



# 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 (GDP-deflator uplifted from 2016) | £500k profit*

**British Chambers of Commerce**

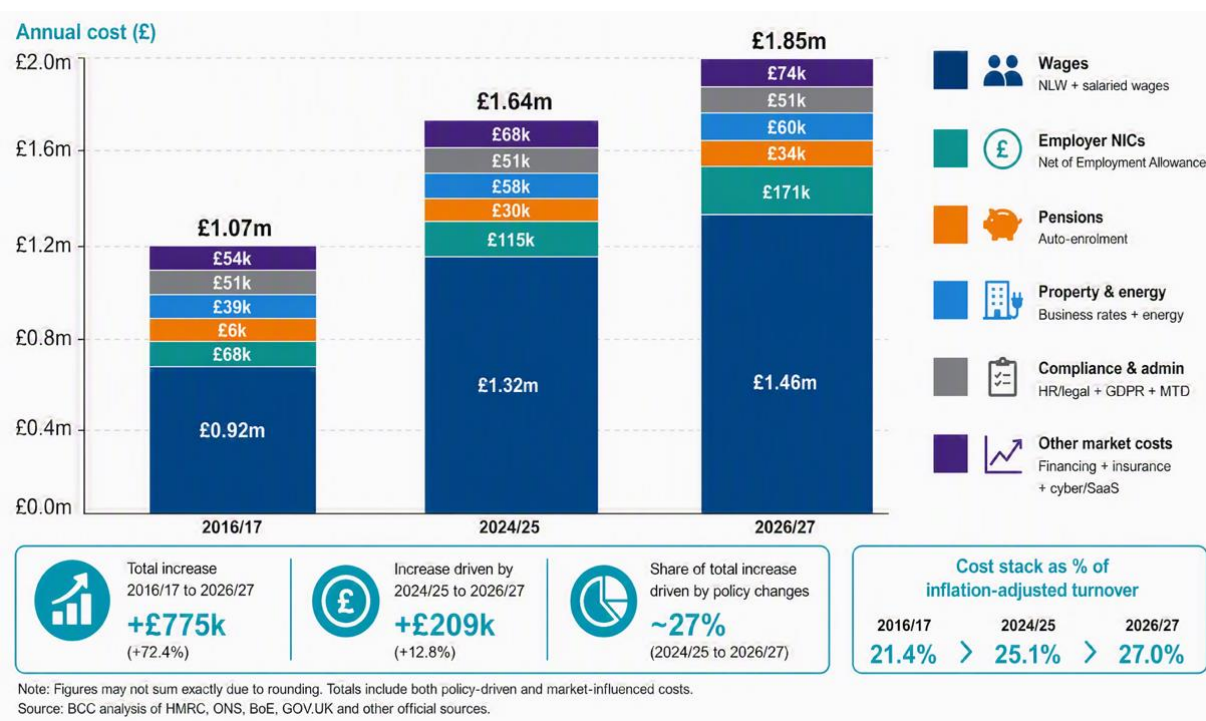
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# Executive Summary

**Headline:** The total domestic policy-driven cost stack for a hypothetical 50-person, ~£5m-turnover (2016 base) business has risen from around £1.07m in 2016/17 to £1,85m 2026/27 - **an increase of around £775k (+72.4%)**.

	2016/17	2024/25	2026/27
<b>Total cost stack</b>	<b>£1,070,563</b>	<b>£1,636,975</b>	<b>£1,846,160</b>
<b>Turnover (GDP-deflator uplifted)</b>	£5.00m	£6.51m	£6.85m
<b>As % of real-uplifted turnover</b>	<b>21.4%</b>	<b>25.1%</b>	<b>27.0%</b>

**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 £209,185 (+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 £55,485 to this firm's annual NIC bill – a +48.2% 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 and BoE 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.

## Cost Breakdown: Full Table

All cost figures calculated from first principles using verified HMRC, ONS, BoE and GOV.UK rates. Cost calculations unchanged from prior version.

Cost Driver / Policy Area	2016/17	2024/25	2026/27	Δ 16→24	Δ 24→26	Δ 16→26
<b>1 — Statutory Wage Floor</b>						
NLW (per hour)	£7.20	£11.44	£12.71			
NLW wage bill (20 PT × 1,600 hrs)	£230,400	£366,080	£406,720	+£135,680	+£40,640	+£176,320
Avg FTE salary (AWE-indexed)	£22,890	£31,955	£35,000			
FTE wage bill (30 salaried)	£686,700	£958,650	£1,050,000	+£271,950	+£91,350	+£363,300
<b>Total wages</b>	<b>£917,100</b>	<b>£1,324,730</b>	<b>£1,456,720</b>	<b>+£407,630</b>	<b>+£131,990</b>	<b>+£539,620</b>
			+59% (since 2016)			
<b>2 — Employer National Insurance</b>						
Rate / threshold	13.8% / £8,112	13.8% / £9,100	15.0% / £5,000			
Gross employer NIC	£70,587	£120,023	£181,008	+£49,436	+£60,985	+£110,421
Employment Allowance	-£3,000	-£5,000	-£10,500			
<b>Net employer NIC</b>	<b>£67,587</b>	<b>£115,023</b>	<b>£170,508</b>	<b>+£47,436</b>	<b>+£55,485</b>	<b>+£102,921</b>
			+152% (since 2016)			
<b>3 — Auto-Enrolment Pension</b>						
Employer min rate	1%	3%	3%			
<b>Total employer pension</b>	<b>£6,259</b>	<b>£30,382</b>	<b>£34,342</b>	<b>+£24,123</b>	<b>+£3,960</b>	<b>+£28,083</b>
			+449% (since 2016)			
<b>4 — Business Rates</b>						
Std multiplier / Est. RV	49.7p / £60,000	54.6p / £70,000	48.0p / £78,000			
<b>Gross rates bill</b>	<b>£29,820</b>	<b>£38,220</b>	<b>£37,440</b>	<b>+£8,400</b>	<b>£-780</b>	<b>+£7,620</b>
<b>5 — Energy (inc. CCL)</b>						
Elec + CCL (p/kWh)	11p + 0.559p	24p + 0.775p	27p + 0.801p			
<b>Total energy cost</b>	<b>£9,247</b>	<b>£19,820</b>	<b>£22,241</b>	<b>+£10,573</b>	<b>+£2,421</b>	<b>+£12,994</b>
<b>6 — Financing (£250,000 facility)</b>						
SME loan rate	~3.5%	~8.0%	~7.5%			
<b>Annual financing cost</b>	<b>£8,750</b>	<b>£20,000</b>	<b>£18,750</b>	<b>+£11,250</b>	<b>£-1,250</b>	<b>+£10,000</b>
<b>7 — Insurance (EL + IPT)</b>						
<b>Insurance cost</b>	<b>£8,800</b>	<b>£16,800</b>	<b>£20,160</b>	<b>+£8,000</b>	<b>+£3,360</b>	<b>+£11,360</b>
<b>8 — HR / Legal Compliance</b>						
<b>HR / legal cost</b>	<b>£15,000</b>	<b>£30,000</b>	<b>£35,000</b>	<b>+£15,000</b>	<b>+£5,000</b>	<b>+£20,000</b>
<b>9 — Data / GDPR Compliance</b>						
<b>Data compliance cost</b>	<b>£2,000</b>	<b>£10,000</b>	<b>£12,000</b>	<b>+£8,000</b>	<b>+£2,000</b>	<b>+£10,000</b>
<b>10 — Making Tax Digital</b>						
<b>MTD compliance cost</b>	<b>£0</b>	<b>£4,000</b>	<b>£4,000</b>	<b>+£4,000</b>	<b>+£0</b>	<b>+£4,000</b>
<b>11 — Cyber Security &amp; Software</b>						
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
<b>Cyber + SaaS total</b>	<b>£6,000</b>	<b>£28,000</b>	<b>£35,000</b>	<b>+£22,000</b>	<b>+£7,000</b>	<b>+£29,000</b>
<b>SUMMARY</b>						
<b>Hard policy costs (subtotal)</b>	<b>£1,046,566</b>	<b>£1,569,155</b>	<b>£1,770,170</b>	<b>+£522,589</b>	<b>+£201,015</b>	<b>+£723,604</b>
<b>Market-influenced costs (subtotal)</b>	<b>£23,997</b>	<b>£67,820</b>	<b>£75,991</b>	<b>+£43,823</b>	<b>+£8,171</b>	<b>+£51,994</b>
<b>TOTAL TRACKED COST STACK</b>	<b>£1,070,563</b>	<b>£1,636,975</b>	<b>£1,846,160</b>	<b>+£566,412</b>	<b>+£209,185</b>	<b>+£775,597</b>
			+72% (since 2016)			
Turnover (GDP-deflator uplifted)	£5.00m	£6.51m	£6.85m			
As % of real-uplifted turnover	21.4%	25.1%	27.0%			

# APPENDIX

## Firm Profile & Input Assumptions

The model is calibrated to the following hypothetical business:

Input	Value	Role in Model
Annual turnover	£5,000,000 (2016/17 base; GDP-deflator uplifted in later years)	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
Part-time NLW staff	20	Drives NLW wage bill, NIC, pension, and per-head compliance costs
Avg FTE salary (2026/27)	£35,000	User baseline; earlier years derived via AWE indexing
PT hours per year	1,600	Combined with NLW rate to calculate individual PT worker earnings
Energy consumption	80,000 kWh/yr	Multiplied by electricity price + CCL to get total 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.

$$\text{Salary}_{2024} = \text{Salary}_{2026} \times 0.913 \quad (\text{ONS AWE: } \pounds 684 \div \pounds 749 = 0.913; \sim 9.5\% \text{ growth } 2024 \rightarrow 2026)$$

$$\text{Salary}_{2016} = \text{Salary}_{2026} \times 0.654 \quad (\text{ONS AWE: } \pounds 490 \div \pounds 749 = 0.654; \sim 52.9\% \text{ growth } 2016 \rightarrow 2026)$$

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

### Turnover Indexing

Following a review by NIESR, this model uplifts nominal turnover each period 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 addresses an asymmetry NIESR identified: the prior version compared nominal cost growth against frozen nominal revenue, which described an increasingly unproductive firm capturing all the cost but none of the revenue from market inflation.

Cumulative GDP deflator index (2016/17 = 1.000):

- 2016/17: 1.000 (base)
- 2024/25: 1.303 (cumulative +30.3% from compounded 2017–2024 deflators)
- 2026/27: 1.369 (cumulative +36.9% incorporating OBR 2025–2026 forecasts)

Real-uplifted turnover used in the model:

- 2016/17: £5,000,000 (base)

- 2024/25: £6,515,000
- 2026/27: £6,845,000

Caveat: this assumes the representative firm successfully passed through 100% of general inflation into its prices — an upper-bound assumption. UK margins were empirically squeezed across 2022–2024, so the 'true' real-uplifted turnover may sit slightly below this index. Cost calculations themselves are unchanged.

# Worked Example — 2026/27

*Every intermediate calculation step for the 2026/27 column, using the base-case inputs. Cost calculations unchanged; the final % of turnover line uses the NIESR-corrected real-uplifted denominator.*

## — 1. WAGES —

NLW individual earnings = 1,600 hrs × £12.71 = £20,336  
NLW wage bill = 20 staff × £20,336 = £406,720  
FTE salary (2026/27) = £35,000 × 1.000 = £35,000  
FTE wage bill = 30 staff × £35,000 = £1,050,000  
▶ TOTAL WAGES = £406,720 + £1,050,000 = £1,456,720

## — 2. EMPLOYER NIC —

NIC per NLW worker = 15.0% × max(0, £20,336 – £5,000)  
= 15.0% × £15,336 = £2,300.40  
NIC per FTE worker = 15.0% × max(0, £35,000 – £5,000)  
= 15.0% × £30,000 = £4,500.00  
Gross NIC = (20 × £2,300.40) + (30 × £4,500.00)  
= £46,008 + £135,000 = £181,008  
Employment Allowance = –£10,500  
▶ NET NIC = max(0, £181,008 – £10,500) = £170,508

## — 3. PENSION —

QE per NLW worker = max(0, min(£20,336, £50,270) – £6,240) = £14,096  
Pension per NLW = 3% × £14,096 = £422.88  
QE per FTE worker = max(0, min(£35,000, £50,270) – £6,240) = £28,760  
Pension per FTE = 3% × £28,760 = £862.80  
▶ TOTAL PENSION = (20 × £422.88) + (30 × £862.80) = £34,342

## — 4. BUSINESS RATES —

Rateable value = £5,000,000 × 0.0156 = £78,000  
▶ GROSS RATES = £78,000 × 48.0p/£ ÷ 100 = £37,440

## — 5. ENERGY —

▶ TOTAL ENERGY = 80,000 kWh × (27p + 0.801p) ÷ 100 = £22,241

## — 6. FINANCING —

▶ FINANCING COST = £250,000 × 7.5% = £18,750

## — 7. INSURANCE —

▶ INSURANCE = 50 staff × £360 × 1.12 (IPT) = £20,160

## — 8–10. COMPLIANCE COSTS —

HR / legal = 50 × £700 = £35,000  
Data / GDPR = 50 × £240 = £12,000  
MTD = 50 × £80 = £4,000

## — 11. CYBER + SaaS —

Cyber insurance = 50 × £200 = £10,000  
SaaS subscriptions = 50 × £500 = £25,000  
▶ CYBER + SaaS TOTAL = £35,000

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HARD POLICY SUBTOTAL = £1,770,170  
MARKET-INFLUENCED = £75,991

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▶ GRAND TOTAL = £1,846,160  
As % of real-uplifted turnover (£6.85m) = 27.0%

# 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
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 reveals
Avg business electricity (p/kWh)	~11p	~24p	~27p	DESNZ QEP 3.4
CCL main rate — electricity	0.559p	0.775p	0.801p	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.

‡ GDP deflator added in this version (NIESR review) to uplift nominal turnover so cost-share comparisons are like-for-like.

# 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.
Insurance (EL + IPT)	Hard policy	EL mandatory. IPT rate set by HMRC. Premium market-influenced but obligation statutory.
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.
Energy (inc. CCL)	Market-influenced	Prices driven by global gas markets. CCL is policy but small component.
Financing cost	Market-influenced	BoE rate is monetary policy responding to global inflation.
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 and financing are primarily market/macro.** The 2022 energy crisis was triggered by global events (Russia-Ukraine), not UK domestic policy. BoE rate rises respond to inflation.
- 4. HR/legal/cyber/SaaS are survey-based estimates.** Per-head costs derived from industry surveys (CIPD, FSB, Gartner). Could vary  $\pm 30\%$  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 PT/FT split are particularly sector-specific.
- 8. Excluded items.** Corporation Tax (profit-dependent), 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:** This version uplifts nominal turnover by the GDP deflator (IHYS) so cost growth is compared against a like-for-like revenue baseline. This addresses the asymmetry identified in the prior version. Note: this assumes the firm successfully passes through 100% of inflation to prices, which is an upper-bound assumption – UK margins have been squeezed in practice, so the 'true' cost-share rise may sit between the nominal and deflated values.
- 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.

# 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  $\pm 20\%$ , 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
<b>Survey-based subtotal</b>	<b>£68,800</b>	<b>£86,000</b>	<b>£103,200</b>
<b>GRAND TOTAL (2026/27)</b>	<b>£1,828,960</b>	<b>£1,846,160</b>	<b>£1,863,360</b>
<b>As % of real-uplifted turnover (£6.85m)</b>	<b>26.7%</b>	<b>27.0%</b>	<b>27.2%</b>

The  $\pm 20\%$  sensitivity range produces a swing of £34,400 (1.9% of the base-case total). Even at the low end, the total cost stack remains above £1,828k. The survey-based lines account for £86,000 of the 2026/27 total – 4.7% of the grand total. The hard statutory components (wages, NIC, pension, rates) are precisely calculable and account for 92% of the total.