How much have domestic policy-driven costs changed for SMEs?

A model to calculate the cost stack since 2016
2016 → 2024 → 2026

Based on a hypothetical firm: 50 staff | *£5m turnover (2026, deflated to prior years)* | *£500k profit*

British Chambers of Commerce
David Bharier | Deputy Director | Economics & Insights

Executive Summary

Headline: The total domestic policy-driven cost stack for a hypothetical 50-person, ~£5m-turnover (2026) business has risen from around £1.16m in 2016/17 to £1.98m in 2026/27 - an increase of around £827k (+71.5%).[1]

	2016/17	2024/25	2026/27
Total cost stack	**£1,156,237**	**£1,758,368**	**£1,982,940**
Turnover (current, deflated to prior years)	£3.65m	£4.76m	£5.00m
As % of turnover	**31.7%**	**36.9%**	**39.7%**

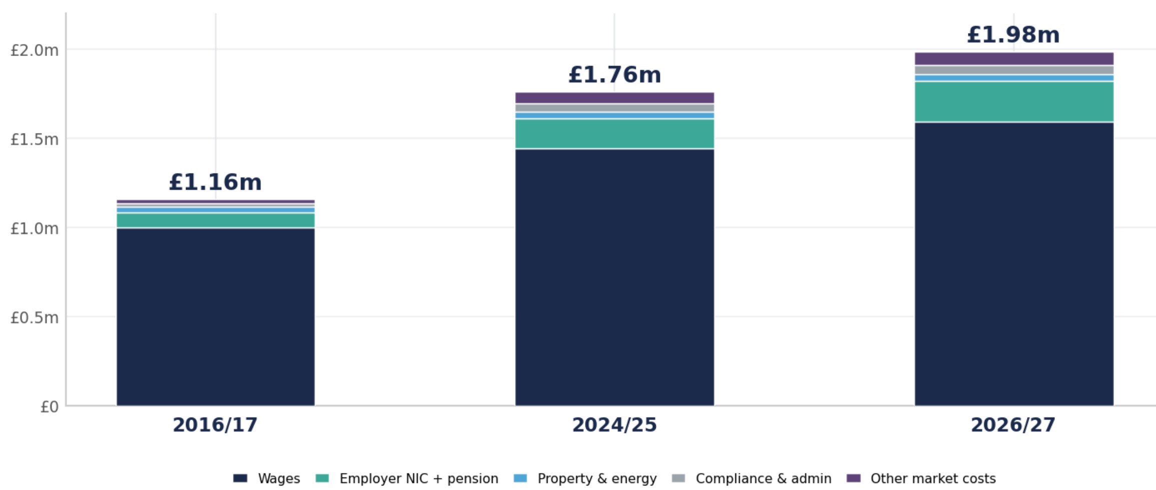

Chart 1: How the annual policy-related cost stack has changed since 2016 for a typical SME.
Hypothetical 50-person business, inflation-adjusted turnover basis

The Autumn Budget 2024 Impact: Between 2024/25 (pre-Budget) and 2026/27, the cost stack increased by £224,572 (+12.8%). Approximately 27% of the decade's total increase landed in just two years. The employer NIC changes alone (rate 13.8% to 15%, threshold £9,100 to £5,000) added £58,973 to this firm's annual NIC bill – a +44.8% increase, partially offset by the Employment Allowance rising from £5,000 to £10,500.

Methodology: This calculates the total annual cost of UK policy obligations - wages, NIC, pension, business rates, compliance and more - for a typical 50-person, ~£5m-turnover SME in 2016/17, 2024/25 and 2026/27, using verified HMRC, ONS, BoE and Ofgem rates, with turnover inflation-adjusted (full detail in appendix). The model is fixed on a 50-person business with the assumption that no operational change has occurred within the business across the 10 years.

What this model measures: Standing, annualised costs that are directly or substantially driven by UK government legislation, regulation, or statutory rates. It does NOT measure commercial inflation, one-off costs, sector-specific levies, profit-dependent taxes (Corporation Tax is excluded), counterfactuals, or the well-documented costs imposed to SME exporters by the UK withdrawal from EU. Energy is included as its policy element only (see below).

[1] The figures, calculations, methodology, and tabulations presented in the cost stack table and calculator have been independently reviewed by the National Institute for Economic and Social Research (NIESR) for accuracy. Such verification does not constitute endorsement of any analysis, interpretation, conclusions, or policy recommendations.

Cost Breakdown: Full Table

All cost figures calculated from first principles using verified HMRC, ONS, BoE, Ofgem and GOV.UK rates.

Cost Driver / Policy Area	2016/17	2024/25	2026/27	Δ 16→24	Δ 24→26	Δ 16→26
1 — Statutory Wage Floor						
NLW effective (age-weighted, per hour)	*£7.03*	*£11.30*	*£12.62*			
NLW wage bill (20 PT × 1,664 hrs)	£233,958	£375,997	£419,894	+£142,039	+£43,896	+£185,935
Avg FTE salary (AWE-indexed)	*£25,506*	*£35,607*	*£39,000*			
FTE wage bill (30 salaried)	£765,180	£1,068,210	£1,170,000	+£303,030	+£101,790	+£404,820
Total wages	**£999,138**	**£1,444,207**	**£1,589,894**	**+£445,069**	**+£145,686**	**+£590,755**
			+59% (since 2016)			
2 — Employer National Insurance						
Rate / threshold	*13.8% / £8,112*	*13.8% / £9,100*	*15.0% / £5,000*			
Gross employer NIC	£81,908	£136,511	£200,984	+£54,602	+£64,473	+£119,076
Employment Allowance	*−£3,000*	*−£5,000*	*−£10,500*			
Net employer NIC	**£78,908**	**£131,511**	**£190,484**	**+£52,602**	**+£58,973**	**+£111,576**
			+141% (since 2016)			
3 — Auto-Enrolment Pension						
Employer min rate	*1%*	*3%*	*3%*			
Total employer pension	**£7,079**	**£33,966**	**£38,337**	**+£26,887**	**+£4,371**	**+£31,257**
			+442% (since 2016)			
4 — Business Rates						
Std multiplier / Est. RV	*49.7p / £60,000*	*54.6p / £70,000*	*48.0p / £78,000*			
Gross rates bill	**£29,820**	**£38,220**	**£37,440**	**+£8,400**	**£-780**	**+£7,620**
5 — Energy (policy element: RO + CfD + CCL)						
Policy cost per kWh	*2.12p*	*4.75p*	*5.36p*			
Policy energy cost	**£741**	**£1,664**	**£1,876**	**+£923**	**+£212**	**+£1,135**
6 — HR / Legal Compliance						
HR / legal cost	**£15,000**	**£30,000**	**£35,000**	**+£15,000**	**+£5,000**	**+£20,000**
7 — Data / GDPR Compliance						
Data compliance cost	**£2,000**	**£10,000**	**£12,000**	**+£8,000**	**+£2,000**	**+£10,000**
8 — Making Tax Digital						
MTD compliance cost	**£0**	**£4,000**	**£4,000**	**+£4,000**	**+£0**	**+£4,000**
9 — Financing (£250,000 facility) · market-influenced						
SME loan rate	*~3.5%*	*~8.0%*	*~7.5%*			
Annual financing cost	**£8,750**	**£20,000**	**£18,750**	**+£11,250**	**£-1,250**	**+£10,000**
10 — Insurance (EL + IPT) · market-influenced						
Insurance cost	**£8,800**	**£16,800**	**£20,160**	**+£8,000**	**+£3,360**	**+£11,360**
11 — Cyber Security & Software · market-influenced						
Cyber insurance	£1,000	£8,000	£10,000	+£7,000	+£2,000	+£9,000
Cloud / SaaS subscriptions	£5,000	£20,000	£25,000	+£15,000	+£5,000	+£20,000
Cyber + SaaS total	**£6,000**	**£28,000**	**£35,000**	**+£22,000**	**+£7,000**	**+£29,000**
SUMMARY						
Hard policy costs (subtotal)	**£1,132,687**	**£1,693,568**	**£1,909,030**	**+£560,881**	**+£215,462**	**+£776,343**
Market-influenced costs (subtotal)	**£23,550**	**£64,800**	**£73,910**	**+£41,250**	**+£9,110**	**+£50,360**
TOTAL TRACKED COST STACK	**£1,156,237**	**£1,758,368**	**£1,982,940**	**+£602,131**	**+£224,572**	**+£826,703**
			+71% (since 2016)			
Turnover (current, deflated to prior years)	**£3.65m**	**£4.76m**	**£5.00m**			
As % of turnover	**31.7%**	**36.9%**	**39.7%**			

APPENDIX

Firm Profile & Input Assumptions

The model is calibrated to the following hypothetical business:

Input	Value	Role in Model
Annual turnover	£5,000,000 (2026 current; deflated to earlier years via GDP deflator)	Turnover indexed by HMT/ONS GDP deflator (IHYS). Used to express cost stack as % of like-for-like revenue. RV scaling factor unchanged.
FTE salaried staff	30	Drives FTE wage bill, NIC, pension, and per-head compliance costs
Hourly (NLW) staff	20	Drives NLW wage bill, NIC, pension, and per-head compliance costs
Avg FTE salary (2026/27)	£39,000	Default is the UK median full-time salary (ONS ASHE). Earlier years derived via AWE indexing
Hourly-staff hours	32 hrs/week (× 52 = 1,664/yr)	Default is the UK all-employee average (ONS). Combined with NLW rate to calculate individual worker earnings
Electricity use	35,000 kWh/yr	Multiplied by the policy element per kWh (RO + CfD + CCL) to get the policy energy cost
Financing facility	£250,000	Multiplied by SME loan rate to get annual financing cost
Assumed profit	£500,000	Context only — Corporation Tax excluded from cost stack

AWE Salary Indexing

The user enters a single salary figure (2026/27). Earlier years are derived automatically using ONS Average Weekly Earnings (whole economy, total pay excluding arrears, seasonally adjusted) — series KAB9. The reference month is March of each year to align with the start of the financial year.

$\text{Salary}_{2024} = \text{Salary}_{2026} \times 0.913$ (ONS AWE: £684 ÷ £749 = 0.913; ~9.5% growth 2024→2026)

$\text{Salary}_{2016} = \text{Salary}_{2026} \times 0.654$ (ONS AWE: £490 ÷ £749 = 0.654; ~52.9% growth 2016→2026)

This assumes salaried staff wages track the national AWE trend. The NLW floor is set independently by statute and is not indexed to AWE.

NLW Age-Weighting

The National Living Wage top rate applied only to workers aged 25+ in 2016 (21–24: £6.70; 18–20: £5.30), and to those aged 21+ from 2024. Rather than applying the headline NLW to every hourly worker, the model applies each year's age-specific statutory rates to an illustrative workforce (~80% aged 25+, ~15% aged 21–24, ~5% aged 18–20 in 2016). This yields an effective hourly rate slightly below the headline NLW – largest in 2016 (£7.03 vs £7.20) - and, based on a review by NIESR, slightly increases the measured decade-long cost change.

Energy – Policy Element Only

Unlike a full energy bill, the model counts only the government policy component of the electricity bill, not the wholesale price (which is driven by global gas markets and is not a domestic policy cost). This makes energy a genuine hard-policy line. The policy element combines three statutory levies, each sourced to an official body:

- Renewables Obligation (Ofgem RO buy-out × obligation): 1.56p / 3.18p / 3.50p per kWh
- Contracts for Difference (LCCC interim levy rate): 0.00p / 0.80p / 1.06p per kWh

• Climate Change Levy (HMRC): 0.559p / 0.775p / 0.801p per kWh

► Combined policy element: ~2.12p / ~4.75p / ~5.36p per kWh

Feed-in Tariffs and the Capacity Market are excluded (conservative). Gas policy costs are negligible (almost all levies fall on electricity) and are excluded. Some energy-intensive and smaller users hold partial exemptions or compensation for RO/CfD, and CCL has reduced rates under Climate Change Agreements; the model applies standard rates. Energy is ~0.1% of the stack, so these caveats have minimal effect on the total.

Turnover Indexing

The user enters current (2026) turnover, which the model deflates back to earlier years using the HMT/ONS GDP deflator (series IHYS, calendar-year y/y growth) so that costs and revenue are measured in the same nominal space. This is based on a methodological recommendation by NIESR.

Cumulative GDP deflator index (2016/17 = 1.000): 2016/17: 1.000 (base); 2024/25: 1.303; 2026/27: 1.369.

Turnover used in the model (£5m current, deflated back): 2016/17 £3,652,301; 2024/25 £4,758,948; 2026/27 £5,000,000 (current).

Caveat: this assumes the representative firm's real turnover was constant across the period — an illustrative simplification. The turnover figure is presentational only: it affects the cost-as-%-of-revenue display but not the underlying cost increases, which are unchanged.

Worked Example

Every intermediate calculation step for the 2026/27 column, using the base-case inputs. The final % of turnover line uses current (2026) turnover.

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── 1. WAGES ──
NLW (age-weighted: 95% at £12.71, 5% at £10.85)
Effective NLW rate      = £12.62/hr
NLW individual earnings = 1,664 hrs × £12.62 = £20,995
NLW wage bill           = 20 staff × £20,995 = £419,894
FTE salary (2026/27)    = £39,000 × 1.000 = £39,000
FTE wage bill           = 30 staff × £39,000 = £1,170,000
► TOTAL WAGES           = £419,894 + £1,170,000 = £1,589,894

── 2. EMPLOYER NIC ──
NIC per NLW worker (eff) = 15.0% × (£20,995 − £5,000) = £2,399.28  (× 20 = £47,986)
NIC per FTE worker       = 15.0% × (£39,000 − £5,000) = £5,100.00  (× 30 = £153,000)
Gross NIC                = £47,986 + £153,000 = £200,984
Employment Allowance     = −£10,500
► NET NIC                = max(0, £200,984 − £10,500) = £190,484

── 3. PENSION ──
QE per NLW worker (eff)  = min(£20,995, £50,270) − £6,240 = £14,755
Pension per NLW          = 3% × £14,755 = £442.65  (× 20 = £8,853)
QE per FTE worker        = min(£39,000, £50,270) − £6,240 = £32,760
Pension per FTE          = 3% × £32,760 = £982.80  (× 30 = £29,484)
► TOTAL PENSION          = £8,853 + £29,484 = £38,337

── 4. BUSINESS RATES ──
Rateable value           = £5,000,000 × 0.0156 = £78,000
► GROSS RATES            = £78,000 × 48.0p/£ ÷ 100 = £37,440

── 5. ENERGY (policy element: RO + CfD + CCL) ──
Policy cost per kWh       = 3.50p + 1.058p + 0.801p = 5.36p
► POLICY ENERGY COST      = 35,000 kWh × 5.36p ÷ 100 = £1,876

── 6–8. COMPLIANCE COSTS ──
  HR / legal             = 50 × £700 = £35,000
  Data / GDPR            = 50 × £240 = £12,000
  MTD                    = 50 × £80 = £4,000

── 9. FINANCING (market-influenced) ──
► FINANCING COST         = £250,000 × 7.5% = £18,750

── 10. INSURANCE (market-influenced) ──
► INSURANCE              = 50 staff × £360 × 1.12 (IPT) = £20,160

── 11. CYBER + SaaS (market-influenced) ──
  Cyber insurance        = 50 × £200 = £10,000
  SaaS subscriptions     = 50 × £500 = £25,000
► CYBER + SaaS TOTAL     = £35,000

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  HARD POLICY SUBTOTAL     = £1,909,030
  MARKET-INFLUENCED        = £73,910
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► GRAND TOTAL              = £1,982,940
  As % of turnover (£5.00m, 2026 current) = 39.7%
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Policy Rate Table

Parameter	2016/17	2024/25	2026/27	Source
National Living Wage (per hour)	£7.20	£11.44	£12.71	GOV.UK / LPC
NLW age threshold	25+	21+	21+	GOV.UK
NLW effective rate (age-weighted)‡	£7.03	£11.30	£12.62	BCC model
Employer NIC rate	13.8%	13.8%	15.0%	HMRC
NIC secondary threshold (p.a.)	£8,112	£9,100	£5,000	HMRC
Employment Allowance	£3,000	£5,000	£10,500	HMRC
AE employer pension rate	1%	3%	3%	TPR / DWP
QE lower limit	£5,824	£6,240	£6,240	DWP / TPR
QE upper limit	£43,000	£50,270	£50,270	DWP / TPR
Business rates multiplier (standard)*	49.7p	54.6p	48.0p	GOV.UK / VOA
RV scaling factor	0.012	0.014	0.0156	Est. — VOA revals
Renewables Obligation (p/kWh)	1.56p	3.18p	3.50p	Ofgem RO buy-out
Contracts for Difference (p/kWh)	0.00p	0.80p	1.06p	LCCC levy rate
CCL — electricity (p/kWh)	0.559p	0.775p	0.801p	HMRC
Energy policy element, combined (p/kWh)°	2.12p	4.75p	5.36p	Ofgem/LCCC/HMRC
BoE base rate	0.25%	5.00%	3.75%	Bank of England
Typical SME loan rate	~3.5%	~8.0%	~7.5%	BoE / UK Finance
Insurance Premium Tax†	10%	12%	12%	HMRC
EL insurance base (per head)	£160	£300	£360	ABI / market avg
HR/legal compliance (per head)	£300	£600	£700	CIPD / FSB
Data/GDPR compliance (per head)	£40	£200	£240	ICO / surveys
MTD compliance (per head)	£0	£80	£80	HMRC impact asst.
Cyber insurance (per head)	£20	£160	£200	Marsh / CE
SaaS subscriptions (per head)	£100	£400	£500	Gartner / BCC est.
AWE salary index (2026=1.0)	0.654	0.913	1.000	ONS AWE KAB9
GDP deflator index (2016=1.0)§	1.000	1.303	1.369	ONS / HMT (IHYS)
Corporation Tax rate	20%	25%	25%	HMRC (excluded)

** Standard multiplier used because estimated RVs (£60k–£78k) exceed the £51,000 threshold. Small business multiplier (48.4p / 49.9p / 43.2p) would apply to properties with RV below £51,000. † IPT was 9.5% from 1 Nov 2015 to 30 Sep 2016, then 10% from 1 Oct 2016; model uses 10% for 2016/17 as it applied for the majority of the year. ‡ Effective NLW applies each year's age-specific statutory rates to an illustrative hourly workforce (see NLW Age-Weighting). ° Energy counts the policy element only (RO + CfD + CCL), not the wholesale price; classified as hard policy. § GDP deflator added (NIESR review) to deflate current turnover back to earlier years.*

Classification Logic

Cost Line	Classification	Rationale
Total wages	Hard policy	NLW floor set by statute. Salaried wages AWE-indexed but NLW compresses distribution upward.
Net employer NIC	Hard policy	Rate, threshold, and Employment Allowance set by HMRC/HMT legislation.
Auto-enrolment pension	Hard policy	Employer min rate and QE band set by TPR / DWP.
Business rates	Hard policy	Multiplier set by government; RV set by VOA. Both statutory.
Energy (policy element)	Hard policy	Counts only the statutory levies on electricity (RO + CfD + CCL), not the wholesale price. These are set by government and rise over time.
HR / legal compliance	Hard policy	Driven by employment law: day-one rights, zero-hours reforms, tribunal risk.
Data / GDPR compliance	Hard policy	UK GDPR and DPA 2018 created new compliance obligations.
MTD compliance	Hard policy	HMRC mandate for digital filing. Did not exist before 2019.
Financing cost	Market-influenced	BoE rate is monetary policy responding to global inflation.
Insurance (EL + IPT)	Market-influenced	EL cover is mandatory, but the premium is set by the insurance market, so change over time chiefly reflects market pricing.
Cyber + SaaS	Market-influenced	Partially driven by GDPR/MTD but substantially by commercial technology shift.

Known Limitations & Caveats

1. Wage growth is partially market-driven. The NLW floor is pure policy. Salaried AWE growth is macroeconomic. Both are included, but not all wage growth is attributable to government intervention. Likewise, this report does not take into account the pressure on pay differentials caused by NLW increases (so firms often face pressure to increase salaries that are already above the NLW).

2. No counterfactual. The model shows absolute cost levels at three points in time. It does not estimate what costs would have been in the absence of these policies.

3. Energy: policy element only. The model counts only the government policy component of electricity (Renewables Obligation + Contracts for Difference + Climate Change Levy), not the wholesale price, which is driven by global gas markets. This makes energy a genuine hard-policy line. Some energy-intensive and smaller users hold partial exemptions or compensation, and CCL has reduced rates under Climate Change Agreements; the model applies standard rates. Financing remains market-influenced (BoE monetary policy).

4. HR/legal/cyber/SaaS are survey-based estimates. Per-head costs derived from industry surveys (CIPD, FSB, Gartner). Could vary ±30% by sector and firm size. See below Sensitivity Analysis.

5. NLW cascade effect. Higher NLW creates higher NIC on those workers and higher pension contributions. Each line is calculated independently from earnings, but the compounding should be noted.

6. Excludes policy offsets. Full expensing, R&D tax credits, Small Business Rate Relief, freeport reliefs are NOT in the model.

7. No sector identity. The hypothetical firm blends characteristics (NLW staff suggests hospitality/retail; salaried staff suggests professional services). Cyber, energy, insurance and the hourly/salaried split are particularly sector-specific.

8. Excluded items. Corporation Tax (profit-dependent), Capital Gains Tax (a tax on the owner when selling an asset, not a business operating cost), Apprenticeship Levy (due to threshold for bigger firms), statutory sick / maternity / paternity pay, rent/materials/logistics inflation. **Crucially, this model excludes Brexit-related costs** - customs declarations, rules-of-origin compliance, SPS checks, VAT on imports, and lost EU market access – which have been a major and well-documented cost burden on UK firms since 2021. These are trade-policy costs rather than domestic regulatory costs and warrant separate analysis. BCC research consistently finds that SME exporters are disproportionately impacted by the trade barriers established after Brexit. Their exclusion means this model understates the total post-2016 cost burden on a typical SME.

9. Turnover indexing: The user enters current (2026) turnover, which the model deflates back to earlier years by the GDP deflator (IHYS) so cost growth is compared against a like-for-like revenue baseline. The turnover figure is presentational only and does not affect the cost figures. Note: expressing costs as a share of revenue assumes constant real turnover across the period; actual firms grow or shrink.

10. Business behaviour is held constant: The model assumes no operational/behavioural changes over time. In practice, businesses may respond to rising costs by increasing prices, reducing staffing, changing investment plans, improving productivity, or restructuring operations.

BCC research has consistently found that firms have postponed investment and growth as a result of costs such as NICs and business rates.

11. Insurance classified as market-influenced. Employer Liability insurance is treated as a market-influenced cost rather than a hard policy cost: the obligation is statutory, but the premium is market-set. This affects only the hard/market split, not the total.

Sensitivity Analysis

The five survey-based per-head cost lines (HR/legal, Data/GDPR, MTD, Cyber insurance, SaaS subscriptions) are the least precise inputs in the model. The table below shows the impact on the 2026/27 grand total of varying these estimates by ±20%, with all other inputs held constant.

Cost Line	−20%	Base Case	+20%
HR / legal (£700/head)	£28,000	£35,000	£42,000
Data / GDPR (£240/head)	£9,600	£12,000	£14,400
MTD (£80/head)	£3,200	£4,000	£4,800
Cyber insurance (£200/head)	£8,000	£10,000	£12,000
SaaS subscriptions (£500/head)	£20,000	£25,000	£30,000
Survey-based subtotal	**£68,800**	**£86,000**	**£103,200**
GRAND TOTAL (2026/27)	**£1,965,740**	**£1,982,940**	**£2,000,140**
As % of turnover (£5.00m current)	**39.3%**	**39.7%**	**40.0%**

The ±20% sensitivity range produces a swing of £34,400 (1.7% of the base-case total). Even at the low end, the total cost stack remains above £1,965k. The survey-based lines account for £86,000 of the 2026/27 total – 4.3% of the grand total. The hard statutory components (wages, NIC, pension, rates) are precisely calculable and account for 94% of the total.