

The Alternative Budget 2025, Part 5: Reforming the UK's...

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Rachel Reeves will be presenting her Budget on November 26, [if the Labour government of which she is a part lasts that long.](#)

I will be commenting on that Budget on the day on BBC Radio 2, and elsewhere afterwards, but what is already clear is that whatever Reeves has to say, she will miss the required mark by a very long way. Being aware of that, I thought it appropriate to offer an alternative Budget speech ahead of the time when she offers her own. Given the significance of this issue, it will be addressed in parts over the next week or so, leading up to Budget Day.

This fifth part addresses how the UK's savings system has been failing this country for decades, and how it will be reformed to provide the essential capital required to regenerate our economy, which it does not do at present.

Reforming the UK's Savings System

If the last decade has taught us anything, it is that the UK's savings system no longer performs the function that any rational economy should expect of it.

Savings should support productive investment.

They should help finance new activities, infrastructure, and opportunities.

Instead, our savings system, and the vast institutions that manage it, have become detached from the real economy altogether.

This Budget marks the start of repairing that fundamental failure.

I want to set out why that change is essential, and how it will be delivered.

First, most UK savings do not support productive investment

Most of the wealth held in the UK is saved in ways that add almost no real value to the economy.

It is placed in second-hand shares.

It is placed in second-hand properties.

Or it sits in bank deposits that banks do not need to make loans, because all bank lending is undertaken using newly created funds.

This has three consequences.

The first is that the returns paid to most savers are not returns on investment at all. They are returns on speculation.

Second, they are driven by asset-price inflation, and not value creation.

Third, they destabilise our economy and divert income that should be paid to labour into unearned gains for wealth-holders.

This is deeply corrosive.

Second, savings and investment have been severed from each other

There was once a time when saving and investment were assumed to be connected in the UK economy, as they rightly are in any functioning economic system. That assumption has been abandoned.

The City of London now treats financial engineering as its purpose. It recycles savings into activities with no connection to new productive capacity. It encourages savers to believe they are “funding investment,” when in reality almost none of their money reaches businesses, local communities, or public infrastructure in any meaningful way.

It is no surprise that the British economy is stagnating as a result.

Third, the UK is subsidising unproductive saving on a massive scale

We have allowed a situation to develop in which ***around 80% of all UK financial wealth is held in assets that receive tax subsidies in some form, whether they be houses, pension funds, ISAs, or more specialist investment vehicles.***

The total cost of these subsidies now exceeds £100 billion a year, with more than £70 billion used to subsidise pensions and around £10 billion to subsidise ISAs.

What do we receive in exchange? Almost nothing. These incentives support an unproductive savings model that generates little new investment activity, whilst rewarding speculation and increasing inequality.

If any other sector of the economy delivered such poor returns at such a high cost, it would have been reformed long ago. But because the City benefits and because the culture of deference to the financial sector remains strong, this inefficiency has persisted for decades.

That culture of deference ends now. We need a functioning savings system in the UK that is connected to the supply of productive capital to the economy, and I am determined to create one.

A new approach to savings

Our task is straightforward: we must redirect the vast flows of UK savings into socially beneficial and economically productive activity. We cannot rebuild this country, including its infrastructure, its energy systems, its housing and its public services, while ignoring the £100 billion a year that the government currently spends on subsidising an unproductive financial sector.

Three major changes will therefore take place.

The ISA system will be reformed

At the end of this financial year, the current ISA system will close to new money.

Existing ISA funds may remain in place, but the tax subsidies associated with them will be phased out over a period of no more than ten years. That is a generous transition period, given the scale of change required, but it is long enough to allow savers to reorganise the £700 billion currently held in ISAs without disruption.

A new ISA framework will be created. These ISAs will:

- * Be offered exclusively through National Savings and Investments (NS&I),
- * Be accessible through other banks acting as NS&I agents if savers wish to use them as intermediaries,
- * Provide a secure, government-backed savings vehicle.

Given historic patterns of ISA and NS&I savings, the vast majority of these funds are likely to represent long-term capital, not volatile savings. They will therefore be available as capital for productive investment.

With current annual contributions exceeding £75 billion, this reform alone will create a

significant new source of stable funding for national renewal.

Given that the no-tax appeal of ISAs will now only be available to most people in this way, and it is clear that this status is a significant determinant in savings decision-making, we expect financial flows into ISAs to continue at previous levels despite this change. Because this change reconnects people with the impact of their savings, we expect ISA savings to increase over time, but we are not assuming that in this Budget.

Pension funds will be required to support UK investment

From 6 April next year, 25% of all contributions into pension arrangements must be invested in financial instruments that can be directly shown to create either new jobs or new social opportunities within the UK.

This government will issue appropriate bonds for this purpose, and it is expected that pension funds will be major subscribers to them. The financial sector will, of course, be able to offer alternative investments — but only if they meet a strict, legally defined social-purpose test, or taxonomy.

This is essential. Pension savers receive substantial tax relief at present, but, when weighted by value, they represent only a small share of society as a whole and are heavily skewed toward those who are already wealthy. It is only fair that the subsidy we provide for these savings serve the public interest rather than subsidise the wealth of the already well-off.

In particular, research shows that UK pension funds have shown almost no inclination to invest in this country. Urging them to do so has failed. As such, our subsidy is now being used to offshore capital. That is unacceptable. That will change. From now on, the subsidy to pension savers will benefit the UK. I defy anyone to argue with that logic.

This single reform should provide more than £30 billion a year for productive, domestic investment.

A new National Investment Fund will be established

The new ISA funds and new pension fund requirements will provide the capital base for a new National Investment Fund, which will work with National Savings and Investments to issue savings instruments for ISA and pension savings purposes.

This Fund will:

- * Provide the finance to restore our essential public services to the standard a civilised society should expect. Private markets have destroyed those services. We will direct the savings of people in this country to their restoration, which is what they want and expect of us.

- * Underpin the Green New Deal
- * Provide long-term capital for a new National Mortgage Scheme, to which I will return in a later section of this Budget.

This fund will deliver investments with purpose. Those investments will be aligned with the real needs of the economy, and not with the needs of the City of London to maintain its speculative activity and its culture of internal enrichment.

My motivations in promoting this reform

I have a very particular interest in promoting this reform, in addition to the fact that it provides a source of capital for the essential work I know is required within our economy. For far too long, I have heard stories from people who have no idea how their savings, whether in banks, ISAs, pension funds or other institutions, are actually managed.

The opacity within our institutions is quite extraordinary. Free marketeers claim that society is best managed in the interests of shareholders, and yet our savings institutions do not make it easy, and in fact make it impossible, for those who save with them to know the companies whose shares they hold, or to whom they lend funds.

The shareholder capitalism we have is, therefore, anything but that. The reality is that massive pension and savings funds behave as if they were the shareholders in the companies whose funds they acquire on behalf of others, to whom they have a fiscal duty, without ever considering their responsibility to, or the interests of, those people. Too often, they do, as a consequence, act against the interests of society when they should be acting as its custodians.

This culture is utterly unacceptable, and the proposals I am making will change all this. What I want are three things. They are that:

- * The opportunities I will create will ensure that tax reliefs and subsidies will be used for public purposes.
- * That savers should have a choice about how their savings are used, requiring that some of the savings arrangements we create be hypothecated. People will be able to choose whether to allocate their savings to projects in their communities or to activities they are interested in, such as health, education, climate transition, housing, and so on.
- * That savers enjoy secure returns. The rate of return will be guaranteed and underpinned by the government.

The result will be that the relationship between savers and investment activity will be reinforced. People will see that their savings and democratic government, working

together, can transform their communities, and nothing can be more important than that.

At the same time, because most existing savings have not been used for productive purposes, the only sector likely to lose out from the redistribution of funds will be speculative financial markets. They have not added value to this country throughout the neoliberal era; instead, they have sucked value from it. My change is designed to make clear that savings must serve people and not financial institutions.

Why do these reforms matter?

First, because we cannot rebuild our infrastructure, restore our public services or deliver the green transition without long-term capital, and we already have that capital in abundance. It is simply being wasted at present.

Second, because speculation is not investment. It is time we recognised the difference.

Third, because a nation that subsidises unproductive financial engineering to the tune of more than £100 billion a year cannot claim it has “no money” to solve its most urgent problems.

Fourth, because savings should support society. They should not undermine it.

Fifth, because it is time the savings institutions of the UK served the British people, rather than serving themselves.

Other posts in this series:

- * [***The Alternative Budget 2025 - The Background***](#)
- * [***The Alternative Budget 2025, Part 2: Understanding tax and ‘borrowing’***](#)
- * [***The Alternative Budget 2025, Part 3: Creating a new fiscal framework***](#)
- * [***The Alternative Budget 2025, Part 4: Renationalisation***](#)

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [***here.***](#)

One word of warning, though: please ensure you have the correct MP.

Comments

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