CAPITAL FOR BRITAIN

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Bank lending, savings incentives, listings and the consolidation of pension funds.

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Britain saves, but its savings do little to build Britain. Its banks lend against houses and hold government debt rather than financing businesses. Its pension funds and individual savers put their money into global index funds, which now means putting most of it into the United States. Its most promising companies are sold abroad or list abroad before they reach their full size, and the returns from British discovery are captured elsewhere.

This is not an accident of the market. British tax and regulation make it more expensive for British money to hold British risk than to do almost anything else. Banks face rules that limit the services they can offer businesses and make lending against houses and holding gilts the path of least resistance. Savers receive generous tax relief whether their money is invested at home or abroad, while the fiduciary practice of pension funds treats any departure from a global benchmark as a risk to be avoided. Companies pay a tax on every share traded in London that their competitors in New York do not.

The answer is not to direct capital by command. Markets should remain free and savers should remain free to invest wherever they choose. But tax relief is a public subsidy, and the state is entitled to decide what it subsidises. The principle of this paper is simple: British tax relief for British capital.

The paper proposes a programme in five parts. Let banks lend by abolishing ring-fencing, reforming the leverage ratio, implementing international capital standards no further and no faster than the United States and removing the special taxes on banks, while putting in place a dormant brake to stop the credit released from flowing back into existing housing. Make British capital the default for British savings by attaching a UK condition to pension and ISA tax relief, protecting trustees who invest at home, restoring a dividend tax credit for pension funds and removing capital gains tax on long-term holdings of London-listed shares and on sales that keep companies British, alongside making the venture capital reliefs permanent. Make London the place to list and trade by abolishing stamp duty on shares, removing the remaining sunset on dual class shares, allowing loyalty voting for long-term shareholders, cutting reporting back to what investors need and opening private markets to ordinary investors. Build funds large enough to invest directly in Britain, including a public consolidator for closed final salary schemes. And fill the gap that forces growing companies abroad through a time-limited programme that matches private investment in British growth funds.

Capital follows returns, and no reform of the capital markets can make savers hold British assets for long if British companies are not worth owning. These measures remove the penalties on investing in Britain. Whether British companies become worth owning depends on cheaper energy, the ability to build and a pipeline from science to enterprise, which the rest of this programme addresses.

1 Why British capital does not build Britain

Four weaknesses explain why British savings do so little for British growth.

The pool of domestic capital is too small. Auto-enrolment has brought millions into pension saving, but contributions remain low by international standards, and much of the wealth British households do hold is tied up in housing rather than productive investment.

The pool is too fragmented. Thousands of pension schemes, many of them small, lack the scale to employ in-house investment teams or to invest directly in infrastructure and unlisted companies. Closed final salary schemes hold very large sums but are managed towards buy-out, with assets increasingly held in gilts while they wait to be wound up.

The pool is pointed abroad. Pension trustees and fund managers benchmark against global indices dominated by American companies, and a fund that departs from that benchmark risks criticism and legal challenge if it underperforms. The safe choice is a global tracker. British pension funds now hold a far smaller share of their equity investments in domestic companies than their counterparts in comparable countries.

PENSION SYSTEM	DOMESTIC SHARE OF EQUITY HOLDINGS
United Kingdom, defined contribution schemes	Around 8%
United Kingdom, private defined benefit schemes	Around 11%
Canada	Around 22%
New Zealand	Around 42%
Australia	Around 45%

These figures measure home bias within equity portfolios. They are not directly comparable with the allocation proposed in M6, which is measured as a share of total assets.

Capital is absent when companies need it most. British research and early-stage investment are strong, but the larger sums needed to take a company from promising to dominant are scarce. Too many companies are sold to foreign buyers or move their listing abroad at precisely the point when they would begin to generate the largest returns for the country that created them.

The banking system compounds these weaknesses. Rules introduced after the financial crisis, many of them justified at the time, have accumulated to the point where they limit what banks can offer businesses and make mortgages and gilts the easiest place to put capital, while special taxes on banking add to the cost of credit.

2 Principles

Markets by default. The programme does not tell savers, banks or companies where to invest. It removes the rules and taxes that penalise investment in Britain and leaves the allocation of capital to those who own it.

British tax relief for British capital. Where the state subsidises saving through tax relief, it is entitled to set the terms of that subsidy. Savers who want to invest abroad remain free to do so, but the taxpayer should not subsidise the flow of British savings out of Britain.

Proportionate prudential rules. Banks must be safe and failing banks must be resolvable without cost to the taxpayer. But Britain should not impose rules on its banks that are stricter or earlier than those faced by their principal competitors unless there is a clear British reason to do so.

Underwrite rather than own. Where the state helps to fill a gap in the market, it should share risk with private investors on terms that allow it to withdraw once the market can stand on its own.

A deliberate shift in the burden of tax. Several measures in this paper reduce taxes on banking, share ownership and long-term investment. This is a choice to tax less heavily the capital that builds the British economy, and its cost should be stated and met openly rather than assumed to pay for itself. The table shows the revenue currently raised by the taxes this paper abolishes or reduces. These are static figures that take no account of behavioural responses or of the growth the reforms are intended to generate.

TAX	REVENUE CURRENTLY RAISED	NOTE
Stamp taxes on shares (M13)	£4.3 billion in 2024-25	Stamp duty and stamp duty reserve tax on shares and securities
Bank levy (M4)	£1.4 billion in 2025-26	
Bank surcharge (M4)	£1.2 billion in 2025-26	At 3%. The temporary increase to 6% from January 2027 is forecast to raise about £1.5 billion over fifteen months
Capital gains tax on long-held shares (M10)	Estimated cost £0.5 billion to £1.5 billion a year	Static estimate. Most large private sales are trade sales, many to foreign buyers, which remain taxable. The cost rises if more companies list in London
Dividend tax credit for pension funds (M9)	Estimated cost £0.5 billion to £1.5 billion a year	At a credit of 25 to 33 per cent of qualifying dividends. The cost rises as pension funds hold more UK shares

3 Let banks lend

Each reform in this section removes a specific constraint. Removing a constraint does not guarantee that more finance will flow to British businesses, because banks lend where they judge the return worth the risk. What the reforms do is widen the range of finance banks can offer businesses and the capacity they have to offer it, while the brake in M5 guards against that capacity flowing into existing housing instead.

M1 Abolish ring-fencing

Repeal the ring-fencing regime introduced by the Financial Services (Banking Reform) Act 2013 and the rules made under it. Ring-fencing was designed to protect retail deposits from investment banking losses at a time when large banks could not be safely resolved. Since then the resolution regime, including bail-in and the requirement for banks to hold loss-absorbing debt, has given the authorities the tools to manage the failure of a large bank without public money. Ring-fencing now duplicates that protection while imposing costs of its own. It limits the hedging and other financial products that ring-

fenced banks can offer businesses. It restricts their exposures to other financial institutions, which constrains fund finance and lending to venture and growth funds. And it holds surplus deposits inside the ring-fence, where lending against homes is the easiest outlet. Abolition allows banks to deploy their deposits and capital across the full range of business finance.

Depositor protection will continue through the Financial Services Compensation Scheme and the resolution regime. The Prudential Regulation Authority will retain its powers to require structural or operational changes where a particular bank cannot be resolved safely. Abolition goes further than the present government's proposals, which relax the regime while keeping its structure.

M2 Reform the leverage ratio

Exclude gilts and repo transactions backed by gilts from the exposure measure used to calculate the leverage ratio, in addition to the central bank reserves that are already excluded. The leverage ratio limits the size of a bank's balance sheet regardless of the risk of its assets, which means that holding gilts and providing liquidity in the gilt market consume capacity that could otherwise support lending.

The direct effect is on the gilt market. Banks will be able to hold and trade government debt more freely, which improves the market's resilience and reduces the cost of public borrowing. The change also frees balance sheet capacity that banks can use for other lending where it offers a worthwhile return. The Treasury will make the change through its recommendation and direction powers over the Financial Policy Committee and the Prudential Regulation Authority, and through legislation if required.

M3 Implement international capital standards no further and no faster than the United States

Place the Prudential Regulation Authority under a duty to implement international banking standards, including the Basel 3.1 reforms due to take effect in January 2027, no further and no faster than they are implemented in the United States. Where the United States has delayed or modified a requirement, the equivalent British requirement will be deferred or modified to match, unless the Treasury agrees that a specific British reason justifies going further.

Britain should remain a credible participant in international standard setting. But British banks compete with American banks for the same clients, and imposing stricter or earlier requirements on them puts British lending and London's position as a financial centre at a disadvantage for no corresponding benefit.

M4 Abolish the bank levy and the bank surcharge

Abolish the bank levy and the bank corporation tax surcharge, so that banks pay corporation tax at the same rate as other companies. The surcharge is due to double temporarily to 6% from January 2027. Special taxes on banking raise the cost of credit for every business and household that borrows, and they treat lending as an activity to be discouraged rather than one the economy depends on.

M5 Create a dormant brake on lending against existing homes

Give the Financial Policy Committee a standing sectoral capital requirement on mortgage lending secured on existing residential property, set at zero on introduction and raised in pre-announced steps if defined triggers are met. The triggers will include mortgage lending growing persistently faster than

lending to businesses and house prices rising persistently faster than earnings. Mortgages on new-build homes, defined as the first sale of a home within two years of its completion, and loans secured on a home for a documented business purpose will be exempt.

The requirement will apply first to buy-to-let lending, where capital flows most directly into existing housing as an investment, then to lending to home movers and only then to first-time buyers. The Treasury will set the objective, the triggers and the order of activation in a framework approved by Parliament, because deciding where credit should flow is a political judgement as well as a technical one. The Financial Policy Committee will operate the requirement within that framework and report on its use.

The brake addresses a risk created by success. If the economy grows again and banks are freed to lend, the capital released could flow back into existing housing rather than into productive investment, as it has before. The reform that would deal with this permanently is a shift in taxation towards land, set out as longer-term direction in section 9. Until then, the brake ensures that the means to restrain the flow of credit into existing homes is in place before it is needed.

At the same time, exempt mortgages on new-build homes from the loan to income flow limit, so that lending at higher multiples of income supports new supply rather than bidding up the price of existing homes.

4 British tax relief for British capital

M6 Make pension tax relief conditional on a UK growth allocation

Make tax relief on pension contributions conditional on the arrangement into which they are paid holding a minimum share of its assets in UK growth assets. For auto-enrolment default funds the condition will apply at fund level. For self-invested and other individual arrangements it will apply to the arrangement as a whole.

Compliance will be measured on a rolling twelve-month average, with a tolerance below the minimum to absorb market movements and a twelve-month period to correct any shortfall. Responsibility rests with whoever controls the allocation. Where trustees or a provider control the investments, members will not lose relief because of a breach they did not control. An arrangement that remains outside the tolerance after the correction period will instead lose its status as a qualifying scheme for auto-enrolment, and members' future contributions will be redirected to a compliant arrangement. Where members direct their own investments, the condition applies to their own arrangement.

UK growth assets will be defined in statute to include shares in companies incorporated and headquartered in the United Kingdom, whether listed on a UK market or unlisted, UK infrastructure, including energy generation and networks, and funds whose investments are predominantly in these assets. The minimum share will rise in stages over ten years to 25% of total assets, with the trajectory set in legislation so that schemes can plan. At least a fifth of the allocation must be held in unlisted companies, infrastructure or new shares issued by eligible companies, so that part of it finances new investment rather than only the purchase of existing shares. The rest may be held in listed shares, because liquid markets and credible exits lower the cost of capital for every British company.

The tests differ according to purpose. The pension and ISA conditions are intended to finance activity in Britain, so they turn on a substantive British connection. Measures intended to strengthen London's markets, such as the capital gains exemption and the abolition of stamp duty, turn on where a company is listed.

This replaces the reserve power to direct pension investment in the Pension Schemes Act 2026, which will be repealed. Members of schemes that do not meet the condition will keep their savings and can continue to save, but contributions to those schemes will not attract relief. Savers remain free to invest wherever they choose. What changes is what the taxpayer subsidises.

M7 Protect trustees and providers who invest in Britain

Create a statutory safe harbour under which trustees and providers who invest in line with the UK growth allocation are treated as having met their duty to act in members' best financial interests in respect of the decision to hold that allocation. Trustees and providers remain fully accountable for how they select and manage investments within it, including negligent selection, excessive charges, conflicts of interest and poor administration. The safe harbour will also make clear that trustees are not required to apply investment exclusions that are not justified by members' financial interests. Without it, trustees who depart from a global benchmark face the risk of legal challenge if their investments underperform.

Once relief depends on the allocation, meeting it will itself be in members' financial interests, because the relief forms part of the return members receive. The safe harbour gives that conclusion legal certainty. The benchmarks used in the new value for money framework will be adjusted so that schemes meeting the allocation are assessed against a benchmark that reflects it rather than against a global index.

M8 Confine ISA tax relief to UK assets

Restrict new subscriptions to stocks and shares ISAs to UK growth assets as defined for pension relief, including shares in UK companies listed in London and funds investing predominantly in eligible assets. Existing holdings may remain in the ISA wrapper, but new money must be invested in eligible assets. Cash ISAs, which are already held with UK deposit takers, are unaffected.

Savers who wish to invest in foreign markets remain free to do so outside the ISA. The change applies the same principle as pension relief: the tax advantage is reserved for investment in Britain.

ISAs and pensions are treated differently because they serve different purposes. A pension default fund holds the retirement savings of millions who never choose their investments and must remain diversified to protect their retirement income, so the allocation is a minimum share rather than the whole. An ISA is a voluntary account chosen and directed by the saver, accessible at any time, and the saver remains entirely free to invest abroad outside it. The tax advantage can therefore be reserved wholly for investment in Britain.

M9 Restore a dividend tax credit for pension funds

Introduce a repayable tax credit for registered pension schemes on dividends received from UK-resident companies paid out of profits that have borne UK corporation tax. The rate of the credit will be set in the Finance Bill.

Britain gave pension funds a repayable dividend tax credit until 1997. Its abolition reduced the returns pension funds earned from UK companies and weakened the case for holding them. Australia's system of dividend imputation, which gives domestic investors credit for tax paid by Australian companies, is an important reason why Australian pension funds hold so much more of their own market. The credit creates a home advantage through the tax system rather than through direction.

M10 Remove capital gains tax on London-listed shares and on sales that keep companies British

Exempt from capital gains tax the disposal of shares held for at least three years in companies with a primary listing on a UK market, including the Alternative Investment Market. The holding period includes any time before the company listed, so that founders and early investors who float their company in London pay no capital gains tax when they later sell. Capital gains tax will continue to apply to other assets, including residential property and shares in companies listed abroad.

The exemption will also apply when shares in an unlisted UK trading company, held for at least three years, are sold to a UK-listed company or to a British-controlled investor, such as a UK pension scheme or a fund managed and controlled in the United Kingdom. The company must remain resident in the United Kingdom and under British control for three years after the sale, or the relief will be withdrawn. A sale to a foreign buyer will be taxed as now, at the rate for business disposals where it applies.

The design rewards the exits that keep companies and their gains in Britain. An exemption for every private sale would reward the sale of a British company to a foreign buyer, the route by which DeepMind passed to Google in 2014, as generously as a listing in London. Founder shares, employee shares acquired at market value and shares held through the tax-advantaged employee share schemes will qualify on the same terms, because employee ownership is one of the main ways growing companies attract talent. Carried interest and arrangements designed to disguise salary or other income as capital gains will be excluded, so that the exemption rewards long-term investment rather than tax planning.

M11 Make the venture capital reliefs permanent

Remove the sunset that ends the Enterprise Investment Scheme and Venture Capital Trusts in 2035, as was done for the Seed Enterprise Investment Scheme in 2014, so that investors and fund managers can plan beyond a single Parliament. Review the investment limits so that the reliefs support companies at the growth stage as well as at start-up.

The measures in this section favour investment in British companies and British markets. They are designed to comply with the United Kingdom's trade agreements and tax treaties. Since leaving the European Union, Britain is no longer bound by the rulings that led member states to abandon domestic dividend credits, and Australia has operated a system of this kind for decades.

5 Open private markets to ordinary investors

M12 Allow ordinary investors to trade on private share markets

Open PISCES, the private securities market established in 2025, to ordinary investors, and allow eligible holdings to be held in ISAs. At present only institutions, high net worth and sophisticated investors and company employees may participate. Growing private companies increasingly remain unlisted for longer,

and ordinary savers should be able to share in the returns they generate.

Participation will be subject to proportionate disclosure standards for companies whose shares are traded, clear risk warnings and limits on the proportion of an investor's portfolio that can be held in private shares, set by the Financial Conduct Authority.

6 Make London the place to list and trade

M13 Abolish stamp duty on shares

Abolish stamp duty and stamp duty reserve tax on transfers of shares and securities. The present 0.5% charge applies to every purchase of shares in UK companies and is paid by savers, pension funds and investors in British companies whose competitors face no equivalent charge in New York. The three-year relief for newly listed companies introduced in 2025 recognised the problem but left every established British company paying the tax. Abolition removes it for all.

M14 Remove the sunset on dual class shares

Remove the ten-year limit on enhanced voting rights held by institutional investors under the UK Listing Rules, so that dual class structures are treated in the same way whoever holds the enhanced rights. Founders and long-term investors who wish to retain control as a company grows should be able to list in London on terms at least as attractive as those offered elsewhere.

M15 Allow loyalty voting for long-term shareholders

Allow companies, with the approval of their shareholders, to give additional votes to shares that have been held continuously for at least two years, and amend the UK Listing Rules and company law as required. Loyalty voting rewards patient ownership and makes it harder for opportunistic bidders to acquire promising British companies cheaply, without preventing takeovers that long-term shareholders support. France has operated a similar system since 2014.

M16 Confine company reporting to what investors need

Revoke the mandatory climate-related financial disclosure requirements in company law and the UK Listing Rules, do not make the UK sustainability reporting standards mandatory and withdraw or do not introduce any requirement for companies to publish net zero transition plans. Companies will continue to disclose risks that are material to their business, including climate-related risks, under the ordinary rules on financial reporting.

The burden of reporting is part of the cost of listing in London. Reporting requirements built around national emissions targets would also recreate through company law the targets that this programme repeals.

7 Funds large enough to invest in Britain

M17 Accelerate the consolidation of pension funds

Bring forward and strengthen the scale requirements in the Pension Schemes Act 2026, under which auto-enrolment default funds must reach at least £25 billion by 2030 or be on course to do so by 2035. The aim is a small number of very large funds with the in-house expertise to invest directly in British infrastructure and companies, following the model of the largest Canadian and Australian funds. Complete the pooling of Local Government Pension Scheme assets on the same principle.

M18 Create a public consolidator for closed final salary schemes

Establish a public consolidator, run by the Pension Protection Fund and ring-fenced from its existing funds, open to closed final salary schemes that choose to transfer. The consolidator will run schemes on rather than buy them out, investing for long-term growth with a substantial allocation to UK growth assets.

Schemes will transfer only where they meet an entry funding test that includes a buffer above the cost of their liabilities, and the consolidator will maintain a capital reserve against investment risk. It will pay members' benefits in full for as long as its funding and reserve allow. If losses exhaust both, benefits will fall back to the level of Pension Protection Fund compensation, exactly as they would for any final salary scheme whose sponsor fails today. No new Exchequer guarantee is created. Sponsoring employers are released from their obligations on transfer, which is the purpose of consolidation.

Surpluses will first rebuild the reserve to its target level. The remainder will be shared between members, through increases to their benefits, and the sponsoring employers who funded the entry buffer. The Pension Protection Fund will charge the consolidator for the compensation backstop it provides.

A consolidator of this kind was proposed in 2023 and its design developed with the Pension Protection Fund, but the government decided in 2025 not to legislate for it. Large sums are being managed into gilts and annuities because no institution exists to hold them for the long term. The consolidator provides one.

M19 Widen the matching adjustment for long-term infrastructure

Direct the Prudential Regulation Authority to widen eligibility for the matching adjustment, which allows insurers to value long-term annuity liabilities against assets with matching cashflows, beyond the reforms made in 2024. Those reforms allowed assets with highly predictable but not fully fixed cashflows to qualify, but capped their contribution at 10% of a portfolio's matching adjustment benefit. That cap should be raised substantially, and approval for infrastructure assets in their later stages of construction should be streamlined, building on the investment accelerator introduced in 2025, so that eligibility no longer depends on lengthy case-by-case assessment.

Annuity insurers hold large sums that must be matched against obligations stretching decades ahead, which makes them natural long-term owners of operating power stations, networks and other infrastructure. A wider matching adjustment would allow more of that capital to be invested in British assets, subject to the Prudential Regulation Authority's continuing supervision of risk.

8 Fill the scale-up gap

M20 Match private investment in British growth funds

Establish a time-limited programme, run by the British Business Bank, that invests alongside private investors in new funds backing British companies at the growth stage, when larger sums are needed to scale. The programme will match private commitments up to a set proportion of each fund, with a maximum public commitment of £5 billion over its ten-year life. Fund managers will compete for access through open calls, assessed on their track record, their terms and the private capital they raise.

Private investors in each fund will hold an option to buy out the state's stake within a fixed period at cost plus a modest return, so that if a fund succeeds most of the upside passes to the private investors who took the risk. The programme will close to new commitments after ten years. The model follows Israel's Yozma programme of the 1990s, which used the same structure to create a venture capital industry and then withdrew once the industry could stand on its own.

The buy-out option is a deliberate and bounded subsidy to the private investors who lead each fund, designed to draw private capital into a part of the market where it is scarce. It will be assessed and published under the Subsidy Control Act 2022. It is distinct from direct state investment in individual companies, which should be made at the same time, at the same price and on the same terms as private investors.

9 Longer-term direction

Three further reforms would strengthen the domestic capital base over the long term. They involve wider questions of tax and pensions policy and are set out here as direction rather than firm commitments.

Raise pension contributions over time. Britain's auto-enrolment minimum is 8% of qualifying earnings, compared with 12% in Australia. Higher contributions, phased in gradually alongside rising wages, would enlarge the domestic pool of long-term capital.

Shift taxation from transactions and capital towards land. As long as housing is the most tax-efficient and reliable store of wealth, British savings will continue to flow into property rather than productive investment. The brake in M5 provides a holding measure until such a shift is made.

Remove the bias towards debt in corporation tax. Companies can deduct the cost of debt but not the cost of equity. An allowance for corporate equity would put the two on an equal footing and encourage companies to finance growth through equity.

10 Territorial application

Financial services regulation and the taxes affected by this programme are reserved matters, and the measures apply across the United Kingdom.

FIELD	APPLICATION
Banking regulation and bank taxation	United Kingdom

FIELD	APPLICATION
Pension and ISA tax relief, dividend credit, capital gains tax and stamp duty	United Kingdom, as tax measures
Listing rules and private markets	United Kingdom
Occupational pension schemes	Great Britain. The Northern Ireland Executive will be invited to make corresponding provision under the parity arrangements for pensions legislation.
Local Government Pension Scheme pooling	England and Wales. The Scottish Government will be invited to apply the same principle to the Scottish scheme.
Growth fund programme	United Kingdom

11 Legislation and delivery

The programme will be delivered through a Finance Bill, a Financial Services Bill and a Pensions Bill, with the growth fund programme established under the British Business Bank's existing powers.

INSTRUMENT	MEASURES	CONTENT
Finance Bill	M4, M6, M8 to M11 and M13	Bank taxes, conditional pension and ISA relief, dividend credit, capital gains tax exemption, permanent venture reliefs and abolition of stamp duty on shares
Financial Services Bill	M1 to M3, M5, M12, M14 to M16 and M19	Repeal of ring-fencing, leverage ratio, duty on implementation of international standards, the framework for the housing brake, private markets, listing rules, loyalty voting, company reporting and the matching adjustment
Pensions Bill	M7, M17 and M18	Safe harbour, value for money benchmarks, consolidation, public consolidator and repeal of the reserve power to direct investment
British Business Bank	M20	Growth fund matching programme under existing powers

A country that cannot finance its own growth will see its discoveries developed and owned elsewhere. British capital should be free to go anywhere, but it should no longer be penalised for staying at home.