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FISCAL ANALYSIS

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Pricing Britain's Productivity Upside from Artificial Intelligence

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Executive Summary

The UK Office for Budget Responsibility has built AI into its October 2026 forecast, priced an upside case and sized a transformative one. Run through the OBR's own numbers, in the fiscal mandate year of 2029-30:

- The OBR's central case (AI reaching 0.2 points a year): AI raises three times the Digital Services Tax, and funds a third of the Chancellor's £14.5 billion headroom, enough to nearly cover the Single Intelligence Account (MI5, MI6, GCHQ).

- The OBR's optimistic case (around 0.5 points): AI raises almost as much as Capital Gains Tax and lifts headroom to about £50 billion, an improvement in fiscal headroom roughly equivalent to the extra annual cost of the Government's pledge to take defence to 3.5 per cent of GDP.

- The OBR's transformative case (0.8 points a year, averaged over 2026-30): AI raises more than total Business Rates; an improvement in fiscal headroom comparable to the budgets of the Transport department and Home Office combined, with headroom near £66.5 billion.

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What AI is worth to the UK Exchequer, using the OBR's numbers

The Office for Budget Responsibility has built AI into its forecast, priced an upside case and sized a transformative one: a central path reaching around 0.2 percentage points a year of extra productivity growth, an upside case of around 0.5 and a transformative case of around 0.8. Run through the OBR's numbers, here is what each is worth in the fiscal mandate year, 2029-30, and what it compares to.

0.2 pts	0.5 pts	0.8 pts
a year to productivity growth	a year to productivity growth	a year to productivity growth
Midpoint of the OBR's two central adoption curves: already in the forecast	The OBR's own upside scenario, which it aligns with its "optimistic" AI case*	The OBR's "transformative" magnitude on its optimistic timetable, averaged over 2026-30*
FISCAL HEADROOM CREATED, 2029-30	FISCAL HEADROOM CREATED, 2029-30	FISCAL HEADROOM CREATED, 2029-30
£4.8bn	**£35.5bn**	**£52bn**
A third of the Chancellor's £14.5bn margin. Receipts + £4.3bn; GDP level +0.3%	Over the central forecast. Headroom rises to about £50bn. Receipts +£32bn; GDP level +1.9%	Over the central forecast. Headroom rises to about £66.5bn. Receipts +£47bn; GDP level +2.8%
REVENUE EQUIVALENT	REVENUE EQUIVALENT	REVENUE EQUIVALENT
Triple the digital services tax	**Almost all of capital gains tax**	**More than all business rates**
£1.4bn in 2029-30 (AI receipts are three times it)	£34.2bn in 2029-30 (AI receipts are 93% of it)	£41.1bn in 2029-30 (AI receipts are 114% of it)
SPENDING EQUIVALENT	SPENDING EQUIVALENT	SPENDING EQUIVALENT
The Single Intelligence Account (MI5, MI6, GCHQ)	**The defence pledge: 3.5% of GDP by 2035**	**Transport and Home Office budgets combined**
£4.9bn total DEL in 2025-26 (headroom created is 97% of it)	About £35bn a year extra, in 2026-27 prices: similar in scale	£48.6bn total DEL in 2025-26 (headroom created is 107% of it)

Method: CCIA calculations using OBR productivity data and fiscal responses calibrated from the OBR's published November 2025 scenarios (para 7.27): productivity moves nominal GDP one for one; receipts respond as in the OBR's scenario (about £0.47 per £ of GDP, an implied elasticity of 1.1); debt interest falls with borrowing; net response about 0.52 per £, a current budget proxy conditional on unchanged net investment. Paths: central = CCIA midpoint of the OBR's J- and S-curves (Briefing paper No.9, Chart 4.2) with 2026 as year one, measured against no AI; optimistic = the OBR's November 2025 upside scenario (Chart 5.4), interpreted here as AI-driven, a possibility the OBR raises in para 5.9, for which the OBR published results (receipts +£34bn, current budget +£37bn in 2029-30 on its November 2025 base; the method gives +£32bn and +£35.5bn here, 5 to 7% short). *The OBR gives a decade-average magnitude but no path for its transformative case; it is applied here on the optimistic scenario's timetable, scaled so total AI averages 0.8 points a year over 2026-30. Comparisons are of scale in the year stated; the defence figure is in 2026-27 prices and the departmental spending limits are 2025-26 outturn.

Sources: OBR, Economic and fiscal outlook, October 2026 (Tables A.3, A.5, A.7, A.9, 7.1; paras 5.17, 7.30); OBR, Briefing paper No.9: Forecasting productivity, November 2025 (paras 4.10, 5.9, B.14; Charts 4.2 and 5.4); OBR, Economic and fiscal outlook, November 2025 (Box 2.1, paras 7.27 to 7.29); HM Treasury, Public Spending Statistics, July 2026 (Table 1.9). Analysis: CCIA Research Center, October 2026.

AI Drives Nearly One-Fifth of UK Productivity Growth By 2031 in the Central Scenario

The UK is starting from a low economic growth and productivity growth base. The OBR's productivity briefing paper records that output per hour grew 2.1 per cent a year in the decade before the financial crisis. Even after the ONS's latest upward revisions, in Box 2.2 of the October 2026 forecast, it managed only 1.0 per cent a year between 2010 and 2024, and the OBR cut its medium-term assumption from 1.3 per cent to 1.0 per cent in its November 2025 forecast. With trend productivity growth forecast at 1.1 per cent in 2031, the OBR's assumed AI contribution of around 0.2 points a year by then is close to a fifth of all the productivity growth it expects.

Adoption is spreading quickly: the OBR cites ONS data that 30 per cent of businesses used at least one AI technology in September 2026, up from 15 per cent two years earlier, and output per worker in information and communication growing 7.6 per cent a year between late 2024 and mid-2026.

Two Scenarios the OBR Priced, and One it Sized

The OBR's briefing paper publishes two AI adoption curves (a J-curve and an S-curve) and places its central judgement between them, reaching around 0.2 points a year by the forecast horizon. It also defines two alternatives: an "optimistic" case in which AI adds

around 0.5 points a year to productivity growth on average over the next decade, and a "transformative" case of around 0.8.

The optimistic case is the OBR's upside productivity scenario in the November 2025 forecast, which the briefing paper says "could be driven by a larger and/or faster boost from AI" aligned with the 0.5-point estimate, with trend productivity growth climbing to 1.5 per cent by 2030; this analysis treats that upside as AI-driven. The OBR ran that path through its fiscal model: receipts £34 billion higher in 2029-30, the current budget surplus rising from £22 billion to £59 billion. For the transformative case the OBR gives a decade-average magnitude but no year-by-year path, so this analysis applies its transformative magnitude on the same timetable as its optimistic scenario, with AI averaging 0.8 points a year over 2026 to 2030.

Every figure that follows rebases those paths onto the October 2026 forecast, where the fiscal mandate is met with £14.5 billion to spare, using fiscal responses calibrated from the OBR's published scenarios: productivity moves nominal GDP one for one, receipts respond as they did in the OBR's own scenario, and debt interest falls with borrowing. The method lands within about 7 per cent of the OBR's published results, on the conservative side.

The Central Case: AI Provides ⅓ of the Chancellor's Headroom, or Three Times the Digital Services Tax, or the Single Intelligence Account

Using the midpoint of the OBR's two adoption curves, the AI contribution already embedded in the forecast raises about £4.3 billion of receipts in 2029-30, three times the Digital Services Tax, and improves the current budget by about £4.8 billion, a third of the £14.5 billion headroom and nearly enough to cover the Single Intelligence Account (MI5, MI6, GCHQ). Strip AI out and the Chancellor's margin falls to about £10 billion in the year the rules bite.

The Optimistic Case: AI Pays About as Much as Capital Gains Tax, or the Defence Pledge

On the OBR's upside path, AI raises a further £32 billion of receipts in 2029-30 over the central forecast, almost as much as the entire Capital Gains Tax yield of £34 billion, and improves the current budget by about £35.5 billion. That is similar in scale to the roughly £35 billion a year (in 2026-27 prices) the OBR puts on the Government's commitment to lift defence spending to 3.5 per cent of GDP by 2035. Headroom against the fiscal mandate would rise to about £50 billion, more than three times the current margin.

The Transformative Case: AI Pays as Much as Business Rates

At the OBR's transformative magnitude on the same timetable, AI raises a further £47 billion of receipts in 2029-30, more than total Business Rates (£41 billion), and improves the current budget by about £52 billion. Headroom would reach about £66.5 billion, more than four and a half times the current margin.

OBR scenario and the path applied	Extra receipts, 2029-30	Equivalent in scale to	Current budget gain, 2029-30	Equivalent in scale to	Headroom against the mandate, 2029-30
Central (~0.2 points), AI already in the forecast	£4.3bn	Three times the Digital Services Tax (£1.4bn)	£4.8bn	The Single Intelligence Account (£4.9bn, 2025-26)	£14.5bn, of which £4.8bn is AI
Optimistic (~0.5 points), increment over central	£32bn	Almost all Capital Gains Tax (£34bn)	£35.5bn	The extra cost of defence at 3.5% of GDP (£35bn, 2026-27 prices)	~£50bn
Transformative (~0.8 points, 2026-30 average), increment over central	£47bn	More than all Business Rates (£41bn)	£52bn	Transport and Home Office budgets combined (£48.6bn, 2025-26)	~£66.5bn

Sources: OBR, Economic and fiscal outlook, October 2026 (Tables A.3, A.5, A.7, A.9, 5.5, 7.1; paragraphs 1.27, 5.17, 7.29, 7.30); OBR, Briefing paper No.9: Forecasting productivity, November 2025 (paragraphs 4.10, 5.9, B.14; Charts 4.2 and 5.4); OBR, Economic and fiscal outlook, November 2025 (Box 2.1, paragraphs 7.27 to 7.29); HM Treasury Public Spending Statistics, July 2026, Table 1.9. Central path = CCIA midpoint of the OBR's J- and S-curves with 2026 as year one; optimistic = the OBR's November 2025 upside scenario, interpreted as AI-driven; transformative = the OBR's 0.8-point magnitude on the optimistic timetable, averaging 0.8 points over 2026-30. Comparators are 2029-30 forecasts except the defence figure (2026-27 prices) and the departmental spending limits for the Single Intelligence Account, Transport, and Home Office (2025-26 outturn). Comparisons are of scale. CCIA calculations using OBR productivity data and fiscal responses calibrated from the OBR's published scenarios.

The Policy Point

The gap between the OBR's central case and its optimistic case is £35 billion of headroom in the mandate year. That is the size of the prize if Britain lands on the OBR's upside path rather than its central one, and the OBR names a larger or faster AI boost as a possible route there. The IMF's July 2026 assessment of the UK reaches the same conclusion from a different model, finding that regulatory clarity and AI skills could raise the UK's AI output gains by about two-thirds over its baseline.

What the OBR's own productivity data show, run through fiscal responses calibrated from its scenarios, is that the UK's fiscal position now depends on which AI path the country ends up on, and that the difference between paths is worth more than twice the Chancellor's entire current margin. The Government should embrace regulatory reform to ease barriers to embedding AI in popular digital services, and deliver the plans announced in the Budget to support new data centre capacity with urgency. For a government hunting for growth, the cheapest headroom on offer is the headroom that comes from realising the Government's target for Britain to be the fastest adopter of AI in the G7.