

## Minister Signals Potential Tax Measures After Welfare Reform U-Turn Creates £4.8bn Budget Gap

July 2, 2025

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The government minister has declined to rule out future tax increases following the decision to backtrack on planned welfare reforms, raising questions about how the Labour government will plug a multibillion-pound hole in its fiscal plans.

Pat McFadden, Chancellor of the Duchy of Lancaster, confirmed that the government's reversal on disability benefit changes, worth an estimated £4.8 billion in projected savings over the next five years, leaves ministers facing difficult financial decisions ahead of the autumn budget.

While McFadden emphasized the government's commitment to upholding its manifesto pledges not to increase income tax, National Insurance, or VAT, he stopped short of ruling out other tax changes. The admission follows criticism from economists and fiscal policy experts, who warn that reversing the proposed welfare cuts removes one of the key components underpinning Labour's financial strategy. Without the anticipated savings, the government now faces a tighter fiscal landscape if it intends to meet its self-imposed borrowing rules.

The Office for Budget Responsibility had included the welfare changes in its costings, meaning their removal leaves a gap that could reach nearly £5 billion by 2029–30. Market analysts have noticed the UK's 10-year borrowing costs rising amid growing concerns over the country's fiscal discipline. The government faces pressure to provide a clear roadmap for managing public finances without resorting to austerity or breaching fiscal limits.

Labour's decision to reverse course on welfare reform came after internal dissent and pressure from backbench MPs, many of whom raised concerns over the impact the planned cuts would have had on vulnerable individuals. The move helped avert a major political rebellion but has now shifted attention to how the government intends to balance its books while delivering on broader social and economic pledges.

McFadden reiterated the government's commitment to fairness and fiscal responsibility, stressing the need for difficult decisions. He acknowledged that while the government wants to support those in need, it must also ensure that its spending choices are sustainable.

Discussions are now underway within the Treasury over how to address the shortfall, with speculation growing that tax threshold freezes, adjustments to capital gains, or wealth taxation could be under consideration.

As Chancellor Rachel Reeves prepares her first major budget later this year, the challenge will be reconciling Labour's progressive policy ambitions with the economic realities of limited headroom. The decision to scrap welfare cuts has won political support in the short term, but the question of how to fund that concession and what trade-offs may follow remains unresolved.