification and inspection systems	0.10	0.10	0.05	0.05	0.05	0.35
Customs facilitation and electronic systems	0.15	0.10	0.05	0.05	0.05	0.40
Gross cost	0.30	0.25	0.15	0.15	0.15	1.00
Reduced border inspection costs	0.00	0.00	-0.05	-0.10	-0.10	-0.25
Net cost	0.30	0.25	0.10	0.05	0.05	0.75

The net cost of £0.75 billion over five years is the smallest of any chapter in this Budget.¹³³ Set against it is an estimated increase in trade intensity of approximately 2.5 per cent and a contribution of 0.3 percentage points to annual productivity growth, which arises because trade frictions act as a tax on the most productive exporting firms and their removal allows those firms to grow.¹³² The fiscal return is not counted in this chapter; like the participation effects in Chapter 10, it forms part of the growth and welfare gains column in the Conclusion's fiscal strategy table.

11.5 Who Gains and Who Loses

The gains are concentrated among exporters of goods, and particularly among the food, drink and agricultural producers for whom sanitary and phytosanitary certification has been the single largest new cost since 2021.⁷⁷ Small and medium-sized exporters gain disproportionately, because the fixed compliance cost of a consignment falls hardest on those shipping small volumes, and it is among smaller firms that the fall in exports has been steepest. Manufacturers gain from mutual recognition of conformity assessment, which removes the need to test and certify the same product twice. Consumers gain through lower prices on imported food and through wider availability, and Northern Ireland gains disproportionately from any measure that reduces friction on goods movements.

The costs fall in two places. Dynamic alignment on food and animal health standards means accepting rules the United Kingdom does not set, which is a real constraint on regulatory autonomy and should be acknowledged as such rather than minimised. It is proposed here because the sector affected is one where Britain has shown no practical intention of diverging, and where the cost of divergence has proved far greater than any benefit realised from it. Second, the domestic conformity assessment industry that grew up to service the separate British regime would face reduced demand under mutual recognition. Neither cost is trivial, but both are bounded and identifiable, which is why these particular measures were selected and others were not.

11.6 Risks and Mitigations

The principal risk is one this Budget cannot mitigate by design, because delivery depends on a counterparty. Every measure here requires the agreement of the European Union, and none can be legislated unilaterally. The Budget's treatment of this is to claim no revenue and no growth contribution from these measures in the fiscal path until they are agreed, so that the central projections do not depend on a negotiation whose outcome is outside the Government's control. The cost profile in Table 11.1 is similarly structured: the largest spending is on systems that have value irrespective of whether the full package is concluded.

The second risk is political, in that any agreement involving alignment is open to the charge of reversing the referendum result. The answer is the bounded scope of the chapter, which is stated explicitly: this proposes no return to the single market or the customs union, no restoration of freedom of movement, and no financial contribution to the Union budget. It proposes the removal of four specific frictions, each separable from the others and each capable of being agreed on its own terms. The third risk is sequencing, since a package negotiated as a whole may founder on its most difficult element. The measures are therefore listed in rough order of value and deliverability, so that the sanitary and phytosanitary agreement, which carries the largest benefit and the clearest precedent, can proceed without waiting for the others.

11.7 Conclusion

Trade normalisation is the cheapest growth measure available to this Budget and the one over which the Government has least control. For a net cost of £0.75 billion over five years it offers an estimated 2.5 per cent increase in trade intensity and 0.3 percentage points of annual productivity growth, concentrated among exporters and among smaller firms in particular.⁷² The measures are deliberately bounded, individually separable and preceded elsewhere, and the fiscal path in this Budget is constructed so that it holds whether or not they are achieved. They are proposed not as a reopening of a settled constitutional question but as the removal of specific frictions whose cost is now measurable and whose benefit to British firms would be immediate.

Conclusion: A Pro-Business, Pro-Worker Transformation of the UK Economy

Core Principles for Economic Restructuring

The Daily Herald Budget 2026–2031 sets out a comprehensive economic strategy designed to modernise the British economy, strengthen public services, reduce structural costs, and restore long-term fiscal sustainability.

This Budget is built around a clear principle: long-term national prosperity depends upon aligning the economy toward productive investment, efficient resource use, technological modernisation, and broad-based participation in growth.

Rather than relying on broad increases in taxes on work, enterprise, or productive investment, the strategy restructures the tax system so that revenue is raised primarily from passive wealth, speculative land holding, underutilised property, luxury consumption, offshore passive capital, and other forms of economically unproductive rent extraction.

At the same time, the Budget lowers structural costs across the economy through the abolition of business rates, reductions in electricity costs, council tax reductions, planning reform, infrastructure expansion, energy market stabilisation, and long-term industrial investment.

The result is a framework designed simultaneously to support households, strengthen businesses, modernise public services, improve productivity, and restore fiscal sustainability.²²⁷

This is therefore not an austerity programme built around economic contraction, nor is it an unfunded expansionary programme dependent upon permanently rising borrowing. Instead, it is a structural modernisation strategy designed to increase the productive capacity of the economy while strengthening the long-term resilience of the public finances. Public debt falls from 94.5% of GDP at the baseline to 88.4% by Year 5, against an OBR baseline on which it rises to 96.5%, driven by a combination of new revenue measures, efficiency and fraud reduction savings, and the effect of stronger growth in reducing the debt-to-GDP ratio over time, alongside the wider effects set out in the Fiscal Strategy table below.²⁹

Basis of Presentation

Two conventions govern every figure in this Budget and are stated here so that each may be checked.

The first is the baseline year. This Budget is presented on 28 October 2026, within financial year 2026-27, and its measures take effect from April 2027. The counterfactual against which everything is measured is therefore 2026-27, the last year unaffected by any measure proposed here. Year 1 is 2027-28, Year 2 is 2028-29, and Year 5 is 2031-32. Where the Office for Budget Responsibility's March 2026 forecast is cited as the baseline, it is used for the 2026-27 counterfactual and not for the years in which the programme operates.²⁹

The second is the price basis. All revenue and spending figures are stated in constant 2026-27 prices unless expressly described as a nominal projection. This matters most for the property reform. Council tax in England raises approximately £46 billion in 2026-27, and that is the figure against which the Residential Property Tax is set.^{29,128} Government projections submitted to the Office for Budget Responsibility separately show council tax income across Great Britain rising in nominal terms to £58.8 billion by 2030-31.^{29,130} The two figures are not in conflict: the first is the England base in today's prices, the second a nominal Great Britain total inflated by six years of referendum-limit increases. Because the Residential Property Tax would be uprated on the same basis as the tax it replaces, comparing the two in constant prices is the like-for-like test, and it is the one applied throughout.

One consequence follows and is worth stating plainly. Presented in nominal terms, the reform would appear to replace a considerably larger sum, because the tax being abolished is scheduled to grow substantially whether or not anything is done. The constant-price presentation is therefore the more conservative of the two, and understates rather than overstates the scale of what is being replaced.

One category of measure sits outside this framework and is identified wherever it appears. The energy support in Chapter 1 answers a shock already under way and therefore takes effect on announcement rather than in April 2027, with a part-year cost of £6 billion falling in 2026-27.²⁹ That sum is additional to the £118 billion baseline deficit for that year and raises outturn borrowing to approximately £124 billion, lifting the opening debt ratio from 94.5 to approximately 94.7 per cent of GDP.²⁹ It is shown here rather than absorbed into Year 1 because presenting crisis support as though it were spent in 2027-28, by which point forecasters expect prices to have normalised, would misstate both when the money is needed and what it achieves.²¹ Every other measure in this Budget begins in Year 1.

Fiscal Strategy, Revenue and Investment

The Budget combines major public investment with long-term tax reform and supply-side restructuring.

New revenue is generated primarily from Land Value Tax reform, passive wealth taxation, offshore passive capital levies, property and land efficiency taxes, luxury consumption taxation, infrastructure uplift capture mechanisms, and anti-hoarding and underutilised land measures.

These revenues are recycled directly back into the economy through the abolition of business rates, lower electricity costs, council tax reductions, energy price stabilisation, infrastructure investment, NHS expansion, housing construction, education and skills investment, technological development, and industrial strategy.

The fiscal strategy therefore improves both the demand side and supply side of the economy simultaneously.

The Budget initially prioritises investment and economic expansion before progressively strengthening the fiscal position as productivity rises, welfare dependency falls, growth accelerates, inflation moderates, and the broader tax base expands.

Note: the table below sets out the new revenue and new spending introduced by this Budget only. It is additional to, and does not replace, the current Labour government's existing departmental budgets and existing tax revenues. The "Net improvement" column shows the improvement this Budget's measures contribute to the public finances each year, on top of the current baseline deficit of approximately £111 billion, and equals Revenue minus Spending plus Growth and Welfare Gains in each year.²⁹ Revenue in Years 1 to 3 is stated net of the Implementation and Appeals Risk Reserve set out in Chapter 8, which is fully unwound from Year 4. The spending column reflects gross programme cost, so Chapter 5B enters at its gross cost rather than the net annual effect reported in its own financial summary, which is stated after offsetting savings. Both columns now include the additional social care investment set out in Chapter 5D, rising from £8 billion in Year 1 to £16 billion in Year 5, together with the dedicated social care funding that meets it.²⁹ Because that funding matches the spending in each year, the Net improvement and the debt path are unchanged: the social care programme is fully accounted for within the framework rather than added on top of it.

Revenue, Spending and Fiscal Impact

Year	New Revenue	Spending / tax cuts	Growth & welfare	Net improvement
Year 1	£80bn	£95bn	£3bn	–£12bn
Year 2	£106bn	£105bn	£13bn	+£14bn
Year 3	£143bn	£135bn	£25bn	+£33bn
Year 4	£164bn	£150bn	£39bn	+£53bn
Year 5	£173bn	£155bn	£50bn	+£68bn

The programme begins with a moderate fiscal expansion designed to stimulate investment, lower structural costs, and strengthen household incomes. Over time, stronger growth and rising productivity generate substantial improvements in the fiscal balance.

A Lower-Cost, Higher-Investment Economy

A central objective of the Budget is to reduce the structural costs constraining British households and businesses.

The abolition of business rates removes one of the most economically distortive taxes within the UK economy and significantly improves incentives for industrial investment, commercial expansion, high street regeneration, manufacturing, logistics, and regional economic development.

All energy bill figures in this Budget are stated on a single basis: the Ofgem price cap for July to September 2026 of £1,862 a year for a typical dual-fuel household paying by direct debit, of which approximately £898 is electricity and £964 is gas.¹³ The Electricity Bill Reduction Package removes three costs from the electricity bill: network charges of £215, the cost of renewable generation subsidies and social schemes of £159, and balancing and system operation costs of £26.¹³ That is £400 a year, about 45 per cent of the electricity bill, from Year 1.¹⁶ The same costs are removed from non-domestic electricity, cutting business electricity bills by about 18 per cent: roughly £1,050 for a small shop, £2,520 for a pub or restaurant, £20,800 for a small factory, £200,000 for a medium manufacturer and £1.25m for a large industrial site. The package costs £23.7bn, £11.4bn for households and £12.3bn for business.¹⁸

Extending the relief to business is justified on three grounds. It is disinflationary: business energy is about 2.8 per cent of business costs, so a cut of around 18 per cent removes roughly 0.4 percentage points from the consumer price index once passed through, which offsets part of the demand added by the public investment programme in the early years and allows the Bank to hold rates lower.¹³² It is substantially self-financing: lower inflation reduces the cost of index-linked gilts by about £3.5bn a year and the cost of uprating benefits and pensions by about £1.8bn, so the additional business relief carries a net cost materially below its headline figure.⁷² And it addresses the single clearest competitiveness problem in the British economy: industrial electricity prices are among the highest in the OECD, and a cut of this size narrows the gap toward French and German levels, which is the precondition for the industrial electrification set out in Chapter 6.

Value Added Tax on domestic electricity is removed separately and is worth a further £45, taking the total electricity reduction for a household to £445.¹³² On this we build directly on the Government's own first act. On 21 July 2026 the Prime Minister, Andy Burnham, announced that VAT on domestic electricity would be cut from 5 per cent to zero from 1 October, worth about £45 a year to 29 million households at a cost to the Exchequer of roughly £850m in 2026-27.¹³² This Budget supports that decision without reservation. It is the right instrument, applied to the right fuel: taking the tax off electricity rather than gas strengthens rather than weakens the incentive to electrify heating and transport.

We would go further in three respects. First, the cut announced is temporary, running for six months to the end of the financial year; this Budget makes it permanent, because a relief that expires in March cannot be planned around by any household deciding whether to install a heat pump. Second, it applies only to domestic supply; this Budget extends it to business electricity, where the same 5 per cent falls on every firm that cannot reclaim it and where the effect on prices, and therefore on inflation, is passed through to consumers in any case.^{13,18}

Third, and most substantially, VAT is the smallest of the costs that sit on an electricity bill and need not be there. Network charges are the largest at £215, the cost of renewable generation subsidies and social schemes accounts for £159, and balancing and system operation for £26.¹³ Each of these is a public good or a social obligation being financed through a charge on electricity consumption, which is the most regressive and least green place to put it. Moving all of them to general taxation is the difference between £45¹³ off a bill and¹⁹

To make this concrete, consider a typical household on the April 2026 price cap, paying about £875 a year for electricity.¹³ Removing the four embedded charges, network costs of £215, renewable generation subsidies of £159, and balancing and system costs of £26, takes £400 straight off the annual bill.^{13,16} Value Added Tax has already been removed by the Government's October 2026 cut, bringing the electricity saving to £524, close to a sixty per cent reduction in the standing element of the bill. Adding the gas-side effects of the wider package brings the household's total energy saving to around £624 in the first year, rising toward £764 by Year 5 as the relief phases in fully. For a pensioner household on a fixed income, or a working family already stretched by the cost of living, a saving of this size is the difference between an energy bill that is a source of constant anxiety and one that is merely another manageable cost.

The Energy Price Stabilisation Plan further strengthens this effect by protecting essential household consumption and shielding productive industry from extreme global energy price shocks without recreating the extremely expensive universal subsidy structures of 2022–23.

Council tax reductions further increase disposable income, particularly for lower-income and middle-income households with higher propensities to spend within the domestic economy.

Unlike short-term stimulus measures, these reforms permanently reduce structural economic costs and improve the long-term competitiveness and efficiency of the economy.

Estimated Structural Cost Reductions

Measure	Estimated Effect
Business rates abolished	£25bn annual business tax reduction
Electricity Bill Reduction Package	£23.7bn (£11.4bn households, £12.3bn business)
Household electricity saving	–£400 annually, from Year 1
VAT removal on electricity, domestic and business	–£45 annually, from Year 1, made permanent
Business electricity bills	cut by 27 per cent
Small shop or café (20,000 kWh)	–£1,568 a year
Pub or restaurant (50,000 kWh)	–£3,780 a year
Small factory (500,000 kWh)	–£31,200 a year
Medium manufacturer (5 GWh)	–£300,000 a year
Large industrial site (50 GWh)	–£1.87m a year
Effect on CPI	–0.56pp, phased over Years 2–4
Total household energy bill reduction	–£545 in Year 1, –£685 by Year 5

The combined effect is to increase household purchasing power while simultaneously lowering the cost base facing British industry and commerce.

Supply-Side Reform and National Productive Capacity

The Budget is fundamentally designed around long-term supply-side expansion and economic modernisation.

Land Value Tax reform, planning reform, anti-hoarding measures, and infrastructure investment all increase incentives for development, productive land use, housing construction, urban regeneration, and commercial investment.

At the same time, the reforms discourage speculative land banking, passive rent extraction, underutilised property holding, and economically inefficient capital allocation.

Major strategic investment programmes strengthen Britain's long-term productive capacity through investment in artificial intelligence, quantum technology, nuclear fusion, advanced manufacturing, clean energy, defence technology, transport infrastructure, and scientific research.

These are combined with large-scale skills and training programmes designed to prepare the workforce for frontier industries and long-term technological transformation.

The strategy therefore seeks not merely to stimulate short-term demand, but to permanently raise productivity, innovation capacity, labour market efficiency, and long-term economic growth potential.

Estimated Supply-Side Improvements by Year 5

Indicator	Estimated Change
Workforce (health-related inactivity, youth mobility, childcare, older workers)	+1.8m
Business investment	+3pp of GDP
Housing completions	+95,000/yr
Productivity growth	+0.9 to 1.2pp
Trade intensity (SPS, conformity assessment, customs)	+2.5%

Public Services, Housing and National Renewal

Alongside economic modernisation, the Budget delivers major improvements in public services and social infrastructure.

Large-scale council and social housing expansion is combined with homelessness eradication programmes designed to reduce rough sleeping and temporary accommodation dependency substantially over the medium term.

Major NHS investment supports lower waiting times, workforce expansion, hospital modernisation, and improved long-term healthcare outcomes.

Education investment is directed toward reducing class sizes, strengthening technical training, increasing educational attainment, and improving workforce skills.

Welfare reform consolidates nine overlapping legacy benefits into a single eight-tier structure, reduces the Universal Credit taper from 55% to 40% so that work consistently pays, and reorients Jobcentres into Employment Hubs offering personalised careers advice, CV and interview support, and training mapped to real career paths.⁷² No individual currently entitled to support sees their award reduced in real terms as a result of these reforms; savings are generated through administrative simplification, fraud and error reduction, and more people moving into sustained work.

Additional investment strengthens national defence capability, technological readiness, border security, transport systems, local government capacity, and justice system efficiency.

The Budget therefore links economic reform directly with broader national renewal and state modernisation.

The Starting Point: What the Outturn Data Shows

The baseline used throughout this Budget is the Office for Budget Responsibility's March 2026 forecast, which projects growth of 1.1 per cent in 2026-27.²⁹ Outturn data published since then allows that starting point to be tested rather than assumed, and it is worth setting out because it cuts in two directions.

The economy grew by 0.6 per cent in the first quarter of 2026, unchanged from the first estimate, with services the main driver and strength in computer programming, wholesale and advertising.^{132,131} That is a strong quarter, and on its own it would imply an annual outturn above the baseline: even if the remaining three quarters were flat, carry-over alone would deliver something close to 1 per cent for the calendar year, and modest positive quarters would take it above 1.2 per cent.¹³²

Three considerations pull the other way. The first is that the strength is behind rather than ahead: the quarter measured ends in March, and the conflict that began on 28 February feeds through from the second quarter onward, so the figure describes the economy before the shock rather than during it. Business surveys and April activity data point to a materially weaker second quarter.¹³¹ The second is that the same release revised the final quarter of 2025 down to 0.1 per cent and output for 2025 as a whole to 1.3 per cent, a tenth of a point lower than previously estimated, which lowers the level from which everything subsequent is measured.¹³² The third is that this was the third consecutive year of conspicuously strong first-quarter growth, and the statistics office has acknowledged monitoring its seasonal adjustment methodology, while maintaining that its review found no statistically significant seasonality.¹³¹ A single strong first quarter should not be read as a change in trend.

Taken together, these offset almost exactly. The baseline of 1.1 per cent remains the right central assumption, and no figure in this Budget is revised as a result.¹³² What the data changes is the character of the risk rather than its central estimate: the starting point is firmer than expected and the momentum weaker, which makes the early-year projections in this Budget marginally more secure and the second and third years marginally less so. The downward revision to 2025 raises the debt-to-GDP ratio by approximately 0.1 percentage points at the margin, which is within the rounding used throughout.

Macroeconomic Effects and Long-Term Economic Performance

The combination of lower structural costs, stronger investment, energy price stabilisation, higher productivity, and expanded productive capacity is projected to improve the long-term performance of the British economy substantially relative to current trends.

Growth initially accelerates through stronger household demand, public investment, lower energy costs, and business expansion. Over time, supply-side reforms improve productivity, housing supply, electricity affordability, labour market efficiency, and productive investment across the economy.

The lower-cost energy support framework also improves the inflation outlook because it reduces fiscal overheating risk, lowers energy market volatility, and reduces the scale of deficit-financed temporary subsidy spending.

Estimated Macroeconomic Outcomes

Year	GDP Growth	Inflation	Unemployment	Debt-to-GDP
Baseline (2026–27)	1.1%	2.6%	4.5%	94.5%
Year 1	1.0%	2.1%	4.5%	95.9%
Year 2	1.7%	2.1%	4.4%	95.4%
Year 3	2.3%	1.7%	4.3%	94.1%
Year 4	2.7%	1.9%	4.2%	91.6%
Year 5	3.0%	1.9%	4.1%	88.4%
OBR baseline (March 2026)	1.5%	2.0%	4.4%	95.0%
SCENARIOS AT YEAR 5				
Central (45% probability)	3.0%	1.9%	4.1%	88.4%
Delivery shortfall (20%)	2.5%	2.0%	4.4%	90.2%
Energy shock (15%)	3.0%	1.9%	4.3%	89.1%
Global slowdown (10%)	2.5%	1.6%	4.5%	94.5%
Fast delivery (10%)	3.9%	2.6%	3.7%	85.2%
Probability-weighted	2.9%	1.9%	4.2%	89.1%

Relative to current UK trends, the Budget is projected to materially increase medium-term economic growth while reducing structural inflation pressures and lowering unemployment.

Within this, growth is driven primarily by capital investment across housing, energy infrastructure, business support and industrial strategy, reinforced by labour market reforms that increase workforce participation and reduce economic inactivity. Inflation eases as energy bills fall and housing supply expands, addressing two of the largest drivers of the current cost of living. Unemployment falls as a result of increased construction and industrial activity, business investment incentives, and active labour market policies that help people move into sustained work. None of these effects rests on a single measure; they reflect the cumulative effect of the reforms set out across this Budget.

The reforms also reduce inequality through stronger wage growth, lower housing pressures, lower household costs, improved public services, welfare reform, and increased taxation of passive wealth and speculative economic rents. The combined distributional effects are projected to reduce the Gini coefficient for disposable income by approximately 0.010–0.018 points over five years, reversing most of the post-2010 increase in disposable income inequality, driven primarily by the RPT replacing regressive council tax, energy cost reductions that are proportionally more valuable to lower-income households (reducing the energy cost burden on the bottom quintile by approximately 3.0% of income versus 0.4% for the top quintile), passive wealth and luxury taxes concentrated on the top 1–5%, the reduced Universal Credit taper strengthening returns to work for low-income households, and improved access to housing and public services for lower and middle-income households.¹²⁸¹⁶⁰

Monetary Policy, Debt and Fiscal Sustainability

The Bank of England would likely view the Budget as initially expansionary but increasingly supply-side supportive over time.

In the early stages of implementation, stronger investment and higher disposable income may lead the Bank to maintain moderately restrictive monetary policy while inflationary persistence is assessed.

However, as electricity costs fall, housing supply expands, productivity rises, inflation moderates, and the fiscal position strengthens, interest rates would likely decline relative to the current baseline.

Estimated Monetary and Fiscal Path

Year	Bank Rate	Fiscal Balance	Debt Interest Costs
Baseline	4.25%	–£118bn	£104bn
Year 1	3.75%	–£121bn	£105bn
Year 2	3.25%	–£93bn	£103bn
Year 3	3.00%	–£72bn	£100bn
Year 4	2.75%	–£53bn	£97bn
Year 5	2.50%	–£38bn	£95bn

Reconciling the Fiscal Strategy table with the deficit path

The fiscal balance improves by more in each year than the Net improvement column in the Fiscal Strategy table would suggest on its own. By Year 5 the deficit narrows from £118 billion at the baseline to £38 billion, an improvement of £80 billion, against £68 billion of measures introduced by this Budget.¹³² The £12 billion difference is the baseline position improving independently of this Budget's own measures, and arises from two sources.

The first is that existing tax revenues grow broadly in line with nominal GDP, while existing public spending grows more slowly. On an existing revenue base of approximately £1,100 billion growing at around 4.4 per cent a year, and an existing spending base of approximately £1,192 billion growing at around 3.7 per cent, that differential compounds to roughly £33 billion by Year 5.¹³² This is not a heroic assumption: it reflects the ordinary arithmetic of a growing economy where departmental settlements are set in cash terms and revenue tracks activity.

The second is debt interest, which falls from £104 billion at the baseline to £94 billion in Year 5 as Bank Rate declines from 4.25 per cent to 2.5 per cent, contributing approximately £10 billion of that total.⁷⁴ Because debt interest sits within the spending base, these two effects overlap rather than add, and together they account for the £12 billion residual.

This decomposition is stated explicitly because the two figures answer different questions. The Net improvement column isolates what this Budget's own measures contribute, which is the appropriate basis on which to judge the Budget. The deficit path shows the overall position of the public finances, which also reflects the baseline improving as the economy grows. Neither figure is a substitute for the other, and the difference between them is not unexplained.

Headroom against the 90 per cent debt target

The 90 per cent debt-to-GDP target is met, and is met with margin rather than by a narrow arithmetic.¹³² Cumulative deficits over the five-year period total approximately £380 billion.¹³² Applied to an opening debt stock of around £2,692 billion against nominal GDP rising to approximately £3,458 billion, the deficit path alone would imply a debt ratio closer to 85 per cent by Year 5.¹³²

The projection of 90 per cent is deliberately more conservative than that, because public sector net debt rises by more than the headline deficit in any given year.²⁹ Bank of England Asset Purchase Facility indemnity payments, student loan outlays and other financial transactions add to debt without scoring in the deficit, and have run at substantial levels in recent years. The 90 per cent figure assumes those effects continue at approximately £38 billion a year.²⁹ If they moderate, the ratio falls further; if the growth assumptions underpinning this Budget prove optimistic, there is room to absorb that without breaching the target. The commitment is therefore stated as 90 per cent rather than the lower figure the central case would support.²⁹

Public debt falls not primarily through reductions in productive investment or public services, but through stronger growth, broader tax revenues, lower welfare spending, reduced structural inflation, and lower debt servicing costs over time.

The programme therefore rejects the false choice between economic growth and fiscal responsibility. Instead, it argues that long-term fiscal sustainability depends fundamentally upon stronger productivity, higher investment, efficient taxation, modern infrastructure, technological modernisation, and a more competitive economy.

The Overall Scale of the Programme

A Budget of this size should state its own dimensions plainly. The headline revenue figure of £176 billion a year by Year 5 overstates the increase in taxation, because a substantial part of it replaces taxes that this Budget abolishes.¹²⁸ Business rates worth £25 billion, council tax worth £46 billion and stamp duty worth £12 billion are removed, so £77 billion of the gross figure is substitution rather than addition.¹²⁸ The genuine increase in taxation is approximately £99 billion a year by Year 5.

On the spending side, the position is the reverse of what is usually assumed of an investment programme: net additional spending peaks at £89 billion in Year 3 and falls thereafter, to £80 billion by Year 5, as the crisis energy support is withdrawn and the welfare reforms of Chapter 5B move from transitional cost into sustained saving.⁷²

Table C.1: The scale of the programme (£bn unless stated)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Gross new revenue	81	107	144	166	176
Less taxes abolished	−9	−19	−46	−69	−77
Net additional taxation	72	88	98	97	99
Programme spending	72	68	65	60	56
Electricity bill support	14	19	24	24	24
Net additional spending	86	87	89	84	80
Receipts, per cent of GDP	43.0	43.7	44.2	44.4	44.4
Spending, per cent of GDP	47.6	47.5	47.3	46.9	46.6
Deficit	−121	−93	−72	−53	−38
Deficit, per cent of GDP	4.2	3.0	2.3	1.6	1.1
Debt, per cent of GDP	95.9	95.4	94.1	91.6	88.4

A Larger State, and the Case for It

Receipts rise from 40.5 per cent of GDP to 44.4 per cent, and spending from 44.7 per cent to 46.6 per cent.¹³² Receipts at that level would be the highest sustained share in the post-war period, above the previous peak of approximately 42 per cent reached in the late 1940s.³³ This is the central political fact about the Budget and there is no purpose in obscuring it.¹⁸³

Three things should be said in its defence. The first is that £77 billion of the gross increase replaces taxes that are abolished, so the burden is restructured at least as much as it is raised: a business that pays commercial Land Value Tax no longer pays business rates, and a household that pays the Residential Property Tax no longer pays council tax.¹³ The second is composition. The additional revenue falls on land, on economic rent, on windfall and on passive income, and not on wages, on employment or on the profits of trading businesses; taxes on work are lower at the end of the period than at the beginning. The third is what the money buys: an investment programme in housing, energy, transport, research and public services, rather than current consumption, together with the removal of £400 a year from household electricity bills and the abolition of the two most economically damaging taxes in the system.¹³

Comparison with peers puts the figure in proportion. Receipts of 44.4 per cent of GDP would place the United Kingdom close to the Netherlands and Germany, below France, Belgium and the Nordic countries, and well above the United States.⁵² It is a European level of taxation funding a European level of public investment, and the Budget is best understood as a decision to move the country from one model toward the other rather than as an incremental adjustment within the existing one.

The Debt Position

Debt peaks at 95.9 per cent of GDP in Year 1 and falls in every subsequent year, reaching 88.4 per cent by Year 5.²⁹ That is six percentage points below the starting position and six and a half points below the OBR baseline of 95.0 per cent.²⁹ In cash terms debt continues to rise, from £2,646 billion to £3,023 billion; the ratio falls because nominal output grows faster than the debt stock, not because borrowing ceases.²⁹

The weakest point in the profile is Year 1, in which the deficit of £122 billion is marginally worse than the baseline of £118 billion.³⁷ This is the arithmetic of the reform sequence rather than a failure of it: the investment and the cost-of-living support begin immediately, while the land and property taxes that fund them arrive as the valuation registers are completed. From Year 2 the position improves in every year, and the whole of the improvement against baseline, £68 billion by Year 5, is delivered without any increase in the rate of income tax, of National Insurance on earnings, or of Value Added Tax.³⁷

Political Analysis: A Pluralist Budget in an Age of Polarisation

Method

Budgets are normally published without any assessment of whether they can survive contact with the electorate. Costings are scrutinised and distributional tables produced, while the political question, which is the question that actually determines whether a policy is ever delivered, is left to commentators after the fact. A measure that is fiscally sound and economically sensible but politically undeliverable is not a policy but an argument.²¹⁴

This section therefore tests each element of the programme against published polling rather than assertion. Where more than one polling organisation has asked a comparable question, the range across houses and an unweighted average of the published figures are given rather than a single result, because differences between houses on the same question commonly run to five points or more and reflect panel composition, question wording and mode of interview as much as genuine movement in opinion. Where a measure has been polled by only one house, that is stated. Where it has not been polled directly, the closest available proxy is used and identified as such. Two further tests are applied: the size and organisation of the group that loses, and the administrative difficulty of delivery. The combination of these three, public support, concentrated opposition and deliverability, determines whether a measure survives.

The Polling Landscape

British politics has fragmented to a degree without modern precedent. Averaging across houses gives Labour approximately 24 per cent, Reform UK 23.5, the Conservatives 19, the Greens 12 and the Liberal Democrats 11.¹ The individual readings behind that average differ materially: the YouGov poll of 2 to 3 August 2026 put Reform ahead on 23 with Labour on 22, while the PollCheck seven-poll moving average of 5 August, drawing on YouGov, Survation, Find Out Now, More in Common, Opinium, Focalddata and Freshwater Strategy, had Labour ahead on 25.9 with Reform on 24.0.^{81,10} The Electoral Reform Society's monthly average draws on a further set of houses including BMG, Deltapoll, J.L. Partners and the Good Growth Foundation.⁸² The spread between houses on the same question is of the order of four points, which is wider than the gap between the two leading parties. No party has held support above the mid-twenties for a sustained period, and a plurality of around a quarter of the vote is now sufficient to lead.

The demographic structure beneath those figures matters more than the headline. Reform leads among voters aged 50 to 64 and over 65, the Greens lead decisively among 18 to 24 year olds, and Labour is strongest in the 25 to 49 band.¹¹⁷ Reform leads in most English regions outside London.⁵⁹ Of those who voted Labour in 2024, roughly three in five have stayed, with the remainder dispersed to Reform, the Liberal Democrats and the Greens rather than to the Conservatives.⁶⁰ This is the central strategic fact: the coalition has fragmented in four directions at once, and no single message recovers all of it.^{203,214}

A Budget is one of the few instruments capable of speaking to several of those fragments simultaneously, because it is judged on outcomes rather than identity. The question is which of its measures command support across the fragments rather than within one of them.²²⁶

Table C.2: Published public support for measures in this Budget

Measure in this Budget	Closest polled proposal	Support	Oppose	Proxy quality	Sources
Wealth surcharge (7A)	Wealth tax on assets above £10m	69–78%	~12%	Direct	[1,2,3,4,84,124]
RPT high-value slice (7I)	Annual property tax on homes above £2m	60–69%	—	Direct	[1,86]
RPT replacing council tax (8B)	Council tax made proportionate to value	56%	—	Close	[123]
RPT liability rules (8B)	Owners rather than tenants pay property tax	48%	34%	Close	[123]
Land Value Tax (8)	Abolish stamp duty, replace with land value tax	34%	39%	Direct but low awareness	[123,125]
Stamp duty abolition (7I)	Scrap stamp duty, no replacement stated	63%	—	Direct	[123]
NI on rental and dividend income (7I)	Merge income tax and National Insurance	43%	26%	Close	[123]
Monopoly rent charge (7I)	Windfall tax on energy company profits	41%	17%	Close	[89,91]
Monopoly rent charge (7I)	Ending the windfall tax would be wrong	53%	22%	Close	[89]
Monopoly rent charge (7I)	Utilities in public ownership	71–82%	8%	Weak: different proposition	[5,6]
Second/empty homes (7C)	Higher charge on homes not occupied all year	70%	13%	Direct	[86]
Aviation duty reform (7I)	Frequent flyer levy preferred to Air Passenger Duty	Majority	—	Close: preference, not support	[92,94]
Clean power programme (2)	Expanding renewable generation	80%	—	Direct	[7]
Housing delivery (3)	Large increase in housebuilding, nationally	62%	29%	Direct	[8]
Planning reform (9)	New homes in own local area	52–56%	21–41%	Direct	[8,85]
Overall tax level	Government taxes and spends too much	44%	21%	Direct	[9]

What the Data Shows

Three findings stand out, and each cuts against a common assumption about British public opinion.

The first is that the revenue side of this Budget is more popular than the spending side, though by less than the headline figures on public ownership might suggest. Wealth taxation above ten million pounds attracts support ranging from 69 to 78 per cent across five surveys by three separate houses, averaging 75 per cent, against opposition of around twelve per cent, a margin of roughly six to one.¹ That is the strongest position in the programme and it is directly polled. The monopoly rent charge requires more care. Polling showing 82 per cent support for water in public ownership is often cited in support of measures of this kind, but it measures a different proposition: this Budget transfers no ownership and taxes only returns above the allowed regulatory rate.^{1,5,49} The closer analogue is the Energy Profits Levy, and there support is materially lower, at 41 per cent against 17 per cent opposed.^{1,89} The margin remains better than two to one, 53 per cent say ending the levy would be wrong against 22 per cent who say it should end, and 64 per cent believe the industry is profiteering. Support holds across parties, at 39 to 24 per cent among Reform voters and 44 to 19 among Conservatives. The honest reading is that a charge on utility profits commands a clear plurality rather than the overwhelming majority that ownership polling implies, and the large share answering neither way suggests the question is less settled than nationalisation is.^{90,226}

The second is that support survives contact with the wealthy themselves. Survation's April 2026 survey of UK millionaires found 75 per cent willing to pay more tax to keep the country one they are proud of, and 79 per cent willing to pay more to create opportunities for young people.^{1,4} Only 9 per cent identified millionaires leaving as a concern, against 43 per cent who were concerned about doctors leaving.^{1,4} The capital flight argument, which is the principal objection to Chapters 7A and 7B, is made more forcefully by commentators than by the people it purports to describe.

The third is the housing gap, and it is the most serious problem in the programme, though its size depends on which survey is used. Support for a large increase in housebuilding stands at 62 per cent nationally against 29 per cent opposed.^{1,8} Asked about substantial building in their own area, online panel polling records support falling to 52 per cent with opposition rising to 41, while the British Social Attitudes survey, conducted face to face rather than online, records 55 per cent supportive and only 21 per cent opposed.^{1,8,85} Averaging the two gives roughly 54 per cent support against 31 per cent opposition. The direction is identical in both, but the online figure suggests a near-even split and the face-to-face figure a comfortable majority, and the truth is likely to sit between them. The national majority is comfortable on any measure; the local majority is narrower and its opposition more intense, better organised and more likely to turn out at the meetings that decide individual applications.²¹³

Land Value Taxation: Making the Case for a Fairer System

The reform at the centre of this Budget replaces a tax that is indefensible on its own terms. Council tax in England is assessed on property values as they stood on 1 April 1991. No revaluation has taken place in thirty-five years. Its top band has no ceiling, so a home worth four hundred thousand pounds and one worth four million sit in the same band and pay almost the same. The poorest fifth of households pay a greater share of their gross income in council tax than the richest fifth, even after council tax support is taken into account.⁴² It is a regressive tax on a frozen base, and it is scheduled to raise 43 per cent more by 2030-31 without a single decision being taken to increase it.^{128,130}

Against that, the case for taxing land is not merely economic. It is a fairness argument, and it is the stronger of the two.

Why Taxing Land Is Fairer Than Taxing Property

The distinction the present system ignores is between the building and the ground it stands on. A property tax charges the owner for the building: for the extension, the loft conversion, the new kitchen, the repairs. A land tax charges only for the site: for the location, the transport links, the schools, the shops, the public investment that made the address worth having. The first taxes what the owner built. The second taxes what the community created and the owner happens to hold.

Three consequences follow, and each of them favours the household that improves its home over the one that does not. A property tax penalises improvement, so the family that invests in its house pays more and the landlord who lets it decay pays less; a land tax is indifferent to what stands on the site, so improvement goes untaxed and dereliction goes unrewarded. A property tax falls on new building, which is one reason Britain builds too little; a land tax falls on the plot whether or not anything is built on it, which is why it pushes toward construction rather than away from it. And a property tax can be avoided by holding land empty, which is precisely the behaviour a country short of housing least needs; a land tax cannot be, because the liability attaches to the ground rather than to the use made of it.

This is not a redistribution from the many to the few. It is the reverse of the one already in place. Modelling of a revenue-neutral replacement of council tax with a land-based charge finds that the majority of households gain and that relative poverty falls slightly.¹²⁹ The households that pay more are those whose land has appreciated most since 1991 and which the frozen bands have sheltered from that appreciation for a generation. Ricardo, Mill and Henry George each arrived at the same conclusion from different directions, and the Mirrlees Review restated it in modern terms: a tax on unimproved land value is the least distortionary and among the most equitable instruments available to a government.⁴²

The Work That Needs to Be Done

None of that argument has been put to the British public. Almost nobody has heard of a land value tax. No published survey establishes what proportion can define one, the concept appears in no standard tracker question run by any major polling house, and it has never been the subject of a sustained national debate.¹²⁵ When YouGov described it to respondents in a single sentence in October 2025, 34 per cent were in favour and 39 per cent opposed.^{1,123} That is not a settled public judgement. It is a first reaction to an unfamiliar phrase encountered without explanation.

The evidence that this is unfamiliarity rather than rejection sits in the same survey. Asked about making council tax proportionate to the value of the home, 56 per cent were in favour.¹²⁸ Asked about shifting property tax liability from tenants to owners, 48 per cent were in favour against 34 per cent opposed.^{128,123} These are the same reform described in language people already possess. The public is not opposed to taxing property fairly by value. It has never had the case for taxing land rather than buildings explained to it, and on the single occasion it was asked, it was asked in terms designed for economists rather than for households.

The conclusion is that the work required is explanatory, and that it must be done before the measure is legislated rather than after. Three things in particular need establishing in public argument. First, that the present system is regressive and getting worse, which is demonstrable from published figures and is not currently widely understood. Second, that a land tax charges for location rather than for improvement, so that a family extending its home is not penalised. Third, that most households would pay less, which the modelling supports and which is the single most persuasive fact available.

Low awareness cuts both ways. An unfamiliar measure is easier to explain than one already caricatured, but it is also easier to caricature, and the caricature will arrive first and better funded. The Scottish Land Commission's research, which found land value taxation compelling in principle but demanding in implementation, indicates the shape the opposing case will take.¹²⁶ A government proposing this should expect to spend its first year making an argument rather than defending a policy, should lead with fairness rather than efficiency, and should measure its progress not by whether the measure is popular at the outset but by whether support is rising as understanding grows. On the evidence available, this is an equitable, economically rational and administratively feasible reform that has simply never been argued for. That is a solvable problem, but only if the solving is done deliberately.

The Tax Level Problem

Against these favourable findings sits one that is not. Asked in February 2026 whether the government taxes and spends too much or too little, 44 per cent said too much and only 21 per cent said too little.^{132,9} This Budget raises receipts to 44.4 per cent of GDP, the highest sustained level in the post-war period.¹³² The gap between an electorate that supports every individual tax in this programme and an electorate that believes taxation overall is already too high is the single largest political risk it carries.

There are two honest responses. The first is compositional: no tax on earnings rises at any point, £77 billion of the gross increase replaces taxes that are abolished, and the two most economically damaging taxes in the system, business rates and stamp duty, are removed entirely.¹²⁸ A household paying the Residential Property Tax no longer pays council tax; a shop paying commercial Land Value Tax no longer pays business rates. The second is that the polling on the aggregate is a judgement about value for money rather than about arithmetic. Support for higher spending rises when the spending is attached to a visible outcome, which is why the electricity reduction and the National Care Service are the two measures most likely to move the aggregate figure rather than merely to poll well individually.⁷⁸

Who Gains and Who Pays, and Where They Live

The clearest gainers are households in the lower and middle deciles, who receive the electricity reduction, the social care guarantee and the abolition of council tax without paying materially more; renters and prospective first-time buyers; small businesses and high streets, through the largest business tax cut in the programme; and workers, since no tax on earnings rises.

Those who pay are fewer, wealthier and better organised: owners of second homes and investment property, landlords with substantial portfolios, holders of large passive wealth, frequent flyers, utility shareholders, and owners of high-value property in London and the South East, where the Residential Property Tax high-value slice bites hardest. The last group is the most electorally significant because it is geographically concentrated in seats a governing party cannot write off, and because property wealth is illiquid, so the charge is experienced as a demand for cash by people who do not feel rich.

The deferral mechanism therefore matters more politically than its fiscal cost implies. Allowing asset-rich, cash-poor owners to defer until sale removes the single most damaging image available to opponents, which is the pensioner forced from a family home by a tax bill. Any presentation of this Budget that does not lead with deferral in high-value areas will lose an argument it need not lose.

The Second-Order Effect: When Delivery Reaches the Doorstep

The political return on a Budget is paid not at announcement but when its effects become part of ordinary life. Three channels run on different timetables.

The fastest is the cost of living. The electricity reduction lands within the first year, is worth about £400 to a typical household, and appears on a bill rather than in a statistic.¹³² Inflation falling toward target through the middle of the period compounds it. Attributable cost-of-living relief is the most reliable driver of governing-party recovery, and it is the strongest short-term asset in the programme. It is also the measure most directly aimed at the voters who have left Labour for Reform, who are concentrated in the age bands and regions where energy costs form the largest share of household spending.

The second is housing. Completions rising toward 300,000 a year will not change the national conversation within one Parliament but change it decisively within two.¹³² The dividend accrues to whichever party is in office when a cohort of younger voters finds that buying a home has become possible, and it is durable in a way that transfer payments are not. It also speaks to the 18 to 24 band where the Greens currently lead by a wide margin.

The third is public services and participation: waiting lists falling, social care settled rather than perpetually reviewed, and 1.8 million people returning to work. This is the slowest and most powerful channel, because it changes the question at the next election from whether decline has been managed competently to whether a recovery should be allowed to continue.

The risk is the mirror image. If the electricity reduction is delayed, the housing numbers missed, or the participation gains not realised, the programme will have raised taxation to a post-war high without the compensating improvement. In the most literal sense this is a bet on delivery.

Table C.3: Deliverability of individual measures

Measure	Difficulty	Constraint
Gambling, tobacco, digital services duties	Low	Existing collection machinery
Monopoly rent charge	Low	Regulatory determination process
Aviation duty reform	Low	Existing passenger information systems
Electricity levy transfer	Low–medium	Primary legislation only
Wealth surcharge and offshore levy	Medium	Valuation; international cooperation
Business rates phase-out	Medium	Paced by commercial LVT rollout
NI on rental and dividend income	Medium	One year of HMRC systems work
Defence and public service expansion	Medium	Recruitment and procurement capacity
Housing delivery programme	Medium–high	Construction workforce; local consent
Participation and occupational health	High	No precedent at this scale
National Care Service	High	Workforce; legislation; funding durability
Planning liberalisation	High	Legislation; 41% local opposition
Residential Property Tax and revaluation	Very high	29m valuations; concentrated losers
EU trade normalisation	Very high	Depends entirely on a counterparty

The sequencing is the strongest feature of the design: nothing depends on everything else. The energy measures deliver in Year 1 independently of the property reform. The business rates reduction is matched to the commercial Land Value Tax as it arrives. The Residential Property Tax does not begin until the register is complete. A government falling behind on one element loses that element's contribution without destabilising the rest.

Two measures stand apart. The property revaluation is the most administratively demanding and the one whose failure would be most visible, because a botched revaluation produces millions of individually contested bills. Trade normalisation is the only measure not within the Government's gift at all, which is why no revenue or growth is claimed from it in the central fiscal path.

A Five-Year Projection to 2029 and Beyond

What follows is a projection rather than a forecast. It assumes the Budget is delivered broadly to timetable, that no external shock of the scale of the 2026 conflict recurs, and that the party system remains fragmented into five parties none of which begins from above a quarter of the vote. It is constructed from three inputs: the current polling position, the timetable on which each measure becomes visible to households, and the historical record of how governing parties recover when a cost-of-living shock reverses.

That historical record is the weakest part of the method and should be stated as such. The clearest modern analogue is 2012 to 2015, when a governing party recovered roughly seven points over three years as real incomes began rising again.⁵⁷ The counter-example is 1992 to 1997, when no recovery occurred despite an improving economy, because the government had lost its reputation for competence in a way that delivery could not repair. Which of those two applies here depends less on the economics than on whether the Budget's measures are visibly attributed to the Government that introduced them.

A second limitation should be stated, and it is the largest source of uncertainty in the projection. The measure at the centre of the programme, the Land Value Tax, currently polls at 34 per cent support against 39 per cent opposed, the only significant measure in the Budget with a negative net score.^{128,123} That figure is not, on the evidence, a settled judgement: almost no one has heard of a land value tax, the concept appears in no standard tracker question, and the same survey records 56 per cent support for making council tax proportionate to value, which is substantively the same reform in familiar language.¹²⁸ But the practical consequence is that the political reception of the Budget's central measure depends almost entirely on whether the fairness argument set out in Chapter 8 is made successfully and early. If it is, the measure moves toward the 56 per cent recorded for the proposition people already understand.¹²⁸ If it is not, it stays where it is or falls further under sustained attack. The projection below assumes the argument is made competently but not brilliantly, and a reader who doubts that assumption should widen the range accordingly.

Table C.4: Projected vote share to the 2029 general election

	Aug 2026	2027	2028	2029 (GE)	2030–31
Labour and Co-operative	24	26	28	31	32
Reform UK	23.5	23	22	22	21
Conservative	19	19	18	18	18
Green	12	11	10	9	9
Liberal Democrat	11	11	11	11	11
SNP	3	3	3	3	3

The shape matters more than the levels. Labour's recovery is projected to be slow in the first year, because the tax measures are announced before the benefits are felt and the aggregate tax level is the least popular element of the programme. It accelerates from 2027 as the electricity reduction reaches bills and inflation falls back toward target, and again from 2028 as waiting lists fall and the first social care entitlements take effect. The gain of roughly seven points over three years is at the upper end of what the historical record supports and should be read as the delivery case rather than the expected case. It is a point lower than an earlier reading of the polling would have implied, because the measures whose support is strongest, wealth taxation and the energy bill reduction, are not the measures that raise most of the money, and the two largest revenue lines in the programme have not been polled at all.

Reform's projected decline is modest and gradual, from 24 to 21 points. This is deliberate: the assumption is that a cost-of-living recovery erodes the economic component of Reform's support while leaving the immigration component largely untouched, and the immigration component is the larger of the two. A programme of this kind does not defeat Reform; it competes for the portion of Reform's coalition that is there because bills are high and services have failed, which is perhaps a third of it.

The Greens are projected to fall from 12 to 9 as housing delivery and the participation programme address the material concerns of younger voters, among whom the Greens currently lead by a wide margin. The Conservatives are projected to be broadly static, because nothing in this Budget is aimed at their remaining coalition and their difficulties are structural rather than economic. The Liberal Democrats hold, being largely insulated in seats determined by local factors.

Table C.5: Indicative seat projection, 2029 general election

Party	2024 seats	2029 central	Range
Labour and Co-operative	411	358	310–395
Reform UK	5	92	55–125
Conservative	121	76	50–100
Liberal Democrat	72	66	55–75
SNP	9	23	15–30
Green	4	8	4–14
Plaid Cymru	4	5	4–7
Northern Ireland and others	24	22	18–24
Labour majority	172	66	–30 to +140

The projection produces a reduced but workable Labour majority of approximately sixty-six on a vote share slightly below that of 2024. This apparent paradox is a function of first-past-the-post with a divided opposition: Reform on 22 per cent and the Conservatives on 18 split the right-of-centre vote in the great majority of English seats, and where two parties each take around a fifth of the vote a party on a third wins the seat.⁵⁷ The same arithmetic explains the width of the range. If Reform and the Conservatives were to reach any accommodation before 2029, the central projection would fall by perhaps sixty seats and the majority would disappear entirely.

Reform is projected to rise from five seats to around ninety despite a falling vote share, because the party finished second in close to a hundred seats in 2024 and its support is efficiently distributed outside London. This is the clearest illustration of why vote share alone is a poor guide: Reform can lose two points nationally and still gain eighty-five seats.⁵⁸

The Downside Case

If delivery fails, the arithmetic reverses sharply. In a scenario where the electricity reduction is delayed beyond Year 2, housing completions fall short of 250,000 and the participation programme returns fewer than 400,000 people to work, the Budget would have raised receipts to a post-war high without the compensating improvement.¹³² Labour would be projected at 25 per cent in 2029 against Reform at 27, producing approximately 230 Labour seats and 180 for Reform, and no majority for any party.¹³²

The gap between the two scenarios, roughly 130 seats, is almost entirely a function of delivery and explanation rather than of policy design. This is the strongest argument for the sequencing set out earlier: because the measures are independent of one another, partial delivery produces a partial outcome rather than a collapse, and the electricity reduction in particular can be delivered in Year 1 by primary legislation alone. It is also the strongest argument for making the case for land value taxation in the first year rather than the third, since the measure that carries the most revenue is the one whose public standing is least established.

Beyond 2029

The projection to 2030 and 2031 shows Labour continuing to gain slowly, to around 32 points. The reasoning is that the slowest of the three transmission channels is also the most durable. Cost-of-living relief is felt immediately and discounted quickly; housing supply and improved public services change the underlying assessment of whether the country is working, and that assessment moves slowly in both directions. A government that reaches 2029 with waiting lists falling, 300,000 homes a year under construction and inflation at target enters the following Parliament with an argument for continuity rather than for change, which is the position no British government has occupied since 2001.⁶³

The counter-consideration is that the second-term problem for any reforming government is that its achievements become the baseline against which it is judged. Bills £400 lower than they would have been are, by 2031, simply what bills cost.¹³² This is the fundamental asymmetry of delivery politics, and it is why the durable political return comes from institutions rather than from transfers: the National Care Service, like the National Health Service before it, becomes a standing argument for the tradition that created it long after the fiscal event that funded it has been forgotten.

Pluralism Against Polarisation

The organising claim of this Budget is that the choice presented by contemporary politics, between a left that would tax and spend without regard to growth and a right that would cut without regard to consequences, is a false one, sustained not because the arguments are strong but because polarisation is electorally convenient to both. Norris and Inglehart's account of populist support in advanced democracies traces it to cultural displacement as much as to economic loss, and Michael Sandel has argued that the resentment driving it is compounded by a meritocratic settlement that tells those who lose out that they deserved to.^{113,115} A politics organised around permanent grievance requires an enemy more than a policy, and is noticeably more successful at winning elections than at governing after them.²¹⁰

The polling supports the claim directly. On the measures where cross-party breakdowns are published, the consensus is far broader than the party system suggests. Energy in public ownership commands 59 per cent among Conservative voters and 68 among Reform voters.¹ Renewable expansion is supported by 80 per cent overall including 65 per cent of Reform supporters, and domestic manufacture of renewable components polls above 80 per cent among Conservative, Green, Labour and Reform voters alike.^{1,7} Rail in public ownership runs from 60 per cent among Conservatives to 87 among Labour voters.⁶ These are not divided publics; they are divided parties presiding over an electorate that largely agrees.

The programme is assembled accordingly, from ideas with evidence behind them regardless of which tradition produced them. Land value taxation is not a socialist idea; it descends from Adam Smith, John Stuart Mill and Winston Churchill, and its most consistent modern advocates have been market economists objecting to taxes on production while unearned location value goes untouched.^{41,39} The abolition of business rates and of stamp duty are longstanding demands of the business lobby and of free-market institutes. Planning liberalisation is the central supply-side reform of the past decade and its strongest advocates sit on the right. Higher defence spending commands support well beyond Labour's coalition.

Set against those, the wealth and offshore taxation, the National Care Service, the energy bill reduction and the participation programme are recognisably social democratic in origin. The point is not that these cancel out but that they are complementary: the supply-side reforms create the growth and the redistributive measures determine who benefits from it. A programme doing only the first produces growth most people never feel, which is the experience of the past twenty years. A programme doing only the second redistributes a stagnant national income, which is the experience of the decade before that.

This is what pluralism looks like in practice, and it is the tradition the Co-operative movement has always represented. Robert Owen and the Rochdale Pioneers built institutions on the proposition that common ownership and commercial enterprise were complements rather than alternatives, and G.¹²⁰ D. H. Cole's history of the movement records a century of practice organised on that basis: that ownership and enterprise are not opposites, that markets and mutual obligation are not opposites, and that the useful question about a policy is whether it works rather than which side proposed it.¹¹⁹ It is a harder argument to make than a populist one because it cannot be reduced to an enemy. It has the compensating advantage of being deliverable, and of leaving behind institutions rather than resentments.²¹⁰

Whether the electorate rewards it is the open question, but the evidence points one way. Large majorities simultaneously want lower bills, more housing, better public services and sound public finances, and have been told repeatedly that these are incompatible. On the specific measures in this Budget the public is not narrowly divided but decisively in favour, frequently by margins of six to one, and frequently across every party in the system. The fragmentation of British politics into five parties none of which commands more than a quarter of the vote is not evidence of a fractured electorate.¹¹⁸ It is evidence of a party system that has stopped offering what the electorate has been asking for.

The Case Against Pluralism

The pluralist argument set out above has serious critics, and the strongest versions of their case are worth stating before it is accepted. Two objections in particular deserve an answer.

The first is David Goodhart's. On his account the fundamental division in British politics is not economic but a divide of values and attachment, between those whose identity is rooted in a particular place and those whose skills and outlook are portable.¹¹⁶ If that is right, a Budget is largely beside the point. A programme that lowers bills, builds houses and shortens waiting lists addresses the material grievances of the first group but not the cultural ones, and it is the cultural grievances that determine how they vote. On this reading, Reform's support would prove largely insensitive to economic delivery, and the projections earlier in this section would be optimistic.

The response is not that the cultural divide is imaginary but that it is not the whole account. The projection here assumes precisely that a cost-of-living recovery erodes only part of Reform's coalition, perhaps a third of it, and leaves the rest untouched. But the material and the cultural are not fully separable either: the sense that a place has been abandoned, which is the strongest driver of the values divide, is itself constructed from closed high streets, unaffordable homes and services that no longer work. A programme that visibly reverses those things does not settle the cultural argument, but it removes some of the evidence on which the argument rests.²¹¹

The second objection is Yascha Mounk's, and it cuts the other way. He argues that liberal democracy is being pulled apart into undemocratic liberalism, in which important questions are removed from public contest and settled by expert institutions, and illiberal democracy, in which majorities override the constraints that protect minorities.¹¹⁴ A programme like this one, assembled by technocratic judgement from evidence across traditions and delivered through valuation registers, regulatory determinations and binding development codes, is open to the charge of being the former. It removes a great deal from ordinary political contest: what a home is worth, what a network may earn, where building may occur.²⁰⁸

That charge has force and cannot be wholly answered, only mitigated. The mitigations in this Budget are real ones: the street-vote mechanism returns a decision to residents that the planning system currently takes from them; the deferral provisions leave the timing of payment with the household rather than the state; the valuation system carries a right of appeal at every stage; and nothing here is proposed by executive action alone, since each element requires primary legislation and a parliamentary majority. But it remains true that a rules-based system trades responsiveness for predictability, and that the trade is a real cost rather than a costless improvement. The argument of this Budget is that Britain has erred so far toward case-by-case discretion, in planning above all, that the marginal move toward rules is worth making, not that rules are always to be preferred.

Final Assessment

The Daily Herald Budget represents a pro-business, pro-worker programme for long-term economic modernisation and national renewal.

It lowers taxes and structural costs on productive economic activity while increasing taxation on passive wealth, speculative asset holding, inefficient land use, and unproductive economic rents. Rather than penalising enterprise, investment, industrial expansion, or labour, the strategy seeks to redirect economic incentives toward productive activity, technological development, infrastructure investment, innovation, and long-term wealth creation.

The Budget is designed to create a lower-cost, higher-investment economy by reducing structural pressures facing households and businesses alike. The abolition of business rates, reductions in electricity costs, council tax reductions, energy market reforms, and long-term infrastructure investment collectively improve competitiveness, strengthen disposable incomes, and increase the productive capacity of the economy.

At the same time, the programme delivers major investment in artificial intelligence, quantum technology, nuclear fusion, advanced manufacturing, transport infrastructure, defence capability, scientific research, housing construction, education and workforce skills, NHS modernisation, and a simplified, work-focused welfare system that guarantees no current claimant receives less support.²⁰⁶

These investments are intended not merely to stimulate short-term demand, but to permanently raise Britain's long-term productivity, innovation capacity, technological capability, and economic resilience. The strategy therefore combines stronger growth, lower structural inflation, rising productivity, improved public services, lower household costs, expanded housing supply, and stronger fiscal sustainability within a single coordinated economic framework.¹⁷⁹

By Year 5 the programme is projected to achieve GDP growth of approximately 3.0 per cent in the central delivery scenario, against an Office for Budget Responsibility baseline of about 1.5 per cent, inflation of approximately 1.9 per cent, unemployment of approximately 4.1 per cent, and public debt declining to approximately 88.4 per cent of GDP, with the fiscal deficit narrowing from –£118bn at the baseline to –£38bn.¹³ The comparison with the OBR baseline is the material one: the OBR's March 2026 forecast has public debt rising from 94.5 per cent of GDP to 96.5 per cent by 2028-29 before easing to 95 per cent, so this Budget does not merely accelerate a decline already in prospect but reverses a rise. Cumulative real growth over the five years is 11.6 per cent against 7.5 per cent on the baseline, leaving national output approximately 3.8 per cent higher by Year 5. The baseline is the Office for Budget Responsibility's March 2026 forecast for growth and the public finances, and the Office for National Statistics outturn of 2.6 per cent for consumer price inflation in the twelve months to June 2026. Inflation had reached 3.3 per cent in March following the onset of the conflict in the Middle East and has since eased, though the Bank of England expects it to return above 3 per cent by the end of 2026 as the July increase in the energy price cap feeds through. The Electricity Bill Reduction Package works directly against that: removing £400 from a household electricity bill is a cut of about 45 per cent in the price of electricity, which carries roughly 2.5 per cent of the consumer price index, and the business element removes a further 0.75 percentage points as it passes into prices. The resulting path is not a smooth decline and this Budget does not present it as one. A one-off reduction in a price lowers the rate of inflation for twelve months and then drops out of the annual comparison; the price level stays permanently lower but the rate rebounds. Inflation therefore falls to approximately 2.1 per cent in Year 1 as the electricity reduction lands against the oil-price premium, holds at about 2.1 per cent in Year 2 as that effect leaves the annual comparison and public investment begins to add demand, and then settles between 1.8 and 1.9 per cent as the slower-acting disinflationary measures mature: the business element of the electricity relief, cheaper food under the sanitary and phytosanitary agreement, lower housing costs from planning reform, and above all the effect of 1.8 million additional workers on wage pressure, which is what holds services inflation down as growth accelerates. Against those are set the inflationary consequences of the Budget's own success. Public investment rising from 2.5 to 4.0 per cent of GDP adds roughly 0.36 percentage points, households spending a combined gain of about £43bn adds 0.22, and an output gap turning positive as growth exceeds trend adds a further 0.30 by Year 5. The package is disinflationary on balance, but not overwhelmingly so once its demand effects are counted honestly. Weighted across shock scenarios, the central expectation is 2.0 to 2.4 per cent. There is roughly a 30 per cent probability that inflation exceeds 3 per cent at some point in the period, most plausibly through a renewed energy shock, and roughly an 8 per cent probability that it falls below 1.5 per cent through weaker global demand. One consequence of the design deserves note: with fixed costs removed, wholesale energy rises from 38 to 69 per cent of the remaining electricity bill. The absolute effect of a wholesale price spike on the index is unchanged, but the

proportional movement in the headline bill is far larger, which makes bills more visibly volatile even as they become permanently cheaper. The same discipline is applied to growth, employment, the deficit and debt. On growth, the central path peaks in Year 5 rather than continuing to rise, because most of the reform programme delivers a one-off increase in the level of output rather than a permanent increase in its rate of growth. Returning 800,000 people to work raises what the economy can produce; once they are working, growth returns toward trend. This Budget therefore does not claim 3.0 per cent as a new steady state, and beyond Year 5 growth would be expected to settle between 1.5 and 1.8 per cent, above the 1.1 per cent baseline but well below the peak. On employment, the central path requires employment to rise by 1.9 million over five years, an average of 378,000 a year, while the workforce grows by 1.8 million. The United Kingdom achieved roughly 400,000 a year between 2014 and 2019, so this is at the upper end of what has been done rather than beyond it, and the implied productivity growth of 1.29 per cent a year is consistent with the supply-side estimates in this chapter. If the health-related return to work underdelivers, unemployment does not rise sharply, because the workforce grows more slowly at the same time; the effect appears as lower growth rather than higher unemployment. On the deficit and debt, the scenario analysis produces one result that runs against intuition and deserves to be stated plainly. The greatest risk to the debt target is not an energy shock or a delivery failure but a global slowdown. Debt as a share of national income depends on nominal growth, and a low-inflation, low-growth outcome shrinks the denominator even where borrowing itself is close to the central case. That is the only scenario modelled here in which debt fails to fall below 90 per cent by Year 5, reaching 91.6 per cent. An escalation in which the Strait of Hormuz remains closed produces a materially worse deficit, at –£54bn against –£38bn, yet a debt ratio of 89.1 per cent, only marginally above target, because higher inflation raises nominal output. A second result is worth noting. Faster delivery does not improve the fiscal position. In the fast-delivery scenario growth reaches 3.9 per cent and unemployment 3.7 per cent, but the deficit is £14bn worse than the central case, because an economy running that hot would prompt the Bank to raise rates and the additional debt interest exceeds the additional receipts. Debt still falls faster, to 84.2 per cent, because nominal growth is higher. Weighted across all five scenarios the position is growth of 2.9 per cent, unemployment of 4.2 per cent, a deficit of –£42bn and debt of 89.1 per cent: both fiscal objectives are met on a probability-weighted basis, and in four of the five individual scenarios. In the downside scenario, in which only 45 per cent of the reform programme is delivered, growth reaches 2.5 per cent and debt 90.3 per cent, so both fiscal objectives are still met. The debt objective is met in four of the five scenarios modelled; it is missed only under a sustained global slowdown, where low nominal growth shrinks the denominator. These projections incorporate the full sensitivity analysis for the Land Value Tax and Residential Property Tax, including the effects of capital flight, land price capitalisation, valuation disputes, and avoidance pressures, offset by upward pressures from land release, GDP feedback, infrastructure uplift and anti-avoidance recovery.¹⁷¹

At the same time, the fiscal deficit is projected to move from a substantial structural deficit toward a sustained fiscal surplus through stronger growth, broader tax revenues, reduced welfare dependency, and lower debt servicing costs rather than through austerity or reductions in productive investment.

The Daily Herald Budget therefore rejects the false choice between economic growth and fiscal responsibility. It argues instead that long-term fiscal sustainability depends fundamentally upon productive investment, efficient taxation, modern infrastructure, technological advancement, lower structural costs, and a more productive economy.

Its central objective is not simply to manage economic decline more efficiently, but to actively modernise, rebuild, and rejuvenate the British economy and state for the long term.

The distributional pattern of these measures follows directly from their design. They fall on those who hold commercial property or land idle for strategic or speculative reasons, and they benefit those who wish to use commercial space productively, together with the communities and high streets that suffer when it stands empty. The principal beneficiaries and those who bear the charge are set out below.

Bibliography and Sources

This Budget draws on published statistics, official forecasts, polling conducted by members of the British Polling Council, and the academic and institutional literature on tax design. References are numbered and cited throughout the document. Where a figure is an estimate produced for this Budget rather than drawn from a published source, that is stated at the point of use.

Three categories of figure should be distinguished. Published statistics, such as the Ofgem price cap or Office for National Statistics data, are reported as published. Published forecasts, such as those of the Office for Budget Responsibility or the oil market analysts, are attributed to the forecaster and dated, since they change. Estimates produced for this Budget, including all revenue yields, growth effects and the political projections in the Conclusion, are modelled from the sources listed and are the responsibility of this publication alone.²⁵

Entries are numbered and cited in the text where a specific claim rests on them. A number of works are listed because they inform the analysis as a whole rather than any single sentence, and these carry no inline citation.

Bibliographic details for published books have been compiled for this edition and a sample verified against publisher and library records. Readers relying on a specific edition should confirm the imprint and year, since several of the works listed have appeared under more than one publisher or in more than one territory.

A. Public Opinion and Polling

1. YouGov, 'What tax reforms would Britons support?', October 2025. Finds 75 per cent support and 12 per cent opposition for a wealth tax of 1 per cent on assets above £10 million and 2 per cent above £1 billion; 69 per cent support for a mansion tax on homes above £2 million.
2. YouGov for Oxfam GB, polling published March 2025. Finds 78 per cent support for a 2 per cent wealth tax on net assets above £10 million; 77 per cent would prefer higher taxes on the very richest to cuts in public spending; 67 per cent believe the very richest should pay more.
3. YouGov for Oxfam GB, polling published July 2026. Finds 76 per cent support for a 2 per cent wealth tax on assets above £10 million; 71 per cent believe the economy works mainly in the interests of the wealthy.

4. Survation for Patriotic Millionaires UK, UK Millionaire Poll 2026. Fieldwork 1–15 April 2026, sample 501 UK millionaires with assets above £1 million excluding primary residence. Finds 75 per cent willing to pay more tax; 79 per cent willing to pay more to create opportunities for young people; 9 per cent concerned about millionaires leaving the UK against 43 per cent concerned about doctors leaving.
5. YouGov, 'Most Britons think water and energy companies should be nationalised', May 2026. Finds 82 per cent support for water in public ownership against 8 per cent opposed; energy in public ownership supported by 59 per cent of 2024 Conservative voters, 68 per cent of Reform UK voters, 74 per cent of Liberal Democrat voters and 79–80 per cent of Labour and Green voters.
6. YouGov, 'Support for nationalising utilities and public transport has grown significantly in last seven years', July 2024. Finds support for energy in public ownership at 71 per cent, up from 53 per cent in 2017; rail nationalisation supported by 60 per cent of Conservative voters, 77 per cent of Reform UK voters, 81 per cent of Liberal Democrats and 87 per cent of Labour voters.
7. YouGov for Friends of the Earth, August 2025. Finds 80 per cent support for expanding UK renewable generation, including 65 per cent of Reform UK supporters; 76 per cent support for UK-made renewable components, polling above 80 per cent among Conservative, Green, Labour and Reform voters; 81 per cent support for expanded green industry training.
8. YouGov, 'What do the public make of Labour's proposed planning reforms?', July 2024. Finds 62 per cent support and 29 per cent opposition to a large increase in national housebuilding; support falling to 52 per cent with 41 per cent opposition for large-scale building in the respondent's own area, with those strongly opposed rising from 10 to 21 per cent; 52 per cent support for binding council housebuilding targets.
9. YouGov, tracker on taxation and spending levels, February 2026. Finds 44 per cent believe the government taxes and spends too much, 21 per cent too little and 11 per cent that the balance is about right.
10. YouGov for The Times and Sky News, voting intention, fieldwork 2–3 August 2026. Reform UK 23 per cent, Labour 22, Conservative 19, Green 13, Liberal Democrat 12.
11. PollCheck, seven-poll Westminster voting intention moving average, 4 August 2026. Labour 25.7 per cent, Reform UK 24.0, Conservative 19.3, Green 11.3, Liberal Democrat 10.7.

- 12.** Note on commissioned polling. References 2, 3, 4 and 7 were commissioned by organisations campaigning on the subject matter, namely Oxfam, Patriotic Millionaires UK and Friends of the Earth. Fieldwork was conducted by established members of the British Polling Council, but question framing in commissioned polling tends to favour the commissioning body's position and the figures should be read with that in mind.

B. Energy Prices and Market Data

- 13.** Ofgem, 'Energy price cap will rise by 13% from July', 27 May 2026. Sets the cap at £1,862 a year for a typical dual-fuel household paying by direct debit for the period 1 July to 30 September 2026, an increase of £221, attributed to higher wholesale gas prices arising from the conflict in the Middle East.
- 14.** Ofgem, 'Changes to energy price cap between 1 July and 30 September 2026'. Electricity at 26.11 pence per kilowatt hour with a daily standing charge of 57.19 pence, averaged across England, Scotland and Wales, including VAT at 5 per cent.
- 15.** Ofgem, revision to Typical Domestic Consumption Values effective 1 July 2026. Assumed annual consumption reduced from 2,700 to 2,500 kilowatt hours of electricity and from 11,500 to 9,500 kilowatt hours of gas, producing a parallel headline figure of £1,663. Unit rates are unchanged; only the assumed usage differs. Figures in this Budget use the £1,862 benchmark for like-for-like comparison with earlier periods.
- 16.** Ofgem, price cap component breakdown. Used for the decomposition of a typical electricity bill into wholesale, network, policy and social levies, balancing and system operation, operating costs, and VAT.¹⁶
- 17.** Cornwall Insight, Q4 2026 price cap forecast, indicating a cap close to the Q3 level at the 2023 consumption benchmark.
- 18.** Department for Energy Security and Net Zero, sub-national electricity and gas consumption statistics. Used for the domestic and non-domestic consumption split underlying the estimated cost of removing network charges and policy levies from electricity bills.
- 19.** Ofgem, Renewables Obligation, Feed-in Tariff and Energy Company Obligation scheme costs. Used for the environmental and social levy component of the bill.
- 20.** English Housing Survey and Department for Energy Security and Net Zero housing stock statistics. Used for the estimate of approximately 24 million households on mains gas, 2.5 million electrically heated and 2 million off the gas grid.

C. Oil Markets and the 2026 Conflict

21. RBC Capital Markets, oil market forecast, 31 July 2026. Brent averaging \$80.10 a barrel in 2026 and \$75.80 in 2027.
22. J.P. Morgan, oil market outlook, July 2026. Brent at \$86 in the third quarter of 2026, \$80 in the fourth quarter and \$78 at year end, easing to approximately \$64 in 2027.
23. Goldman Sachs, oil market outlook, 2026. Base case Brent of approximately \$80 in the fourth quarter of 2026 and \$75 in 2027, with a tail scenario above \$100 conditional on the Strait of Hormuz remaining closed.
24. United States Energy Information Administration, Short-Term Energy Outlook, 2026. Brent above \$95 in April and May 2026, below \$80 in the third quarter, approximately \$70 at year end, and averaging \$64 in 2027.²⁴
25. Barclays, oil market forecast, 2026. Brent averaging approximately \$85 in 2026 and \$68 to \$70 in 2027.
26. International Energy Agency, Oil Market Report, 2026. Demand growth revised down by approximately 0.7 million barrels a day, with a supply surplus building into 2027.²⁶
27. Contemporaneous reporting on the Middle East conflict, February to August 2026: the commencement of hostilities on 28 February 2026, the closure of the Strait of Hormuz, the two-week ceasefire of 8 April 2026 and its subsequent collapse in June, and the United States naval blockade.
28. Contemporaneous reporting, 2–3 August 2026, on renewed negotiations mediated through Oman regarding the reopening of the Strait of Hormuz, and the associated fall in crude prices.

D. Fiscal and Economic Statistics

29. Office for Budget Responsibility, Economic and Fiscal Outlook, March 2026. Baseline projections for growth, inflation, unemployment, public sector net borrowing and public sector net debt against which this Budget is measured.
30. Office for National Statistics, public sector finances. Used for the baseline deficit of approximately £118 billion and public sector net debt of approximately 94.5 per cent of GDP.
31. Office for National Statistics, GDP first quarterly estimate and national accounts. Used for the nominal GDP path underlying the debt-to-GDP calculations in the Conclusion.
32. Office for National Statistics, Consumer Prices Index, June 2026, recorded at 2.6 per cent.

33. HM Treasury, public expenditure statistical analyses. Used for the baseline shares of receipts and total managed expenditure in GDP.
34. Office for National Statistics, wealth and assets survey. Used for the distribution of net household wealth underlying the passive wealth surcharge thresholds in Chapter 7A.
35. Office for National Statistics, UK national balance sheet. Used for estimates of the value of land underlying dwellings and commercial property, informing the Land Value Tax base in Chapter 8.³⁵
36. HM Revenue and Customs, annual receipts statistics. Used for baseline yields from business rates, council tax, stamp duty land tax, air passenger duty, gambling duties and the bank surcharge.³⁶
37. HM Revenue and Customs, property rental income and dividend income statistics. Used for the base of approximately £105 billion underlying the National Insurance extension in Chapter 7I.
38. HM Revenue and Customs, cost of pension tax relief. Used for the estimate of the net yield from flat-rating relief at 30 per cent, and for the cost of the compensating adjustment for public sector defined-benefit schemes.

E. Tax Policy Analysis and Precedent

39. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776, Book V, on ground rents as a subject of taxation.
40. John Stuart Mill, *Principles of Political Economy*, 1848, on the unearned increment of land value.
41. Winston Churchill, speeches on land value taxation, 1909.
42. Institute for Fiscal Studies, *Mirrlees Review: Tax by Design*, 2011. On the efficiency case for land value taxation, the distortionary effects of transaction taxes on property, and the differential treatment of earned and unearned income.
43. Institute for Fiscal Studies, analysis of stamp duty land tax and its effects on household mobility.
44. Institute for Fiscal Studies, analysis of the taxation of employment, self-employment and dividend income, and the incentive to incorporate.
45. Advani, Chamberlain and Summers, *A Wealth Tax for the UK*, Wealth Tax Commission, 2020. On design, thresholds, valuation and administration of net wealth taxation.
46. Valuation Office Agency, rating list and council tax valuation methodology. Used for the assessment of administrative feasibility of commercial and residential revaluation.

- 47. HM Revenue and Customs, Business Asset Disposal Relief material participation conditions. Used for the active business exemption tests in Chapters 7A and 7B.
- 48. Ofwat and Ofgem price control determinations, allowed weighted average cost of capital and regulated asset base. Used for the monopoly rent charge in Chapter 7I.
- 49. Competition and Markets Authority and regulatory reporting on outperformance against allowed returns in the water and energy network sectors.
- 50. Department for Work and Pensions and Office for Budget Responsibility, health-related benefit caseload and expenditure. Used for the estimated saving of approximately £9,000 per person returning to work in Chapter 10.

F. International Comparisons and Precedent

- 51. Organisation for Economic Co-operation and Development, Common Reporting Standard. Automatic exchange of financial account information operated by more than one hundred jurisdictions, underpinning Chapter 7B.
- 52. Organisation for Economic Co-operation and Development, revenue statistics. Used for the comparison of UK receipts as a share of GDP with the Netherlands, Germany, France, Belgium, the Nordic countries and the United States.
- 53. Organisation for Economic Co-operation and Development, The Role and Design of Net Wealth Taxes, 2018. On the repeal of wealth taxes in France, Sweden and elsewhere, and the retention of workable variants in Switzerland and Norway.
- 54. City of Vancouver, Empty Homes Tax annual reports. On the reduction in vacant properties following introduction of a vacancy charge.
- 55. French Government, taxe sur les logements vacants. On the return of vacant dwellings to use following introduction of a vacancy tax.
- 56. Comparative planning system evidence on rules-based zoning in Japan, Germany and the Netherlands, and its relationship to housing supply and price stability.

G. Electoral Data

- 57. House of Commons Library, General Election 2024: results and analysis. Labour 33.7 per cent and 411 seats; Conservative 23.7 per cent and 121 seats; Liberal Democrat 12.2 per cent and 72 seats; Reform UK 14.3 per cent and 5 seats; Green 6.7 per cent and 4 seats.
- 58. House of Commons Library, analysis of second-placed parties at the 2024 general election, indicating Reform UK second in close to one hundred constituencies.

- 59. Published pollster cross-tabulations, 2026, on voting intention by age and region. Reform UK leading among voters aged 50 to 64 and 65 and over; the Green Party leading among those aged 18 to 24; Labour strongest among those aged 25 to 49; Reform UK leading in most English regions outside London.
- 60. Published analysis of 2024 Labour voter retention, 2026, indicating approximately three in five 2024 Labour voters retained, with the remainder dispersed to Reform UK, the Liberal Democrats and the Green Party.

H. Public Services, Housing and Defence

- 61. Office for National Statistics, labour market overview and economic inactivity statistics. Used for the figure of approximately 2.8 million people economically inactive because of long-term sickness, and for the participation and unemployment projections in Chapter 10.
- 62. Independent Commission on Adult Social Care, chaired by Baroness Casey. Phased plan for a National Care Service, forming the baseline against which the additional measures in Chapter 5D are set.
- 63. NHS England, Referral to Treatment waiting times statistics. Used for the elective backlog and waiting list reduction targets in Chapters 5 and 10.
- 64. Ministry of Defence, Defence Investment Plan. Baseline defence expenditure of approximately £71 billion a year rising to £82 billion, against which the additional investment in Chapter 5C is measured.
- 65. NATO, Defence Investment Pledge and capability targets to 2035, including the 3.5 per cent core defence and 1.5 per cent security-related resilience components referenced in Chapter 5C.
- 66. Ministry of Housing, Communities and Local Government, net additional dwellings statistics and housing supply data. Used for the baseline against which the 300,000 homes a year target in Chapter 3 is set.
- 67. Ministry of Housing, Communities and Local Government, statutory homelessness and rough sleeping statistics. Used for the eradication targets in Chapter 3.
- 68. Competition and Markets Authority, housebuilding market study, 2024. On build-out rates, land banking and the relationship between the speculative housebuilding model and delivery.
- 69. Ministry of Housing, Communities and Local Government, planning application and permission statistics. Used for the gap between permissions granted and homes completed in Chapter 9.
- 70. Home Office, immigration and asylum statistics, including accommodation costs and processing times. Used for the border and asylum measures in Chapter 5.

71. Ministry of Justice, criminal court statistics and outstanding caseload data. Used for the court backlog measures in Chapter 5.
72. Department for Work and Pensions, benefit expenditure and caseload tables, including the Universal Credit health element. Used for the welfare reform costings in Chapter 5B and the return-to-work savings in Chapter 10.
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74. Bank of England, Monetary Policy Report. Used for the interest rate path and the assessment of the inflation effects of the Budget in the Conclusion.
75. Climate Change Committee, carbon budget advice. Used for the decarbonisation trajectory underlying Chapters 2 and 6.
76. Migration Advisory Committee and published analysis of reciprocal youth mobility schemes, including the arrangements operated with Australia, Canada and Japan. Used for the youth mobility proposal in Chapter 10.
77. Office for National Statistics, trade statistics and analysis of goods exports since 2021. Used for the trade intensity effects in Chapter 11.
78. HM Treasury, Green Book. Appraisal methodology underlying the assessment of the investment programme.
79. National Audit Office, reports on public sector delivery capacity, procurement and major programme performance. Used for the deliverability assessments in the Conclusion.
80. Local Government Association, analysis of local authority finance and planning capacity. Used for the local plan and design code funding in Chapter 9.

I. Polling Aggregates and Additional Pollsters

81. PollCheck, Westminster voting intention seven-poll moving average, weighted by sample size, drawing on YouGov, Survation, Find Out Now, More in Common, Opinium, Focalddata and Freshwater Strategy. Reading of 5 August 2026: Labour 25.9 per cent, Reform UK 24.0, Conservative 19.4, Green 11.1, Liberal Democrat 10.7.
82. Electoral Reform Society, monthly polling average, June 2026, compiled from BMG, Deltapoll, Find Out Now, Good Growth Foundation, J.L. Partners, More in Common, Opinium, Survation and YouGov.
83. Mark Pack, voting intention and leadership ratings scorecard, aggregating published polling from BMG, Deltapoll, Find Out Now, Freshwater Strategy, Ipsos, More in Common, Opinium, Public First, Savanta, Survation and YouGov.

84. Ipsos, in partnership with the Global Commons Alliance and Earth4All, G20 public attitudes survey. Finds 68 to 70 per cent support across G20 countries for taxes on wealth, on high incomes and on large business profits.
85. British Social Attitudes survey, housing modules, published by the Ministry of Housing, Communities and Local Government. Finds 55 per cent supportive of new homes in their local area in 2017 and 21 per cent opposed, against 56 per cent supportive in 2014 and 28 per cent in 2010. Conducted face to face rather than online, and generally recording higher support and markedly lower opposition than online panel polling on the same question.
86. YouGov for the HomeOwners Alliance, Homeowner Survey 2015. Finds 70 per cent support for higher council tax on homes not occupied all year round and 60 per cent support for an annual property tax on homes above £2 million.
87. British Polling Council, register of members and disclosure rules. All polling cited in this Budget was conducted by member organisations, which are required to publish tables, sample sizes, fieldwork dates and weighting methodology.
88. Note on aggregation. Where more than one pollster has asked a comparable question, this Budget reports the range across pollsters and an unweighted average of the published figures, rather than relying on a single house. Differences between houses on the same question commonly run to five or more points and reflect panel composition, question order and mode of interview as much as genuine movement in opinion.

J. Closer-Matched Polling on Specific Measures

89. Survation for the End Fuel Poverty Coalition, April 2026. Finds 41 per cent of the public support the Energy Profits Levy on oil and gas companies against 17 per cent opposed; 53 per cent say ending the levy now would be the wrong thing to do against 22 per cent who say it should end; 64 per cent believe the energy industry is profiteering from the conflict. By party, Reform UK voters support the levy by 39 to 24 per cent and Conservative voters by 44 to 19 per cent.
90. Survation for the End Fuel Poverty Coalition, May 2026. Finds 74 per cent believe it is morally wrong for oil and gas companies to profit from the energy crisis arising from the conflict.
91. Survation for the End Fuel Poverty Coalition, Scotland, March 2026. Finds 41 per cent backing the windfall tax against 19 per cent opposed, with majority support among SNP, Labour, Liberal Democrat and Green voters.
92. New Economics Foundation, A Frequent Flyer Levy: Sharing Aviation's Carbon Budget, incorporating YouGov polling conducted 26 to 27 November 2018 for 10:10 Climate Action. Finds the public prefer a frequent flyer levy by a large margin to alternative measures for limiting aviation demand.

93. Climate Assembly UK, 2020. The assembly supported the principle that those who fly more should pay more, following deliberation on aviation taxation options.
94. Public Interest Research Centre survey, cited by HACAN. Finds more than half of respondents preferred a frequent flyer levy to Air Passenger Duty.
95. Civil Aviation Authority passenger survey and Department for Transport aviation statistics. Used for the distribution of flights, indicating that approximately 15 per cent of the population take around 70 per cent of flights and that between 48 and 57 per cent take no flights in a given year.
96. Note on proxy quality. Where no poll exists on a measure as designed, this Budget uses the closest available proxy and states the distance between the two. In particular, polling on public ownership of utilities measures a different proposition from the monopoly rent charge in Chapter 71, which taxes returns above the allowed regulatory rate and transfers no ownership. Windfall tax polling is the closer analogue and records materially lower support, and the table reports both.

K. Land, Rent and the Classical Tradition

97. David Ricardo, *On the Principles of Political Economy and Taxation*, 1817. The theory of differential rent, from which the modern case for land value taxation derives.
98. Henry George, *Progress and Poverty*, 1879. The most influential statement of the argument that land value arises from the community and should accrue to it.
99. Arthur Cecil Pigou, *The Economics of Welfare*, 1920. The foundation of externality taxation, underlying the environmental and congestion measures in this Budget.
100. Alfred Marshall, *Principles of Economics*, 1890, on quasi-rents and the distinction between returns to effort and returns to position.

L. Modern Economic Analysis

101. Thomas Piketty, *Capital in the Twenty-First Century*, 2013. On the long-run tendency of returns to capital to exceed growth, and the resulting concentration of wealth.
102. Anthony B. Atkinson, *Inequality: What Can Be Done?*, 2015. On the practical instruments available to reduce inequality within a market economy.
103. Josh Ryan-Collins, Toby Lloyd and Laurie Macfarlane, *Rethinking the Economics of Land and Housing*, 2017. On the relationship between land values, credit and housing costs.

- 104.** Mariana Mazzucato, *The Entrepreneurial State*, 2013, and *The Value of Everything*, 2018. On the public foundations of private innovation and the distinction between value creation and value extraction.
- 105.** Chang-Tai Hsieh and Enrico Moretti, 'Housing Constraints and Spatial Misallocation', *American Economic Journal: Macroeconomics*, 2019. On the aggregate output cost of restricting housing supply in high-productivity cities.
- 106.** Edward Glaeser, *Triumph of the City*, 2011, and Enrico Moretti, *The New Geography of Jobs*, 2012. On agglomeration and the economic cost of constraining growth in productive places.
- 107.** Paul Cheshire, Max Nathan and Henry Overman, *Urban Economics and Urban Policy*, 2014. On the British planning system and its effects on land and housing markets.
- 108.** Resolution Foundation and the Centre for Economic Performance, *Ending Stagnation: A New Economic Strategy for Britain*, 2023. On the diagnosis of two decades of weak productivity and stagnant wages.
- 109.** Institute for Public Policy Research, *Commission on Economic Justice, Prosperity and Justice*, 2018.
- 110.** Sam Bowman, Samuel Hughes and Ben Southwood, 'Foundations: Why Britain Has Stagnated', 2024. On planning, infrastructure and energy costs as binding constraints on growth.
- 111.** John Muellbauer, published work on housing, credit and the macroeconomy.
- 112.** Ian Mulheirn, published analysis on UK housing supply and affordability, offering a dissenting view on the relationship between supply and price that is engaged with in Chapter 3.

M. Democracy, Pluralism and Populism

- 113.** Pippa Norris and Ronald Inglehart, *Cultural Backlash: Trump, Brexit and Authoritarian Populism*, 2019. On the drivers of populist support in advanced democracies.
- 114.** Yascha Mounk, *The People vs. Democracy*, 2018. On the tension between liberalism and democracy in an age of populist politics.
- 115.** Michael J. Sandel, *The Tyranny of Merit*, 2020. On the political consequences of meritocratic sorting and the resentment it generates.
- 116.** David Goodhart, *The Road to Somewhere*, 2017. On the value divide underlying contemporary electoral realignment, engaged with rather than endorsed in the Conclusion.¹¹⁶

- 117.** Robert Ford and Matthew Goodwin, *Revolt on the Right*, 2014, and subsequent work on the realignment of the British electorate.
- 118.** British Election Study, successive waves. On voter volatility, partisan dealignment and the fragmentation of the party system.

N. The Co-operative Tradition

- 119.** G. D. H. Cole, *A Century of Co-operation*, 1944. The standard history of the British co-operative movement and its economic philosophy.
- 120.** Robert Owen, *A New View of Society*, 1813, and the founding documents of the Rochdale Society of Equitable Pioneers, 1844. The origins of the co-operative principle of common ownership combined with commercial enterprise.
- 121.** William Beveridge, *Social Insurance and Allied Services*, 1942. The foundation of the contributory principle whose subsequent erosion is discussed in Chapter 7I.
- 122.** Co-operative Party, published policy statements on community wealth building, mutual ownership and the plural economy.

O. Polling on Property and Land Taxation

- 123.** YouGov, 'What tax reforms would Britons support?', October 2025. Twelve tax reform proposals tested. Scrapping stamp duty without a stated replacement is supported by 63 per cent. Making council tax proportionate to property value is supported by 56 per cent. Pegging tax thresholds to inflation is supported by 52 per cent. Requiring homeowners rather than tenants to pay property taxes is supported by 48 per cent against 34 per cent opposed. Merging income tax and National Insurance is supported by 43 per cent against 26 per cent opposed. Abolishing stamp duty and replacing it with a land value tax based on the value of the site is supported by 34 per cent against 39 per cent opposed. Cutting the top rate of income tax below 40 per cent is supported by 29 per cent against 48 per cent opposed.
- 124.** Institute for Public Policy Research and Patriotic Millionaires UK, polling on wealth taxation. Finds 75 per cent of the public and 80 per cent of UK millionaires support taxing wealth more.
- 125.** Note on public awareness of land value taxation. No published survey establishes what proportion of the British public can define a land value tax, and the concept does not appear in the standard tracker questions run by any major house. Questions on the subject therefore measure reaction to a description encountered for the first time rather than a settled opinion, and results are correspondingly sensitive to how the description is framed and to what the tax is paired with.

- 126.** Scottish Land Commission, research conducted by the University of Reading on the feasibility of land value taxation in Scotland, examining experience in Australia, Estonia, New Zealand, Denmark, South Africa and Namibia. Concludes that land value taxation is attractive in theory but faces substantial implementation barriers.
- 127.** Fairer Share campaign, proposals for a Proportional Property Tax to replace council tax, stamp duty and the under-occupancy charge.
- 128.** Office for Budget Responsibility, council tax forecast, and Ministry of Housing, Communities and Local Government, Council Tax levels set by local authorities in England. The OBR estimates council tax receipts across Great Britain at £50.9 billion in 2025-26, rising to approximately £53.7 billion in 2026-27. The England-only council tax requirement was £44.1 billion in 2025-26, rising to approximately £46 billion in 2026-27. Because council tax is devolved in Scotland and Wales, the Residential Property Tax in Chapter 8B replaces council tax in England only, and the England figure is therefore the relevant comparator throughout this Budget.
- 129.** PolicyEngine, modelling of a revenue-neutral replacement of council tax with a land value tax, June 2026. Finds most households gain and relative poverty falls slightly.
- 130.** Figures submitted by the Government to the Office for Budget Responsibility, released in response to a parliamentary question, July 2026. Project council tax income rising from £41.2 billion in 2024-25 to £58.8 billion in 2030-31. Contemporaneous reporting records the Prime Minister acknowledging that significant decisions lie ahead on council tax and stating that he has been persuaded by the case for reform, while the Government has rejected the characterisation of the projections as a planned £17 billion increase.
- 131.** Office for National Statistics, quarterly national accounts, published 30 June 2026, as reported by Reuters. Confirms growth of 0.6 per cent in the first quarter of 2026, unchanged from the first estimate, with services the main driver. Revises the final quarter of 2025 down to 0.1 per cent and output for 2025 as a whole to 1.3 per cent from a previous estimate of 1.4 per cent. Records the third consecutive year of strong first-quarter growth and the statistics office's statement that its review found no statistically significant seasonality, though it continues to monitor the position. Contemporaneous commentary notes that business surveys and April activity data point to a weaker second quarter.

P. Modelled Estimates and Derived Figures

- 132.** Estimate produced for this Budget. Figures carrying this reference are modelled rather than drawn from a published source. They are derived from the statistical bases listed elsewhere in this bibliography, principally Office for National Statistics, Office for Budget Responsibility, HM Revenue and Customs and departmental data, using the assumptions stated at the point of use. Revenue yields, behavioural responses, growth and inflation effects, distributional outcomes and the political projections in the Conclusion all fall into this category. They are the responsibility of this publication alone and no official body has endorsed them.
- 133.** Derived from the chapter costings in this Budget. Figures carrying this reference are arithmetic aggregations of measures set out elsewhere in the document, and can be reconciled against the financial summary table of the chapter concerned.

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- 238.** Statement by Maria Zakharova, spokeswoman for the Russian Ministry of Foreign Affairs, 27 August 2026, warning that any British military facilities and equipment in Ukraine and beyond its borders could be targeted in response to Ukrainian strikes using British weapons. Contemporaneous reporting records Russian state television discussing the coordinates of British logistics hubs at RAF Akrotiri in Cyprus and Rzeszów-Jasionka in Poland. The Prime Minister described the threats as outrageous and said the United Kingdom would not be deterred.
- 239.** Contemporaneous reporting of strikes on British sovereign facilities during the 2026 Iran conflict: a loitering munition struck RAF Akrotiri, Cyprus, on 1 March 2026, with further drones intercepted on 1 and 4 March; missiles were fired at the joint United States and United Kingdom facility at Diego Garcia on 21 March 2026. These attacks were attributed to Iran and its allies, not to Russia.