In partnership with:

ROOM TO GROW

Tackling the cost of doing business to ease the cost of living

September 2026

Contents

Foreword - CBI

The Government has rightly recognised that delivering growth in every postcode means drawing on the success of Manchesterism and partnering meaningfully with business. That partnership must start by reducing the cost of doing business and giving firms the financial headroom to invest, hire and support the sustained rises in real wages needed to ease cost of living pressures felt in communities right across the country.

Yet across the economy, the financial headroom businesses need to support the Government's growth ambitions is being steadily eroded. Rising employment costs are making it harder for hospitality businesses to give young people their first job. Business rates penalising investment is holding back retailers from investing in the high streets the Government wants to regenerate. Internationally uncompetitive industrial electricity prices are constraining investment by steelmakers, chemical businesses and food and drink manufacturers. Regulatory duplication, at home and abroad, is adding complexity for agri-food, logistics and shipping businesses that help the UK compete as an open economy.

As this report shows, this matters because in today's weak demand environment, businesses cannot simply pass rising costs on to customers. Competitive markets and stretched household budgets mean firms are increasingly absorbing them through lower margins, reduced investment and slower hiring. While this may shield consumers from higher prices in the short term, it comes at a cost. With profitability squeezed, businesses have less capacity to invest in the technology, skills and infrastructure that raise productivity, create good jobs and support real wage growth.

This is why tackling the cost of living and the cost of doing business are two sides of the same coin. Lasting improvements in living standards will ultimately depend on a more productive economy that can sustain higher real wages. That requires moving beyond managing the symptoms of inflation and tackling the supply-side barriers that are holding back business investment and growth.

Developed with the support of CBI Trade Association members representing foundational sectors rooted in communities across the UK, this report sets out practical supply side recommendations to reduce the cost of doing business. The CBI and its members stand ready to deliver these recommendations in partnership with Government, helping to raise productivity, wages and living standards in every postcode.

Louise Hellem

Chief Economist, CBI

Foreword - Mars

Growth is ultimately delivered through decisions: to build a new production line, launch a product, open a site, develop skills or back a new technology to meet long term goals. As a family-owned business with nearly 100 years of heritage in the UK, we believe in thinking in generations and having a long-term view to developing our people and investment. Today, we employ more than 14,000 Associates, contribute around £8 billion to the economy each year and operate eight manufacturing sites across the country. We are regularly recognised as a leading employer in terms of talent development and equitable working. Since 1995, we have invested more than $2 billion in our UK factory network. That is a significant vote of confidence in the UK, giving our people high-skilled jobs, strengthening local supply chains, and helping the UK remain a hub for large-scale, innovative production. However, we want to continue this investment into the future.

This report is important because it looks at the operating environment as businesses actually experience it. Government may consider employment costs, energy, taxation, trade and regulation through different departments and on different timetables, but businesses experience them together, through the same factories, products, systems and supply chains.

For consumer goods manufacturers, that cumulative pressure is becoming acute. Input costs, excluding labour, have risen by 40.3% since 2020, while 39% of businesses surveyed by the Food and Drink Federation had paused or cancelled capital investment projects in response to cost pressures. At the same time, the sector is implementing EPR, PRNs, the Plastic Packaging Tax, DRS, RAM, PFAS and potential NPM reform, alongside wider packaging requirements and changes to the UK-EU trading relationship. Each measure may have a legitimate objective. The problem is their combined cost, complexity and pace.

For Mars, the cumulative impact of these policies affects how we design and reformulate products, change packaging, work with suppliers, manage integrated European supply chains and plan investment across our UK sites. They also determine how much time and capital remain available for the things policymakers and businesses both want: skilled jobs, innovation, productivity, better environmental outcomes and more resilient supply chains.

We strongly support clear standards and ambitious action on sustainability. Mars is already investing in more sustainable manufacturing and packaging, including redesigning products and formats for circularity. But good regulation should unlock that investment, not simply add another layer of cost. It should be coordinated, predictable and designed around outcomes, with a clear understanding of what businesses are already being asked to deliver.

Mars has an important voice in this debate because we see the full picture. We are a manufacturer, retailer, exporter, service provider, supply-chain partner and major employer. We bring deep roots in the UK, alongside the international perspective of a global business deciding where its next investment can have the greatest impact for mutual benefit. That gives us both a stake in the answer and practical experience to contribute.

The UK retains enormous strengths: talented people, world-class research, established supply chains and a large consumer market. But international capital is mobile. It will increasingly favour countries that combine ambition with predictability and give businesses the confidence to plan beyond the next policy announcement.

Government cannot remove every pressure facing business. It can ensure that the pressures within its control are considered together. Stronger cumulative impact assessments, better sequencing across departments and earlier partnership with industry would help protect affordability and competitiveness while supporting better policy outcomes.

The message from this report is straightforward. Businesses want to invest in the UK. The task now is to create the headroom, certainty and confidence that allow those ambitions to become decisions.

Adam Grant

UK General Manager, Mars

Executive Summary

The UK's competitiveness challenge

The Government has rightly placed delivering good economic growth in every postcode at the centre of its agenda. Delivering that ambition now depends less on identifying new priorities than on creating the conditions in which businesses have the confidence and financial capacity to invest. But without businesses able to invest in premises, jobs and supply chains, the Government's ambition to regenerate high streets, town centres and communities will remain out of reach – as will its ambition to raise wages and tackle the cost of living.

Across the UK economy, businesses face a sustained increase in the cost of doing business. In 2025/26, businesses paid almost £345 billion in taxes, accounting for 31.3% of all UK tax receipts, while also facing rising labour costs, persistently high industrial electricity prices and an increasingly complex regulatory and administrative environment[1]. These pressures are all felt on a single balance sheet, weakening businesses' financial positions and pushing profitability down to levels not seen since the 2008 financial crisis[2]. This matters because profitability gives businesses the capacity to invest, innovate, create jobs, and raise wages.

As financial headroom is squeezed, resources that might otherwise have been invested in new technology, workforce development, expansion or decarbonisation are increasingly being used to absorb higher day-to-day operating costs. Over time, this weakens productivity, reduces investment and limits the economy's capacity to sustain higher wages and improved living standards.

Reducing the cost of doing business is therefore not simply a business agenda. It is central to delivering stronger productivity, higher growth and tackling the cost of living across every nation and region of the United Kingdom.

What this report finds

Drawing on new CBI analysis, business surveys and evidence from CBI member Trade Associations representing the UK's foundational sectors, this report identifies four principal findings.

First, businesses continue to face significant cost pressures despite lower inflation.

The CBI's new Price Pressure Measures (PPM) demonstrate that recent progress on inflation should not be interpreted as evidence that underlying business costs have eased. Instead, weaker demand and competitive markets mean businesses are not positioned to pass higher costs on to customers. Rather than disappearing, those pressures are being absorbed through lower profitability, reduced investment and slower hiring.

Second, labour and energy costs are reducing businesses' financial headroom.

Labour costs have become the greatest threat to labour market competitiveness for many firms, while UK industrial electricity prices averaged around 45% above the G7 median in 2023 and 2024[3]. Together these pressures are changing investment decisions, reducing recruitment, limiting wage growth and making the UK a less attractive destination for internationally mobile capital.

Third, the cost of compliance is increasingly driven by delivery rather than regulation itself.

Businesses consistently report that the principal challenge lies not in regulation alone, but in fragmented planning systems, overlapping regulatory processes and unnecessary administrative friction. Delays, duplication and uncertainty increase the cost of investment and weaken the UK's competitiveness.

Fourth, tax complexity has become a competitiveness challenge.

Businesses increasingly experience the tax system through its design and administration rather than simply its overall burden. Business rates discourage productive investment, overlapping sector-specific taxes create unnecessary complexity, and administrative burdens divert management time away from innovation and growth.

Three shifts needed to restore the UK's competitiveness

The evidence presented in this report points to a simple conclusion: the next phase of growth policy should focus less on creating new strategies and more on improving the conditions in which businesses invest to support rising wages and living standards. Doing so requires three fundamental shifts.

1. From higher operating costs to higher business investment

Businesses are increasingly diverting resources towards absorbing higher labour costs, energy prices, taxes and day-to-day operating expenses rather than investing in productivity, innovation and expansion. With profitability at levels not seen since the 2008 financial crisis, Government should therefore prioritise reforms that restore businesses' financial headroom, allowing firms to recruit, invest and grow[4].

2. From administrative friction to faster delivery

Businesses consistently report that the principal barriers to investment are no longer policy ambition alone, but the speed and effectiveness with which planning systems, regulators and public bodies make decisions. Improving regulatory outcomes increasingly depends on more effective delivery: stronger capability, clearer accountability, faster decision-making, and better prioritisation that reflects businesses’ capacity to absorb and comply with new requirements.

3. From managing costs to competing globally

The UK's competitiveness increasingly depends on creating an environment in which businesses can compete internationally for investment, talent and trade. That means reducing unnecessary regulatory friction, restoring internationally competitive industrial electricity prices, simplifying the tax system and maintaining a stable policy environment that gives firms the confidence to invest over the long term.

Delivering the shifts

The recommendations in this report provide a practical programme to deliver these three shifts. They are organised around three priorities:

- Restore businesses’ financial headroom for investment in people and the energy transition by reducing the cost of labour and energy.
- Make government delivery investable and help the UK compete as an open economy by strengthening planning capability, improving regulatory delivery and reducing unnecessary UK-EU regulatory friction.
- Free up resource for more productive activities and encourage businesses to expand by reducing the complexity of the tax system through business rates reform, sector specific tax simplification and wider tax administration modernisation.

Why this matters

Businesses do not experience labour costs, energy prices, regulation and taxation separately. They experience them together, through their cumulative effect on operating costs, investment decisions and competitiveness.

If the UK is to reindustrialise, regenerate places left behind and meaningfully tackle the cost of living by raising living standards across our four nations, Government must assess future policy not only on its individual merits but also on its cumulative impact on the cost of doing business.

Creating greater financial headroom for businesses to invest, innovate and grow will strengthen the economy's productive capacity and support more durable improvements in wages and living standards. Reducing the cost of doing business is therefore not simply about lowering costs. It is about creating a more competitive economy capable of sustaining wage rises and long-term growth.

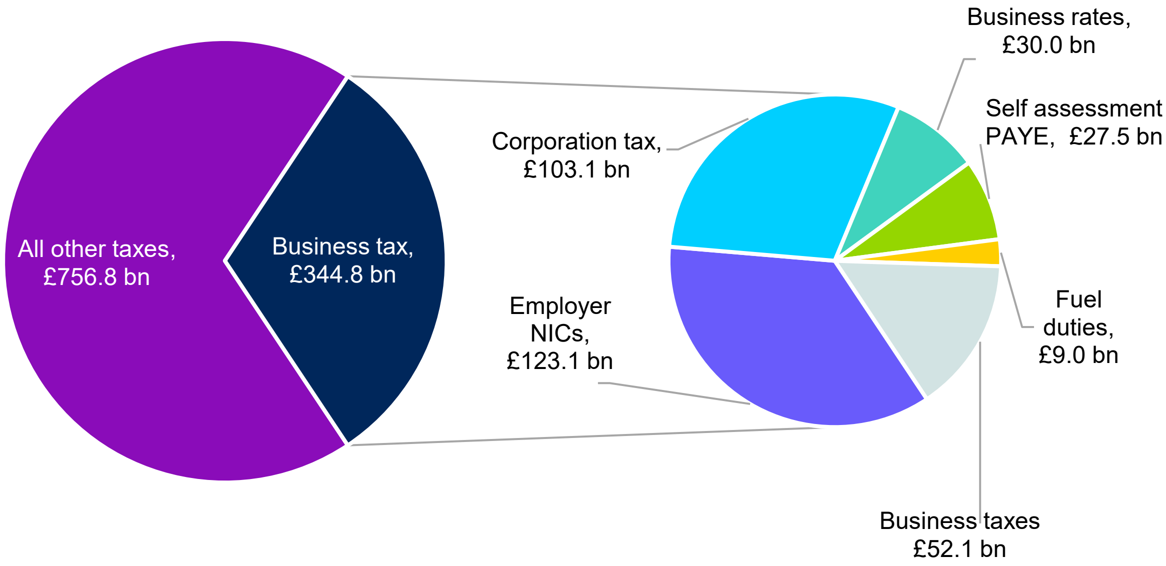
Introduction

The UK's competitiveness challenge

Businesses across the UK are being weighed down by the cumulative cost of doing business. Higher operating costs increasingly reduce firms' ability to invest, recruit, innovate and compete internationally. At a time when Government has rightly placed growth at the centre of its agenda, restoring businesses' financial headroom should therefore be viewed as a central part of the UK's competitiveness strategy.

Currently, that capacity is under pressure as businesses across the country face a sustained rise in the cost of doing business. In 2025/26, businesses paid nearly £345 billion in taxes, equal to 31.3% of the total tax burden and a 12.7% increase on the previous year[5]. That rise does not sit in isolation. At the same time, firms continue to face rising labour costs, persistently high energy prices, and an increasingly complex regulatory and administrative environment.

Figure One: Business tax contribution, 2025/26



These pressures matter not only for businesses themselves but also for the wider economy and households. The cost of doing business is closely linked to the cost of living, because the strength of the business environment shapes the jobs firms create, the wages they can sustain and the investment they can make in innovation that drives productivity improvements. When firms have to devote a growing share of their resources to managing day-to-day operating costs, they have less capacity to invest in new technologies, expand production, recruit new employees or raise pay. The consequence is not just a higher cost base for businesses, but it also means a less competitive economy.

Why the foundational sectors matter

Much of the Government's Industrial Strategy quite rightly focuses on the industries expected to drive the UK's future comparative advantage. However, high-growth sectors cannot succeed in isolation.

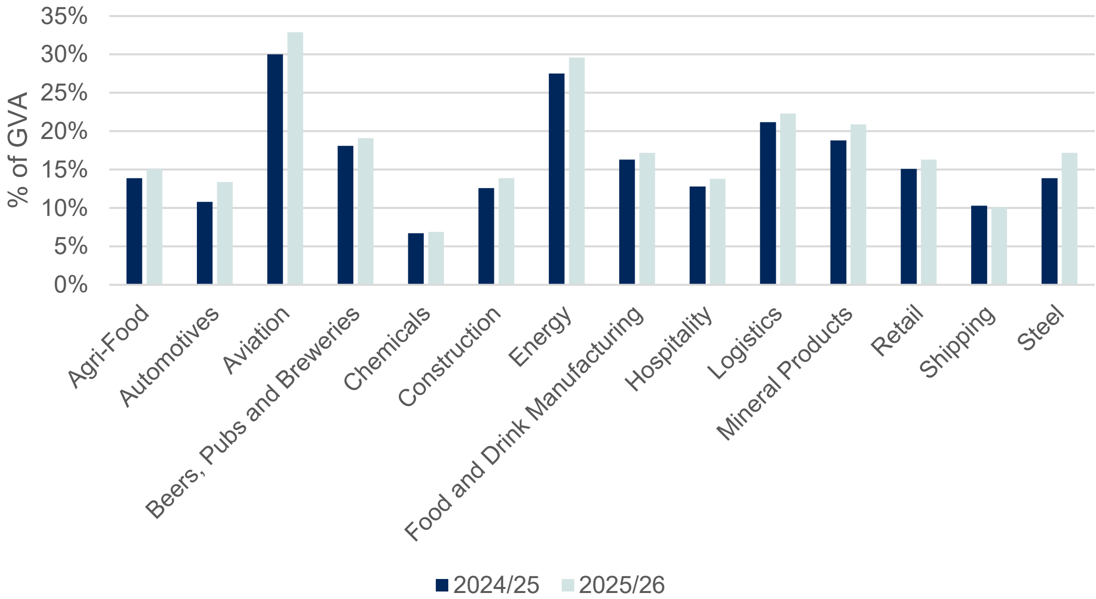
Those industries depend on a wider economy that is competitive, productive and able to support investment. Construction delivers the factories, laboratories and infrastructure they require. Energy powers production. Logistics connects businesses to customers and supply chains. Food manufacturing, retail and hospitality employ millions of people and underpin local economies. Steel, minerals and shipping provide the essential inputs that make economic activity possible.

Together, these foundational sectors account for a substantial share of UK employment, output and investment. They are the systems through which economic activity happens.

If the Government's objective is to have growth in every postcode of the UK, it must ensure these sectors are firing on all cylinders, alongside continuing to promote the Modern Industrial Strategy. At a time when growth is increasingly difficult to generate, the UK cannot afford to leave the foundational sectors' potential untapped.

Figure Two illustrates the growing business tax contribution across the 15 foundational sectors examined in this report, showing the tax businesses pay as a proportion of the economic value their sector creates.

Figure Two: Foundational sectors' business tax contribution as a % of sector GVA, 2024/25 and 2025/26[6]



What this report does

Produced in partnership with 17 CBI member Trade Associations representing key foundational sectors across the economy, this CBI report sets out the scale and nature of the cost of doing business challenge across the UK, including the particular pressures felt in the UK's devolved nations. It brings together evidence from across industries to show how these pressures are experienced differently by sector and place, yet consistently shape the decisions firms can make about investment and employment.

Rather than dealing with these pressures in isolation, it considers how labour costs, energy prices, taxation and regulatory compliance combine to shape business decision-making. It also explores how these pressures differ across sectors, places and the UK's devolved nations, while identifying practical reforms that could strengthen the UK's competitiveness ahead of the Autumn Budget.

The report also draws on new analysis of the CBI's Industrial Trends Survey (ITS) and Services Sector Survey (SSS), demonstrating how businesses respond to rising costs under different demand conditions. This provides fresh insight into the relationship between the cost of doing business, business investment and the cost of living.

The remainder of this report follows the journey from diagnosis to delivery.

- Chapter One explains why the cost of doing business matters and introduces new evidence on how firms respond to rising costs.

- Chapters Two, Three and Four examine the three principal sources of cumulative cost pressure: labour and energy, regulatory compliance, and taxation, showing how each affects investment, productivity and competitiveness.
- Chapter Five then sets out a practical programme of supply-side reforms designed to restore businesses' financial headroom and strengthen the UK's long-term growth prospects.

The evidence presented in the rest of this report points to a clear conclusion. If Government wants businesses to invest, hire and play their full part in raising living standards across the country and tackling the cost of living, it must act now to reduce the cost of doing business. Supply-side reform is therefore not simply a business agenda, it is central to delivering stronger productivity, higher growth and greater prosperity across the United Kingdom.

Chapter One: Why the cost of doing business matters

The challenge

Businesses facing sustained increases in labour, energy, tax and compliance costs have only a limited number of ways to respond. They may be able to pass some costs on through higher prices, but they can also absorb them through lower margins, delayed investment, slower recruitment, increased efficiency, or weaker pay growth.

Which of these responses they choose depends largely on the strength of demand, but competition also plays an important role in this relationship.

Open and effective competition helps ensure that businesses can respond to genuine changes in their cost base while constraining their ability to raise prices beyond what conditions justify. In highly competitive markets, firms face a constant trade-off between recovering higher costs and remaining attractive to customers, who may switch to competitors if prices rise too far.

The experience of the UK's supermarkets illustrates this dynamic. During the recent period of high food-price inflation, the Competition and Markets Authority found that competition in the sector was generally working well and that rising food prices were not, at an aggregate level, being driven by weak retail competition. As retailers' costs increased, average operating margins fell from 3.2% to 1.8% in 2022/23, indicating that higher costs were not being passed on to consumers in full and margins were squeezed instead. At the same time, consumers increasingly shopped around and lower price retailers gained market share, demonstrating the competitive constraint facing supermarkets when setting prices[7].

Effective competition therefore helps protect consumers from unjustified price increases. But this does not eliminate the underlying cost pressure facing businesses. Where competition or weak demand prevents firms from fully recovering genuine increases in their costs, the adjustment instead falls on margins and, ultimately, the resources available for investment, recruitment and productivity improvements. This pressure is already evident, with business profitability over the past year falling to its lowest level since the 2008 financial crisis[8].

This distinction is important because it shapes how the cost of doing business affects both businesses and households. Lower inflation does not necessarily mean businesses are facing fewer cost pressures. Instead, it can reflect firms choosing, or indeed being forced, to protect customers from higher prices by accepting lower profitability and scaling back investment. While this may moderate inflation in the short term, it also reduces businesses' ability to invest, innovate and create the productivity gains that ultimately support higher wages and living standards – ultimately leading to a worse outcome for consumers in the long run.

Understanding this relationship is essential. If Government wants to improve living standards sustainably, it must address not only the symptoms of inflation but also the structural cost pressures that constrain business investment and productivity.

What the evidence tells us

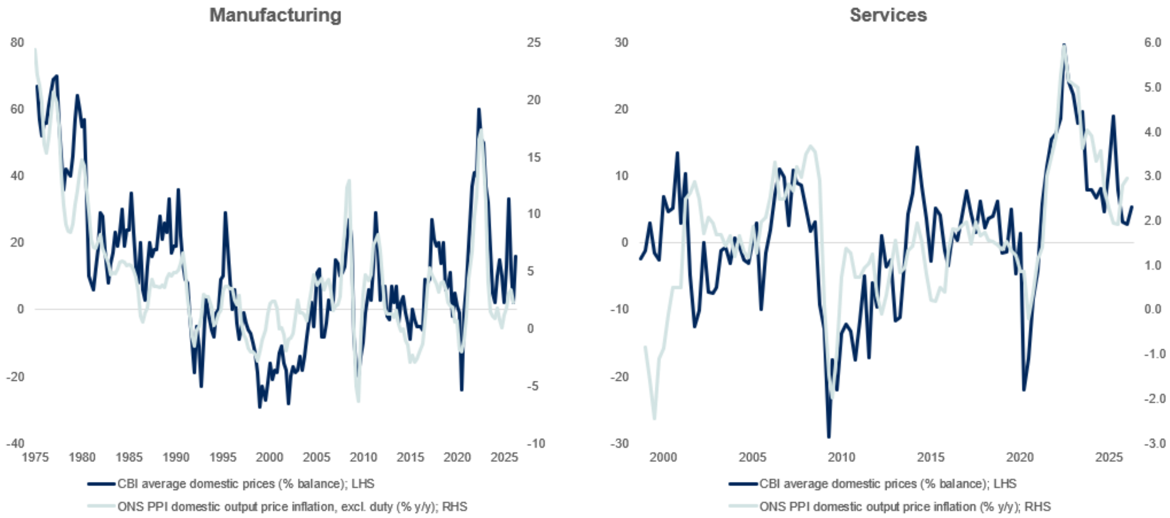
To better understand this relationship, the CBI has developed a new analytical framework: the Price Pressure Measures (PPM).

The PPM draws on two long-running CBI surveys: the Industrial Trends Survey (ITS) and the Services Sector Survey (SSS). Together, these surveys provide a consistent view of how firms are experiencing changes in costs, demand, prices, profitability, employment and investment over time. Running for several decades across the manufacturing and services sectors, they offer a credible and timely way to understand how business conditions have evolved across different economic cycles and inflation regimes.

Rather than measuring orders, costs or prices directly, businesses are asked about the direction of change in these metrics. The responses are then converted into balance statistics: the percentage of firms reporting an increase minus the percentage reporting a decrease. These balances do not measure the exact level of prices or costs, but they do provide a clear signal of the breadth of change across the business population. And by estimating the relative contributions of changes in costs and demand to changes in prices, the PPMs can track how firms' ability to pass higher costs on to customers has evolved over time.

Figure Three demonstrates the close relationship between the CBI's selling price balances and official ONS producer price inflation, providing confidence that the survey data capture underlying pricing dynamics within the economy.

Figure Three: CBI selling price balances vs ONS producer price inflation



The PPM analysis points to a clear conclusion. Business costs remain the principal source of pricing pressure, but firms' ability to pass those costs on depends heavily on demand conditions.

Figure Four shows that costs continue to exert upward pressure on prices, while weaker demand increasingly limits businesses' pricing power. Rather than fully passing through higher operating costs, firms are absorbing a growing proportion through lower margins, reduced profitability, weaker investment and slower hiring – policy outcomes that are constraining the ability to successfully raise living standards and meaningfully tackle the cost of living in all parts of the UK.

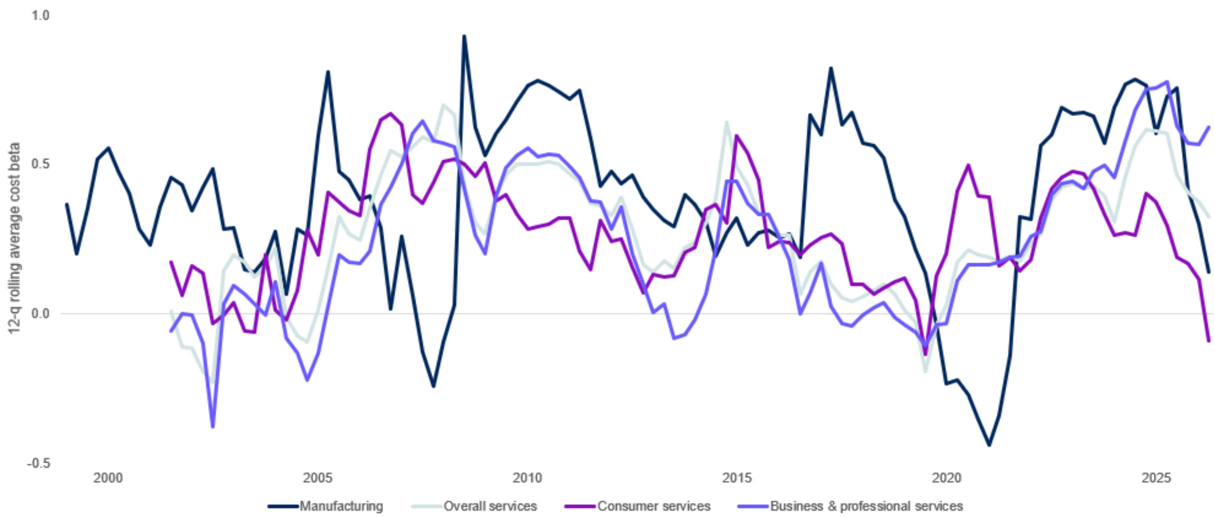
Figure Four: Estimated contribution of costs and demand to price pressure

Costs

Demand

Figure Five illustrates how this relationship has evolved over time. Cost pass-through strengthened during the post-pandemic inflation period, when strong demand enabled firms to recover more of their higher costs through prices. As demand has subsequently weakened, pass-through has fallen markedly, suggesting businesses are increasingly absorbing cost pressures internally.

Figure Five: Rolling 12-quarter estimates of cost pass-through



Why this matters for growth

These findings have important implications for economic policy.

Recent progress on inflation should not be interpreted as evidence that the cost pressures facing businesses have eased. Instead, it increasingly reflects businesses operating in a weaker demand environment where they are less able to recover higher costs through prices. The adjustment, therefore, falls elsewhere such as on profitability, business investment, and hiring.

Over time, this weakens the economy's productive capacity. Businesses with less financial headroom invest less in new technology, expand more slowly, create fewer jobs and have less scope to sustain real wage growth. The consequence is slower productivity growth and weaker improvements in living standards.

The evidence therefore points towards a clear policy conclusion. The most sustainable way to improve living standards and tackle the cost of living is not simply to suppress inflation, but to address the underlying causes and reduce the structural costs businesses face. Lowering the cost of doing business would strengthen firms' capacity to invest, raise productivity and compete internationally, creating the conditions for stronger real wages and more durable economic growth.

Key policy implications

The evidence in this chapter suggests that sustainably improving living standards requires more than managing inflation in the short term. Government should therefore:

- Reduce the structural costs that constrain business investment and productivity, rather than focusing solely on the symptoms of inflation.
- Prioritise supply-side reforms that create greater financial headroom for businesses to invest, innovate and grow.
- Recognise that reducing the cost of doing business is central to delivering stronger productivity, higher real wages and sustainable long-term growth.

The detailed recommendations arising from this analysis are set out in Chapter Five.

Chapter Two: Labour and energy costs are squeezing business headroom

Labour and energy are two of the most significant costs facing businesses across the economy. While the pressures differ by sector, both are increasingly reducing the financial headroom firms have available to recruit, invest and grow.

Employment costs have risen sharply as businesses absorb higher Employer National Insurance Contributions (NICs), statutory wage increases and new employment regulation. At the same time, persistently high electricity prices continue to put UK businesses at a competitive disadvantage, particularly in energy-intensive and internationally exposed sectors.

These pressures ultimately converge on the same balance sheet. Higher labour costs make recruitment and workforce investment more difficult, while uncompetitive energy prices weaken the case for capital investment in the UK. Together, they reduce businesses' capacity to invest in productivity, create jobs and support the sustainable wage growth needed to raise living standards.

Labour costs are changing the economics of employment

The challenge

Labour is one of the most important inputs into economic activity. Businesses recognise that raising wages, improving job quality and expanding opportunity are essential to improving living standards and achieving sustainable economic growth. These ambitions sit at the heart of the Government's growth ambitions.

Delivering them, however, depends on businesses having the financial capacity to recruit, train and invest. Sustainable wage growth cannot be legislated into existence; it is ultimately funded by stronger productivity and higher business investment. When employment costs rise significantly faster than productivity, businesses inevitably face increasingly difficult trade-offs over recruitment, investment and future growth.

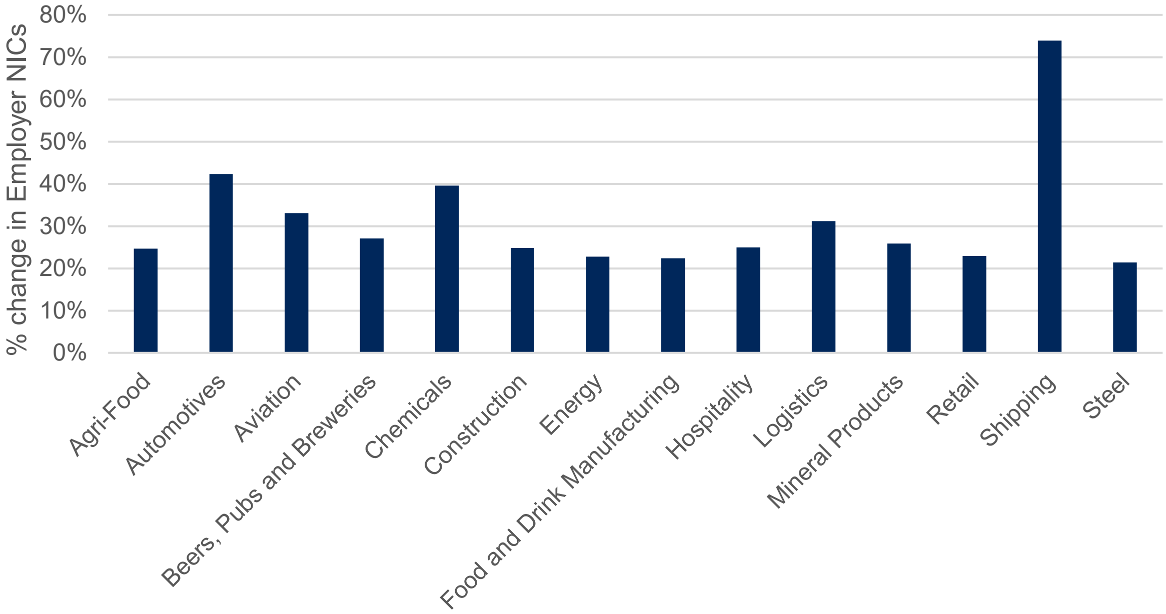
Since 2019, those pressures have intensified. Businesses have faced successive increases in Employer NICs, higher statutory wage floors and significant new employment regulation, such as the Employment Rights Act. While each measure has been introduced with legitimate policy objectives, firms consistently report that the challenge lies in their cumulative effect. Businesses experience these changes on a single balance sheet, where rising employment costs compete directly with investment in technology, training and expansion.

The result is a gradual erosion of financial headroom. Rather than investing in the training and skills that improve productivity and competitiveness over the long term, businesses are increasingly diverting resources towards meeting higher day-to-day employment costs.

What the evidence tells us

The scale of these pressures is reflected in the CBI's Business Tax Contribution analysis. In 2025/26, businesses paid £123.1 billion in Employer NICs, a 28% increase compared with the previous year. Employer NICs have now overtaken Corporation Tax to become the single largest source of business tax revenue, accounting for 36% of total business tax receipts[9].

Figure Six: Percentage change in foundational sectors' Employer NICs contributions, 2024/25 and 2025/26[10]



The CBI/Pertemps Employment Trends Survey, which asks businesses across the UK about their experiences and expectations for hiring, pay, employment costs, skills and labour market competitiveness, paints a similar picture[11]:

- 73% of firms now identify labour costs as the greatest threat to labour market competitiveness.
- Workforce growth expectations have almost halved since 2024, while the proportion of businesses expecting to reduce their workforce has almost doubled.
- Just over half of firms expected to offer pay awards at or above inflation by the end of 2025, down from 70% a year earlier, while the proportion expecting a general pay freeze has quadrupled.
- Nearly seven in ten businesses identify the recent increase in Employer NICs as one of the most significant employment costs affecting their competitiveness.
- The balance of firms intending to invest in training over the next 12 months has fallen to -11%, down markedly from +22% in 2024.

This picture is reinforced by the CBI's *Cost of Doing Business Survey*, where 72% of respondents reported that labour costs had increased significantly since 2019, making labour the single most frequently cited cost pressure affecting businesses across the economy[12].

Rather than representing temporary cost pressures, these findings suggest that the economics of employment are changing across large parts of the UK economy. Rising labour costs are constraining firms' ability to create new jobs and reducing their capacity to invest in the training, skills development and career progression of existing employees. This risks limiting the productivity improvements needed to support sustained real-wage growth.

Business in practice

The evidence gathered through this project illustrates how these pressures are changing investment decisions in practice.

Businesses consistently report that rising labour costs are changing investment and employment decisions. An engineering business reports that the Employer NICs increase added more than £5 million to its cost base. Against a wider backdrop of rising costs and challenging market conditions, the company has moved to a near-freeze on recruitment, approving only critical roles and essential replacements. The business also reported that reduced profitability was limiting the financial headroom available for long-term R&D and exploratory investment – creating challenges in driving efficiencies to mitigate growing cost pressures. One major hotel operator has delayed investment in decarbonisation and sustainability projects, redirecting capital towards guest-facing improvements that generate faster commercial returns. Meanwhile, a publican described how recent Employer NICs changes effectively meant the business had "lost 20 hours" of staffing simply to stand still, forcing reductions in staffing hours rather than expansion.

This matters because sectors such as hospitality provide many young people with their first experience of work, with 52% of pub employees aged 16-24 compared with 11% across the wider economy[13]. At a time when the Government is rightly prioritising reducing the number of young people not in education, employment or training (NEET), businesses report that rising employment costs are making it harder, not easier, to create entry-level opportunities. Supporting more people into work therefore requires not only increasing the supply of labour, but also ensuring businesses have the confidence and financial capacity to create jobs.

The skills system must also support businesses that are ready to invest in people. While the Government's ambition to create a more flexible Growth and Skills Levy is welcome, reforms need to be delivered transparently and at pace, giving employers greater flexibility to invest in the training their workforce needs. Where businesses are unable to use their levy contributions effectively, the levy risks functioning as an additional tax on employment rather than an investment in skills. This leaves businesses facing a twin challenge: rising employment costs that make it harder to create entry-level jobs, and a skills system that does not yet provide the flexibility needed to support people to develop and progress once in work.

Without addressing these barriers, there is a risk that policies designed to expand labour market participation, including the Jobs Guarantee, will be constrained by weaker business demand for labour.

Why it matters for growth

Labour costs influence far more than payroll budgets. They increasingly determine whether businesses recruit and invest in the skills and training required to boost productivity.

As employment costs absorb a growing share of business resources, firms have less financial headroom to invest in productivity-enhancing technology, workforce development and innovation. Over time this weakens productivity growth, reduces business dynamism and limits the economy's capacity to sustain higher wages.

The challenge for policymakers is therefore not whether better jobs and higher wages are desirable but whether businesses retain sufficient capacity to fund them. Sustainable improvements in living standards ultimately depend upon productive businesses that are confident enough to invest, recruit and grow.

Energy costs are undermining international competitiveness

The challenge

Reliable and affordable energy has become one of the defining determinants of economic competitiveness. From advanced manufacturing and chemicals to logistics, hospitality and food production, access to competitively priced electricity is essential to supporting investment, productivity and long-term economic growth.

As businesses electrify production, adopt AI-enabled technologies and invest in low-carbon processes, electricity costs are becoming increasingly important in determining where capital is deployed. The Government is therefore right to place clean energy at the heart of its growth strategy.

However, achieving that ambition requires more than decarbonising the electricity system. It also requires ensuring that UK businesses can access electricity at internationally competitive prices. Today, many businesses cannot do this. Persistently high electricity costs are increasingly acting as a structural disadvantage for UK businesses. Rather than representing a temporary shock, they have become embedded within investment decisions across manufacturing, logistics, construction, hospitality and many other sectors.

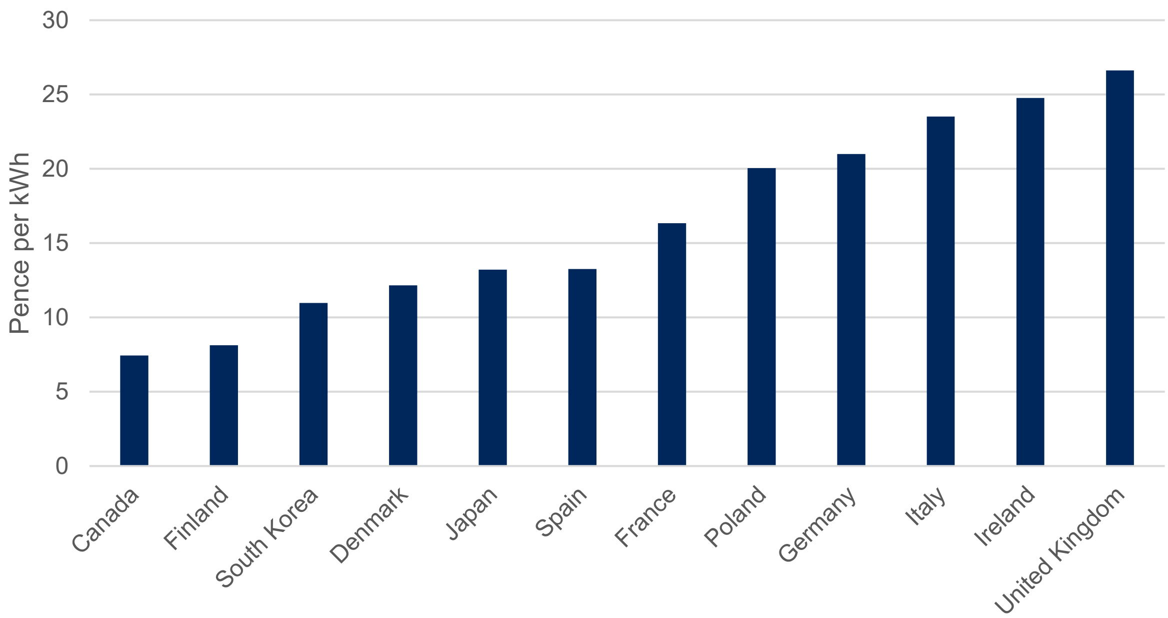
For internationally mobile businesses, electricity prices increasingly influence where future investment takes place.

What the evidence tells us

The evidence shows the UK's energy costs competitiveness challenge is significant. This is reflected in the CBI and Energy UK's *Cutting Business Energy Costs – A Blueprint for Growth* report which evidences how the UK's non-domestic electricity costs were roughly 45% above the G7 median over 2023 and 2024[14].

The Government has recognised this challenge through the introduction of the British Industrial Competitiveness Scheme (BICS), which represents an important acknowledgement that high industrial electricity prices have become a structural competitiveness issue rather than simply an energy policy concern. While welcome, the scheme is necessarily targeted and leaves many internationally exposed businesses outside its scope. Broader reform will therefore be required if the UK is to close its structural electricity price gap with international competitors.

Figure Seven: The UK's non-domestic electricity prices compared to selected G7 and European economies in 2024[15]



These pressures are expected to intensify. Network charges increased significantly in April 2026, while several European competitors continue to expand support for industrial electricity users despite already benefiting from lower electricity prices. The result is a widening competitiveness gap that risks discouraging investment in strategically important sectors.

Survey evidence reinforces this picture:

- 94% of businesses responding to the CBI's *Cost of Doing Business Survey* reported significant increases in energy costs since 2019[16].
- Four in ten businesses report delaying or cancelling investment because of higher energy costs[17].
- PwC similarly identifies electricity prices as one of the UK's principal barriers to attracting internationally mobile investment[18].

Business in practice

The impact of high energy costs is being felt across the economy, although the way businesses experience these pressures differs considerably depending on their operating model and energy intensity. For some sectors, rising electricity prices are eroding already tight operating margins, while for energy-intensive industries they are increasingly shaping investment decisions and international competitiveness:

- While many food and drinks manufacturers remain partially protected by existing energy hedges, exposure risks are increasing as coverage declines into late 2026/27. Forward energy contracts are already 20-25% higher, with unhedged positions facing steeper increases. This increasing exposure reflects food and drink manufacturers views on the additional support the Government should provide to ease cost pressures, with energy costs support the most cited measure in a recent Food and Drink Federation (FDF) survey, selected by 69% of survey respondents[19].
- Retailers' electricity costs are set to rise from £2.72 billion in 2025 to £3.16 billion in 2026, a 16% increase, despite electricity use remaining almost flat at 11,173 GWh compared to 11,181 GWh. These cost increases are being driven not by higher usage, but by policy, network and infrastructure charges levied on bills. Up to 65% of a retailer's electricity bill is already made up of non-commodity costs, and this could rise to 75% by 2030[20].

Together, these examples demonstrate that electricity prices increasingly shape investment decisions, location choices and international competitiveness, not simply operating costs.

Why it matters for growth

Energy prices should be viewed as a core competitiveness issue rather than a sector-specific concern. Lower electricity prices would improve returns on investment across the economy, strengthen incentives to electrify industrial processes and make the UK a more attractive destination for internationally mobile capital.

The potential economic gains are significant. CBI analysis suggests that reducing the UK's electricity price gap with the G7 median could unlock over £130 billion of additional economic output between 2027 and 2050[21]. Reducing industrial electricity costs should therefore be viewed as a long-term investment in the UK's productive capacity, rather than simply support for energy-intensive industries.

The cumulative impact of labour and energy costs

Labour and energy costs are often discussed separately, but businesses experience them together.

Labour costs reduce businesses' ability to recruit and invest, while persistently high electricity prices weaken international competitiveness and discourage capital investment. Together they reduce financial headroom, leaving firms with less capacity to adopt new technologies, improve productivity and create better-paid jobs.

The CBI's *Cost of Doing Business Survey* found that 72% of businesses reported significant increases in labour costs since 2019, while 94% reported significantly higher energy costs[22]. The following chapters show how regulatory complexity and tax administration compound these pressures further, reinforcing the need for a coordinated programme of supply-side reform.

Key policy implications

The evidence in this chapter suggests that reducing the cost of labour and energy should be a central part of the Government's growth ambitions. Government should therefore:

- Reduce the cumulative cost of employing people while maintaining a flexible labour market that supports recruitment and investment.
- Restore the UK's international competitiveness on industrial electricity prices to unlock business investment across the economy.
- Give businesses greater financial headroom to invest in productivity, workforce development and long-term growth.

The detailed recommendations arising from this analysis are set out in Chapter Five.

Chapter Three: The escalating cost of compliance

Regulation plays a vital role in protecting consumers, maintaining confidence in markets and supporting economic growth. Businesses therefore do not object to regulation itself, but increasingly report that the cost of compliance is driven by how regulatory systems are designed and implemented in practice, with insufficient consideration given to businesses' capacity to absorb and implement multiple regulatory changes at pace.

Rather than experiencing individual regulations in isolation, firms navigate multiple overlapping reporting requirements, approval processes and regulators with limited coordination. The result is a growing administrative burden that delays investment, diverts management time and increases the cost of doing business.

The CBI's *Cost of Doing Business Survey* found that almost nine in ten businesses reported regulatory costs had increased since 2019[23], while Government estimates that businesses spend the equivalent of around eight staff days per month dealing with regulation at an annual administrative cost of £22.4 billion[24].

Yet this captures only part of the economic cost. Businesses also incur the costs of delayed investment, duplicated processes, prolonged uncertainty and projects that are deferred or abandoned altogether. Where regulatory systems are slow, fragmented or unpredictable, they increase the cost of capital, extend delivery timelines and weaken the UK's attractiveness as a destination for investment.

Businesses experience these challenges at three levels:

- Locally through planning and delivery capacity;
- Nationally through fragmented regulation and government systems;
- Internationally through UK-EU regulatory divergence.

Working locally: devolution must be matched by delivery capacity

The challenge

The Government is right to place devolution at the centre of its growth ambitions. Business shares the belief that growth cannot be ordered from Whitehall and that it should be built from the bottom up by places with power, capability and confidence to act, working in partnership with business, universities, civic institutions, trade unions and communities. Empowering local leaders to shape planning and infrastructure decisions offers a clear opportunity to align policy with local economic priorities and unlock regional growth.

However, devolution alone will not deliver these outcomes. Its success depends on ensuring that local institutions have the powers and resources required to translate ambition into delivery. Without sufficient planning capacity and commercial expertise, there is a risk that bottlenecks are simply transferred from central government to the local level.

Recent reforms to the planning system represent important progress, with changes to the National Planning Policy Framework (NPPF) and the Planning and Infrastructure Bill now needed to be backed by additional planning resource with the necessary skills and experience to deliver on the ground.

What the evidence tells us

The evidence suggests that the principal constraint now lies less in planning policy than in delivery capacity. Approximately 85% of English local planning authorities had planning vacancies during 2025, particularly at mid and senior levels[25]. The challenge is therefore not simply recruiting more planners, but ensuring local authorities have the capability needed to process increasingly complex developments efficiently.

The consequences are becoming increasingly apparent. The Home Builders Federation’s March 2026 SME Developer Sentiment Survey found that 76% of respondents identified planning delays as one of their three greatest supply-side constraints[26]. In practice, projects are being scaled back or abandoned altogether because of prolonged decision-making timelines.

Business in practice

One quarry in the South West has spent more than £2.8 million on planning, environmental and legal costs before production has begun. Repeated information requests, ecological surveys and prolonged Section 106 negotiations delayed the project by at least two years, postponing production and local employment.

Similar challenges exist across the devolved nations. A trade association representing Scottish home builders reports that planning authorities remain stretched, statutory timescales are routinely missed and decision-making is increasingly delayed as more applications are referred to committee rather than being determined by planning officers. Developers also face growing difficulties securing road bonds under the Roads (Scotland) Act 1984. Businesses report that a shrinking market of providers, rising costs and inconsistent approaches across local authorities are reducing the viability of developments and tying up capital that could otherwise be invested in new projects.

Why it matters for growth

The consequences of these local delivery challenges extend well beyond the planning system itself. While the UK has no shortage of infrastructure ambition, businesses report that too many public infrastructure projects fail to attract capital because they are not sufficiently developed to meet investor requirements. Projects often lack clear commercial structures, appropriate risk allocation or the financial packaging needed to crowd in private investment.

This reflects a broader capability challenge. Local authorities and delivery bodies are increasingly responsible for progressing complex infrastructure projects but do not always have the commercial and technical expertise needed to engage effectively with investors. As a result, strategically important projects frequently take longer to become investable, adding cost, delaying delivery and discouraging private capital.

This challenge is becoming increasingly significant as demand for infrastructure investment grows, driven by the energy transition, AI adoption and the need to strengthen regional connectivity. Planning reform alone will therefore not unlock growth. Devolution must be accompanied by stronger planning capacity, greater commercial expertise and a sharper focus on developing investable propositions. In short, making devolution successful means making government delivery investable.

Working nationally: regulation must operate as a coherent system

The challenge

Businesses recognise that regulation is essential to well-functioning markets. The challenge is increasingly the cumulative effect of multiple regulatory systems operating alongside one another. Firms navigate numerous regulators, departments and approval processes with overlapping responsibilities and inconsistent implementation, increasing costs and delaying investment.

From the perspective of business, regulation is experienced as a single system. Where that system lacks coordination, even well-designed regulation can become unnecessarily burdensome.

What the evidence tells us

The evidence suggests that businesses increasingly view regulatory delivery, rather than regulatory ambition, as the principal challenge.

Government survey evidence shows that businesses spent an average of eight staff days per month dealing with regulation in 2024, up from 6.6 days in 2022. Almost two-thirds regarded the time taken to comply as burdensome, while 61% identified having to provide the same information more than once as a significant source of unnecessary cost, clear evidence of duplication across regulatory systems[27].

These challenges are reinforced by capacity constraints and increasing risk aversion within regulatory bodies. Businesses report shortages of specialist expertise alongside governance structures that prioritise escalation over timely decision-making. The result is a regulatory system that is slower, less predictable and more resource-intensive than intended.

Business in practice

The Extended Producer Responsibility (EPR) illustrates the costs that arise when regulation is developed alongside, rather than as part of, existing regimes. Businesses across key foundational sectors must navigate EPR alongside the Packaging Recovery Note (PRN) system and the Plastic Packaging Tax (PPT), creating overlapping reporting and compliance requirements across policies pursuing related environmental objectives. Producers fund the full net cost of managing household packaging waste through EPR while continuing to face separate PRN obligations, increasing cumulative cost and complexity. Businesses also highlight limited transparency over how ringfenced EPR revenues will be used and whether contributions will translate into the recycling infrastructure needed to improve real-world recyclability. Ensuring EPR revenues support greater investment in domestic recycling capacity could help develop new facilities and technologies, supporting the Government's wider reindustrialisation ambitions while reducing the UK's reliance on exporting waste. Over time, a stronger domestic recycling system could also help reduce EPR costs for producers.

Food and drink manufacturers and hospitality businesses face similar challenges with the Nutrient Profiling Model (NPM) and High Fat, Salt and Sugar (HFSS) regulations. Businesses have invested significantly in reformulating products and dishes, developing healthier options and adapting to existing requirements. Further changes to the NPM could require businesses to revisit this investment, while interaction with HFSS advertising and promotions restrictions adds further complexity. Future changes should therefore be proportionate, evidence-based and considered cumulatively, including their impact on innovation, affordability and consumer choice.

Similar implementation challenges are evident across a wide range of sectors. Annex A summarises examples raised by participating member trade associations in this project, including the Building Safety Act, the Zero Emission Vehicle Mandate, planning requirements, the Pubs Code and the UK's carbon pricing framework.

Standards can translate broad regulatory objectives into clear and practical requirements, reducing uncertainty and administrative burdens. Building Information Modelling standards, for example, have reduced duplication and improved coordination across construction projects, with global studies reporting project savings of 10%-20% - equivalent to up to £10 billion a year on UK infrastructure projects. The UK standards later formed the basis of the global ISO 19650 series, giving UK firms a first-mover advantage internationally[28].

The same themes extend beyond regulation into public procurement. Businesses report that lengthy procurement processes, inconsistent approaches between contracting authorities and multiple bidding stages have themselves become a source of cost and delay, increasing the resources required to compete for public contracts and slowing project delivery.

Why it matters for growth

Businesses increasingly describe delay and duplication rather than refusal as the principal barriers to investment. Where approvals are slow, responsibilities fragmented and regulatory requirements duplicated, projects become more expensive, investment decisions are postponed and commercial opportunities can be lost altogether.

The consequence is that businesses devote increasing amounts of time and capital to navigating regulatory systems rather than investing in productivity, innovation and growth. More fundamentally, regulatory complexity and uncertainty can weaken the UK's attractiveness when businesses are deciding where to make long-term investments. Where approval processes are slow, requirements are difficult to navigate or the future regulatory environment is uncertain, this increases both the cost and risk attached to UK projects – strengthening the case for internationally mobile investment to be deployed elsewhere.

Exemplifying this challenge, one UK engineering business had planned to invest between £12 million and £18 million over seven years in UK renewable and hydrogen infrastructure. However, amid wider uncertainty over the future policy, tax and regulatory environment, the company reversed its UK investment strategy and redirected capital towards its operations in the Middle East. This illustrates how an unpredictable operating environment can result not simply in higher compliance costs, but in the loss of multi-year investment and the growth opportunities associated with it.

Improving the UK's competitiveness therefore requires more than reducing the number of regulations. It requires regulation to operate as a coherent system – with clearer accountability, better coordination between regulators and government departments, stronger delivery capability, and greater consideration of businesses' capacity to absorb and implement new regulatory requirements.

Working internationally: Reducing unnecessary UK-EU regulatory friction

The challenge

For many businesses, the international cost of compliance is shaped most directly by the UK's regulatory relationship with the European Union. Businesses recognise that leaving the EU gives the UK greater freedom to make its own regulatory choices and that the two jurisdictions will not always adopt identical rules. However, where separate regimes pursue broadly comparable objectives through different certification, reporting or administrative requirements, firms can face additional costs without a corresponding improvement in regulatory outcomes.

Since the UK's departure from the EU, businesses trading across both markets have had to navigate additional customs documentation, sanitary and phytosanitary controls, product certification, labelling requirements and conformity assessments. The challenge is therefore not simply that the UK and EU operate separate regulatory systems, but that businesses increasingly bear the cost of navigating both simultaneously.

For firms operating integrated supply chains, regulatory divergence has become a recurring operational challenge rather than a one-off adjustment. Compliance requirements increasingly shape how businesses organise production, manage inventories and determine where future investment is located.

What the evidence tells us

Government evidence demonstrates the scale of this challenge. In 2024, 60% of respondents to the Administrative Burdens Advisory Board's survey said the administration associated with importing or exporting had increased considerably since EU exit and remained a burden on their business. A further 22% said the burden had increased but was now treated as business as usual[29].

The burden is particularly significant for firms with integrated supply chains or frequent, lower-value consignments, where compliance costs are incurred repeatedly. Businesses also report increasing costs arising from inconsistent interpretation of rules, differing implementation approaches and the absence of effective escalation routes when problems occur.

As UK and EU regulatory frameworks continue to evolve independently, businesses increasingly face the fixed cost of monitoring two regulatory systems simultaneously. Larger businesses may be able to build dedicated teams to manage this complexity, but the fixed cost of doing so can be particularly difficult for SMEs to absorb. This risks reducing the number of smaller firms able or willing to export and making participation in European supply chains increasingly concentrated among larger businesses.

Business in practice

Businesses participating in this project provided numerous examples illustrating how relatively small administrative issues can create significant commercial consequences.

One food and drink manufacturer importing infant formula from the Netherlands experienced a month-long delay because the Dutch certification system could not remove an inapplicable statement from a health certificate. Although the issue had no bearing on the safety or quality of the product, the shipment was rejected at the Port of Hull. Despite seeking support from both the European agri-food attaché and the Animal and Plant Health Agency's urgent issues resolution process, no pragmatic solution was found. What began as a minor technical discrepancy ultimately resulted in increased storage costs, disruption to supply chains and delays to the movement of an essential product.

Other businesses highlighted how regulatory divergence is changing day-to-day operations. One logistics operator reports that journeys from Northern Ireland that previously took around 14 hours now take approximately 22 hours. Meanwhile a Northern Irish agri-food business reported that regulatory frictions have increased the time required to source cereal seed from Great Britain from five or six days to five or six weeks. Established supply chains with Great Britain are now being re-routed through the Republic of Ireland to mitigate the associated costs. Another manufacturer has increased its stock holdings from three days to seven days to protect against disruption, tying up working capital that could otherwise be invested productively. These examples show how regulatory friction extends beyond direct administrative charges: it affects inventory management, cash flow, transport efficiency and supply-chain resilience.

Businesses also described the longer-term consequences of regulatory divergence. One food producer highlights forthcoming changes to EU honey-labelling requirements that are not being replicated in the UK, requiring exporters to monitor and comply with separate sets of rules.

Why this matters for growth

Regulatory divergence increasingly influences supply-chain design, inventory management, capital allocation and decisions about where businesses choose to invest. The challenge is not regulatory autonomy itself. Businesses recognise that the UK and EU will not always regulate in the same way, nor should they where different approaches better reflect domestic priorities.

The greater concern is unnecessary duplication, particularly where businesses must absorb and implement domestic and European regulatory changes at the same time. Where separate systems pursue broadly similar objectives through different certification, reporting or testing requirements, Government should prioritise and sequence regulatory change to avoid unnecessary duplication and ensure businesses have sufficient capacity to implement new requirements effectively.

For many businesses, including food and drink manufacturers and agri-food businesses, an ambitious UK-EU SPS Agreement offers a significant opportunity to reduce these costs by simplifying certification and border processes and removing unnecessary regulatory barriers to agri-food trade. Effective implementation would improve predictability at the border, reduce administrative costs, strengthen the resilience of cross-border supply chains and, by lowering unnecessary costs and expanding sourcing options, help support consumer choice and affordability. Alongside mutual recognition where appropriate and structured regulatory dialogue, reducing these avoidable frictions would also strengthen the UK's attractiveness as a location from which businesses can serve both domestic and European markets.

In short, the objective is not alignment for alignment's sake. It is to reduce unnecessary compliance costs where equivalent regulatory outcomes can be achieved, improving the UK's competitiveness and reducing the cost of doing business without compromising regulatory sovereignty.

Key policy implications

The evidence in this chapter suggests that improving regulatory delivery is now as important as improving regulatory policy. Government should therefore:

- Strengthen planning, commercial and delivery capability across national and local government to improve operational throughput.
- Create a more coherent regulatory system with clearer accountability, better coordination and greater use of standards.
- Reduce unnecessary UK-EU regulatory friction where equivalent outcomes can be achieved without compromising the UK's regulatory autonomy, including by removing unnecessary ‘Not for EU’ labelling and avoiding duplicative requirements as UK and EU packaging regulations evolve.

The detailed recommendations arising from this analysis are set out in Chapter Five.

Chapter Four: The rising complexity in the tax system

The growing business tax contribution set out in the introduction is only part of the challenge. Businesses increasingly report that the issue lies not simply in the overall level of taxation, but in how the tax system is designed and administered.

This is evident in the business rates system, where tax design can discourage investment in commercial property; in sector-specific taxes, where overlapping regimes increase costs; and in the growing administrative burden associated with navigating the wider tax system. Together, these issues increasingly shape investment decisions, operating costs and business confidence.

Business rates are discouraging investment

What the evidence tells us

Although intended to raise revenue from commercial property, businesses increasingly report that business rates discourage investment. Improvements to buildings, refurbishment programmes and expansion into more productive premises can all increase liabilities, while the ‘slab’ structure creates cliff edges where relatively small increases in rateable value trigger disproportionately large increases in tax. As a result, firms often delay or abandon investment because expected returns are reduced by higher property tax liabilities.

A CBI survey of nearly 700 businesses across the UK illustrates the scale of the issue[30]:

- 32% of firms said business rates had played a major role in cancelled, reduced or delayed planned investment in their property.
- Among those affected, 76% said higher overall business rates bills suppress investment.
- 53% said uncertainty about future liabilities undermines long-term planning.
- 30% of all businesses surveyed said they would reinvest 91%-100% of any savings from lower business rates. The most likely uses of that saving would be productivity, automation and AI (49%), property investments (37%) and hiring and recruitment (35%).

Internationally, the UK continues to levy the highest property taxes in the OECD as a share of GDP, around four times higher than Germany[31].

Business in practice

Businesses consistently describe business rates as a tax on investment rather than occupation.

One airport operator said its rates bill will rise by 112% when transitional relief ends in 2028/29, while an infrastructure operator facing a 200% increase in rateable value has already halted millions of pounds of planned rail investment.

These examples demonstrate how uncertainty and large increases in business rates can alter investment decisions long before liabilities are actually paid.

Why it matters for growth

Business rates increasingly discourage precisely the type of investment the Government is seeking to encourage.

Where businesses face higher tax liabilities simply for improving premises, expanding productive capacity or relocating into more efficient facilities, investment becomes less attractive. Over time this reduces productivity, slows regeneration and weakens the UK's competitiveness.

A business rates system that rewards rather than penalises investment would therefore support stronger business confidence, encourage capital expenditure and improve the UK's long-term growth potential.

Sector-specific taxes are creating cumulative burdens

What the evidence tells us

Alongside cross-economy taxation, businesses identify several sector-specific taxes as increasingly affecting investment decisions.

For offshore energy businesses, the Energy Profits Levy (EPL) it not delivering on its initial aim of taxing exceptional windfall profits, while repeated changes to its rate, duration and investment allowances have increased uncertainty and made long-term investment planning more difficult.

Hospitality businesses are similarly concerned that a locally administered Overnight Visitor Levy could create additional fragmentation, with different Mayoral Strategic Authorities introducing different charging structures, exemptions and administrative processes.

Business in practice

Industry evidence demonstrates how these taxes can have unintended consequences and disproportionate impacts on investment decisions rather than simply raising revenue.

Offshore Energies UK analysis suggests that replacing the EPL with a new Oil and Gas Price Mechanism (OGPM), that delivers on the EPL's initial ambitions by activating only when both oil and gas prices exceed specific thresholds, could unlock £50 billion of UK oil and gas projects, sustain tens of thousands of jobs and over time deliver higher tax receipts[32]. On the latter, implementing HM Treasury's proposed 'Oil and Gas Revenue Levy' from April 2027 – as opposed to 2030 – would generate £13.4 billion of additional tax revenue[33].

The differing visitor levy proposals emerging across Scotland illustrate the complexity businesses face when similar taxes develop differently across jurisdictions. Accommodation providers may need to adapt booking, payment and accounting systems to calculate, collect and remit levies, with Scottish Government analysis estimating initial compliance costs of £3,000 – £10,000 for a typical small-to-medium-sized hotel[34]. These costs could increase further where businesses operating across Scotland are required to accommodate different local levy structures, rates and collection arrangements.

Why it matters for growth

Businesses recognise the policy and revenue raising objectives underpinning these taxes. Their concern is that areas where taxes are poorly designed or administrated add unnecessary uncertainty, duplication and inconsistency to the detriment of investment decisions.

Where taxes become unpredictable or overlap with existing regimes, firms devote more resource to compliance and less to productive investment. It also makes investors more cautious, as they plan for incentives to be withdrawn, rates to rise, and extra advisory costs to understand the changes. Better tax design can therefore support both public policy objectives and economic growth simultaneously.

Tax administration is becoming a competitiveness issue

What the evidence tells us

Businesses increasingly report that the administration of the tax system has become almost as burdensome as taxation itself. Firms must navigate fragmented HMRC teams, inconsistent digital systems and repeated information requests, creating unnecessary costs and delaying investment decisions.

The scale of this burden is significant. HMRC estimates that businesses spend £15.4 billion each year complying with the tax system across around 2,500 obligations, including £6.6 billion on professional fees and £4.3 billion in internal administrative costs[36]. Both HMRC and the National Audit Office (NAO) acknowledge that this is likely to understate the true cost.

The burden is felt across the business population. Federation of Small Business research estimates that the average small business spends around £4,500 a year complying with the tax system[37]. Larger firms face similar challenges: only 49% of large businesses surveyed by HMRC regarded the administrative burden associated with tax compliance as reasonable[38].

Digitalisation has the potential to reduce these costs, but technology alone does not guarantee simplification. The NAO found that administrative burdens have increased despite greater availability of digital channels, reflecting the underlying complexity of the tax system and the processes businesses must navigate[39].

Business in practice

Businesses participating in this project described recurring difficulties reconciling PAYE, VAT and Corporation Tax accounts, correcting administrative errors and obtaining responses from HMRC. These processes can absorb significant management time and generate additional professional fees, while uncertainty over tax treatment can delay investment decisions.

Businesses also highlighted the importance of being able to establish tax treatment before committing capital. The introduction of HMRC's Advanced Tax Certainty Service is therefore welcome, but businesses report that restrictive eligibility criteria limit its practical value and want greater access to upfront certainty across a broader range of transactions and investments.

Long-running tax investigations can create similar costs. HMRC has made progress in improving the efficiency of large business compliance, with the average duration of investigations falling from 35 months in 2021/22 to 17 months in 2024/25. However, 30% of interventions closed in 2024/25 resulted in no additional tax yield, and these zero-yield cases took an average of 17 months to resolve, compared with nine months for investigations that identified additional tax[40]. This suggests further scope to improve the targeting and proportionality of compliance activity, enabling HMRC to focus resources on areas of greatest tax risk while reducing unnecessary burdens on compliant businesses.

Why it matters for growth

Tax administration becomes a competitiveness problem when it changes where and whether businesses invest. Research from the Oxford Centre for Business Taxation found that 72% of multinational businesses considered uncertainty over their effective tax rate highly important to investment and location decisions, with inconsistent treatment by tax authorities and difficulties obtaining proactive certainty among the factors contributing to that uncertainty[41].

Making the tax system simpler and more predictable would therefore do more than reduce compliance costs. It would free management time and capital for productive activity, strengthen investment confidence and allow HMRC to concentrate its resources on the areas of greatest tax risk.

The cumulative impact on growth

Taken together, these findings demonstrate that the UK's tax challenge is increasingly defined not only by how much businesses pay, but by how the system is designed and administered. Business rates discourage investment, overlapping sector taxes increase complexity and fragmented administration diverts management time away from productive activity.

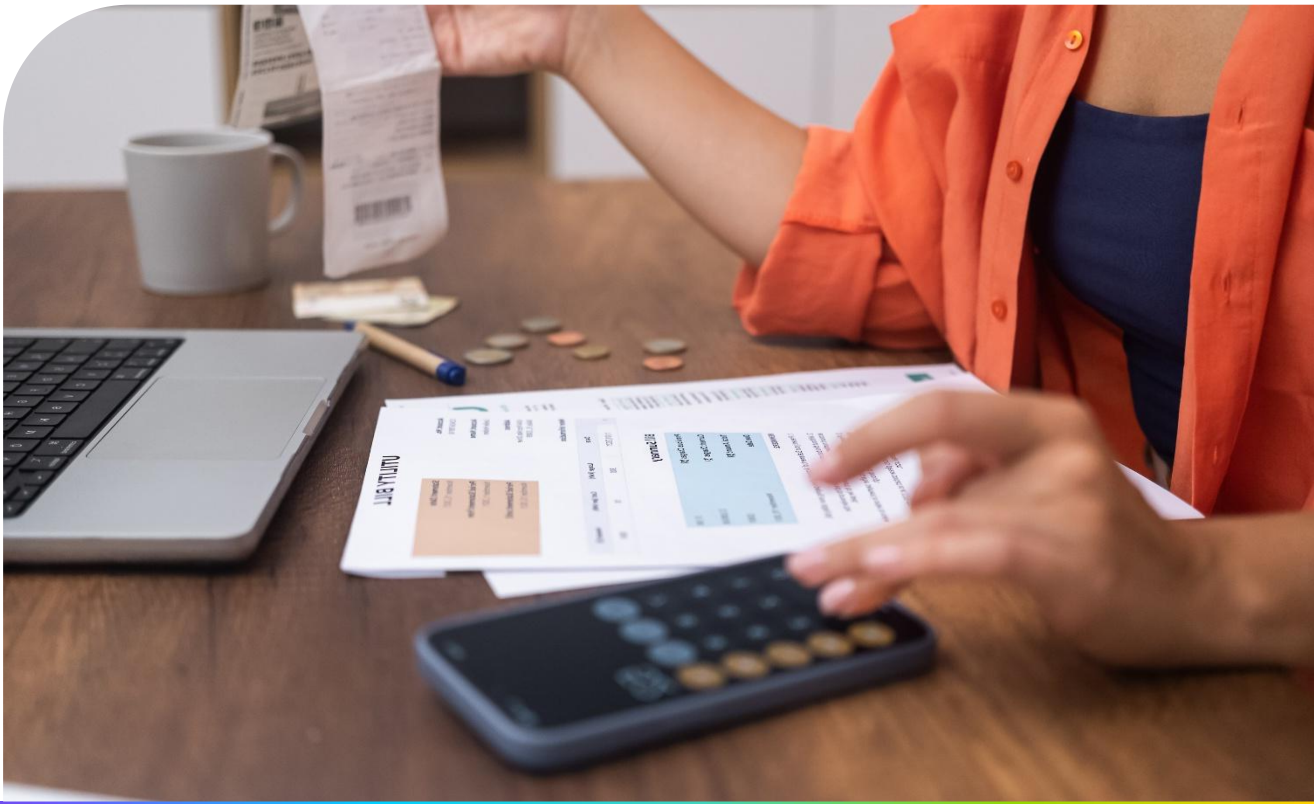
Improving the UK's competitiveness therefore requires more than maintaining a stable tax burden. It requires a tax system that is simpler, more predictable and better aligned with the Government's ambition to encourage investment, raise productivity and support long-term growth.

Key policy implications

The evidence in this chapter suggests that tax reform should focus as much on simplicity and predictability as on the overall tax burden. Government should therefore:

- Reform business rates so that they support, rather than discourage, investment in productive assets.
- Simplify sector-specific taxes and reduce unnecessary duplication where multiple regimes pursue similar policy objectives.
- Modernise tax administration to reduce compliance costs, improve certainty and allow businesses to devote more time and capital to productive investment.

The detailed recommendations arising from this analysis are set out in Chapter Five.



Chapter Five: Recommendations to cut the cost of doing business

From diagnosis to delivery

The evidence presented throughout this report points to a consistent conclusion that the UK's competitiveness challenge is increasingly being shaped by the cumulative cost of doing business.

Chapter One demonstrated why this matters. The CBI's new PPM show that, in today's weaker demand environment, businesses are increasingly unable to pass cost increases on to customers. While this may appear positive for consumers in the short term, rather than disappearing, those pressures present themselves through lower margins leading to subdued investment, weaker wage growth and slower hiring. Recent progress on inflation should therefore not be interpreted as evidence that the underlying cost pressures facing businesses have eased.

The most sustainable way to improve living standards and tackle the cost of living is not simply to focus on the symptoms of inflation, but to reduce the structural costs that constrain business investment, productivity and competitiveness. By creating more financial headroom for businesses to invest, innovate and expand, Government can support stronger productivity growth, higher real wages and a more durable improvement in living standards.

The recommendations that follow are designed to achieve precisely that. Together, they represent a practical programme of supply-side reform focused on lowering operating costs, improving the effectiveness of regulation and creating a more competitive business environment that supports investment and long-term economic growth.

Reducing the cost of labour and energy

Chapter Two showed that labour and energy costs have become two of the most significant pressures affecting business investment and competitiveness. Together they reduce businesses' financial headroom, limiting their ability to recruit, invest and raise productivity. Government should therefore pursue a balanced programme of reforms that lowers the cost of employing people, restores the UK's industrial electricity competitiveness and supports businesses to invest in the transition to a lower-cost, lower-carbon economy.

Acting to lower labour costs can be achieved through:

Exploring options to reduce Employer NICs ahead of the Autumn Budget. Employer NICs increased by 28% in 2025/26, overtaking Corporation Tax as the single largest business tax. Businesses consistently identified this as one of the most significant pressures affecting recruitment and investment. Government should therefore explore options, including:

- Raising the employer NICs threshold by £1,000 to £6,000**.** This would target support towards lower-paid and entry-level jobs, helping sectors such as retail and hospitality create more employment opportunities while reducing the cost of hiring.
- Reducing the headline rate of Employer NICs (e.g. by 1% from 15% to 14%). This would provide broader support across the economy by lowering the cost of employing people at all salary levels and improving businesses' capacity to invest and grow.

Progressing tripartite engagement to find a workable implementation of the Employment Rights Act. Businesses support the objectives of the Employment Rights Act but remain concerned about how some measures will operate in practice and secondary legislation should be used to establish a more workable implementation model.

- This should include agreeing a 52-week reference period to reflect seasonal demand and a low-hours threshold of no more than eight hours, helping preserve business flexibility while ensuring new rights are targeted at workers who stand to benefit most.

Strengthening employment enforcement. The Employment Rights Act risks creating unenforceable rights unless the escalating tribunal backlog is addressed. This backlog is increasing the risk and cost attached to hiring, and entrenching stagnant labour market conditions which are working against businesses, workers and growth.

- Reform employment tribunals and the wider dispute resolution system to ensure that workers and employers have timely access to justice. This includes greater evaluation of the merit of a claim and of the employer’s defence at a much earlier stage, and giving judges greater powers to proactively manage cases to reduce the length of hearings.

Maintaining youth rates within the minimum wage system. Most employers pay young people the headline adult rate. But there are credible grounds to pay a young person less, such as the additional productivity costs incurred by a business as they support a young person to reach occupational competency. The ability to pay the youth rate can also be the difference between being able to create a job and provide the training and wraparound support that are often critical to helping young people stay in work.

- Make any removal of the youth minimum wage rate conditional on a significant reduction in the NEET rate. Given the additional cost of hiring young people is increasing, any removal is unlikely to be before the next election and could take considerable time to realise.

Ensuring the National Living Wage remains affordable. Long-term wage growth depends on sustained improvements in productivity as well as rising pay.

- Instruct the Low Pay Commission to keep the long-term pathway of both the National Living Wage (NLW) and youth National Minimum Wage (NMW) and apprentice rates aligned with productivity growth in NLW paying sectors. The Low Pay Commission should ensure future recommendations support rising living standards without undermining employment opportunities or business investment. Given current labour market challenges, the Low Pay Commission should set National Living Wage and National Minimum Wage increases below inflation for 2027/28.

Restoring the UK's industrial electricity competitiveness through:

Reducing industrial electricity prices. High electricity prices remain one of the UK's largest competitive disadvantages for all businesses.

- Remove Renewables Obligation and Feed-in Tariff policy costs from business electricity bills. Removing legacy policy costs would narrow the gap between UK electricity prices and international competitors while supporting investment in electrification.

Reform business energy taxes. Businesses increasingly experience overlapping energy policy costs rather than a coherent framework.

- Review and simplify business energy taxes, including removing electricity Climate Change Levy costs. A more coherent system would strengthen incentives to decarbonise while reducing unnecessary complexity.

Reducing balancing costs through electricity market reform. Balancing costs are forecast to increase from £2.7 billion in 2024/25 to between £6 billion and £8.5 billion by 2030, placing additional costs on businesses[42].

- Use the Reformed National Pricing programme to minimise balancing costs. Accelerating strategic network investment, improving system flexibility and making greater use of flexible assets would reduce long-term electricity costs while improving network resilience.

Raising non-domestic Minimum Energy Efficiency Standards. Improving the energy performance of commercial buildings represents one of the largest untapped opportunities to reduce business energy costs, particularly for SMEs.

- Increase Minimum Energy Efficiency Standards for privately rented commercial property. Raising standards would reduce operating costs for tenants, improve the quality of the commercial building stock and strengthen long-term productivity.

Introducing targeted operational expenditure support for electrification. Electric heat technologies often remain commercially unattractive despite offering significant long-term savings.

- Introduce targeted electricity price discounts for businesses investing in industrial heat pumps. Discounts linked to commercial rates of return would improve investment viability while accelerating business electrification.

Launching a Business Energy Upgrade Scheme for SMEs. Many SMEs lack the expertise, capacity and finance needed to identify and implement energy efficiency improvements.

- Establish a Business Energy Upgrade Scheme modelled on Business Energy Scotland. Providing energy audits, expert advice and financial support would help SMEs reduce energy consumption, improve competitiveness and lower emissions.

Expanding the Corporate Power Purchase Agreement market. Long-term renewable electricity contracts remain inaccessible for many businesses because of credit and financing constraints.

- Introduce Government-backed guarantees for Corporate Power Purchase Agreements. A guarantee covering up to 80% of revenue losses in the event of customer default, similar to the French Garantie Électricité Renouvelable scheme, would expand the market and enable more businesses to secure stable, long-term electricity prices.

More detail on the recommendations to restore the UK's industrial electricity competitiveness are available in the CBI and Energy UK's **Cutting business energy costs: A blueprint to boost growth** report.

Reducing the cost of compliance

Chapter Three demonstrated that businesses increasingly experience the cost of compliance not through individual regulations, but through fragmented delivery systems operating at the local, national and international levels. Delays in planning, overlapping regulatory requirements and unnecessary administrative friction increase costs, slow investment and weaken the UK's competitiveness. Government should therefore focus on making regulatory systems faster, simpler and more predictable, reducing unnecessary burdens while maintaining high regulatory standards and supporting investment across the economy.

Working locally – Ensuring devolution is matched by delivery capacity through:

Strengthening local delivery capability through Combined Authority Infrastructure Partnerships. Many local authorities have ambitious growth plans but lack the commercial capability needed to develop investable projects.

- Support the Combined Authority Infrastructure Partnership and similar capability-building mechanisms, including private-sector secondments, to help places develop credible investment propositions.

Delivering fiscal devolution in a way that supports long-term investment. The Government's commitment to give mayors greater control over locally generated revenues – including shares of income tax and business rates – is a welcome step towards enabling places to plan and invest for the long term.

- Implementation should provide local leaders with sufficient certainty and flexibility to coordinate investment via long-term, credible pipelines across planning, transport, housing, skills and infrastructure, while ensuring new funding arrangements do not create additional administrative complexity or fragmented requirements for businesses operating across different parts of the country.

Creating a single devolved assurance framework. Businesses and local authorities often navigate multiple appraisal frameworks and approval processes for the same project.

- Introduce a single devolved assurance framework and a unified 'front door' for regions. Aligning appraisal guidance, business cases and capital approval processes would reduce duplication and accelerate infrastructure delivery.

Continuing to invest in planning capability. Additional planning resource is welcome but unlikely to be sufficient to meet the UK's long-term infrastructure ambitions.

- Continue expanding planning resource within Local Planning Authorities, with a particular focus on experienced planners capable of managing increasingly complex applications. Stronger planning capability would reduce delays and improve investor confidence.

Working nationally – Ensuring regulation operates as a coherent system through:

Testing the cumulative cost before adding new regulation. Individually justified policies can collectively create significant costs when developed across different government departments and enforced by multiple regulatory authorities.

- Require strengthened cumulative impact assessments before major new regulation is introduced and operationalise the Food Inflation Gateway as a model for this approach. Drawing on real-world business evidence, the Gateway model should identify where overlapping measures increase consumer costs or reduce investment headroom, enabling Government to better coordinate, improve or rephase implementation.

Prioritising and sequencing regulatory change. Businesses have finite capacity to manage multiple major regulatory transitions simultaneously and regulators should adopt an ‘enforce-first’ test when seeking to introduce new regulation.

- Prioritise regulation most closely aligned with the Government’s growth objectives and rephase lower-priority requirements where necessary. For many businesses, including food and drink manufacturers and retailers, this means creating sufficient headroom to implement the UK-EU SPS Agreement while avoiding overlapping domestic packaging changes that could require further adjustment as UK and EU requirements evolve.

Simplifying packaging reporting requirements. Businesses face overlapping data and compliance requirements across multiple packaging regimes.

- Commission Defra and HM Treasury to integrate the EPR scheme, PPT, and PRN system into one unified framework for reporting.

Improving regulatory coordination across the UK. Divergent regulatory approaches within the UK can create unnecessary costs for businesses operating across multiple nations.

- Align regulatory systems across the four nations wherever practical. This includes avoiding unnecessary divergence in schemes such as the Deposit Return Scheme, where Wales' proposed inclusion of glass risks creating additional complexity, compliance costs and opportunities for cross-border arbitrage and fraud. Greater consistency would reduce costs for businesses while preserving devolved decision-making.

Introducing Service Level Agreements (SLAs) for key regulatory processes. Delays and uncertain decision times for growth-enabling processes, including planning approvals and export licences, can hold back investment and prevent businesses fulfilling international orders.

- Set time-bound SLAs for key approvals, including planning and export licensing, supported by transparent performance reporting and clear escalation routes where deadlines are missed. Clear service standards and accountability would reduce costly delays and give businesses greater certainty to invest, develop and trade.

Making businesses report once, not repeatedly. Businesses are often required to provide similar information to multiple departments and regulators through different reporting systems.

- Establish a 'report once, use many times' principle across government, requiring regulators and departments to share and reuse business data wherever possible. Common data standards and interoperable systems would reduce duplicative reporting and administrative costs, freeing up business resources for investment and growth.

Working internationally – Reducing unnecessary UK-EU regulatory friction through:

Delivering the UK-EU Sanitary and Phytosanity (SPS) Agreement effectively. SPS checks remain one of the largest barriers facing cross-border trade.

- <u>Implement the SPS Agreement in a way that materially streamlines export health certification and border processes, including removing unnecessary 'Not for EU' labelling requirements.</u> This would reduce the cost and complexity faced within key foundational sectors when maintaining separate packaging and stock for different markets, while reducing trade friction between Great Britain, Northern Ireland and the EU.

Minimising divergence from the EU Packaging and Packaging Waste Regulation (PPWR). The EU's PPWR introduces new requirements covering the design, recyclability, composition and labelling of packaging. For food and drink manufacturers and retailers supplying EU and Northern Irish markets, divergence from domestic packaging rules risks creating parallel compliance regimes and adding to the cumulative burden already created by EPR, the PPT and other packaging requirements.

- <u>Ensure further UK-EU alignment minimises unnecessary divergence between UK packaging regulation and PPWR.</u> Government should provide businesses with sufficient lead-in time and clear guidance on how UK and EU requirements interact, avoiding duplicative compliance and unnecessary product or packaging changes while maintaining high environmental standards.

Linking the UK and EU carbon pricing systems. Separate carbon pricing systems create additional compliance costs and uncertainty for energy-intensive industries.

- <u>Link the UK and EU Emissions Trading Schemes and pursue mutual Carbon Border Adjustment Mechanism exemptions where appropriate.</u> This would reduce trade friction, improve certainty and support investment in decarbonisation.

Improving business mobility. The UK's services economy depends on businesses being able to deploy staff quickly across borders.

- Update the Trade and Cooperation Agreement to improve short-term business mobility and intra-company transfers. More efficient visa processes and expanded mobility provisions would strengthen trade and investment. A mutually beneficial Youth Experience Scheme would also enable businesses to access and develop skilled talent, offering more workplace flexibility and increasing the attractiveness of the UK to global talent.

Securing mutual recognition. Duplicate testing, certification and qualification requirements increase costs for businesses operating internationally.

- Expand mutual recognition of professional qualifications and conformity assessments where practical. This would reduce unnecessary duplication while maintaining confidence in regulatory standards.

Reducing the complexity of the tax system

Chapter Four demonstrated that businesses increasingly experience tax administration as a significant cost in its own right. Modernising HMRC services, simplifying reporting requirements and improving certainty would reduce compliance costs while allowing businesses to devote more time and capital to productive investment.

Reforming business rates to support growth and investment through:

Introducing a more progressive business rates structure. The current slab-based system creates cliff edges that discourage investment and business expansion.

- Move to a banded or slice-based structure. A smoother progression of liabilities would remove investment disincentives while ensuring businesses are not penalised for growth.

Providing greater certainty over future liabilities. Annual increases in the multiplier linked to inflation are unpredictable and make investment planning more difficult.

- Fix the multipliers rather than uprating them annually with CPI. Greater certainty would improve long-term planning and increase investor confidence.

Using more up-to-date valuation evidence. The current 24-month antecedent valuation date means rateable values can be based on economic conditions that no longer reflect the market businesses are operating in.

- Reduce the antecedent valuation date gap to 12 months. This would ensure rateable values better reflect prevailing market conditions and improve the accuracy of business rates assessments.

Strengthening Empty Property Relief. Vacant commercial property imposes costs on owners while reducing local economic activity.

- Extend Empty Property Relief and consider adopting Scotland's Fresh Start Relief model. Stronger incentives would encourage refurbishment and bring empty premises back into productive use more quickly.

Bettering Improvement Relief. Businesses should not face additional tax liabilities simply because they invest.

- Extend the duration and eligibility of Improvement Relief, including removing the requirement for the same occupier to remain in place following qualifying improvement works. This would remove the tax penalty associated with investment in commercial property.

Simplifying business rates reliefs. The current system has become increasingly difficult for businesses to navigate.

- Rationalise and simplify business rates reliefs. A clearer system would reduce compliance costs while focusing support on investment.

Improving transparency and encouraging green investment. Businesses need greater certainty over how valuations are determined.

- Adopt clearer valuation practices while introducing stronger incentives for green property investment. Greater transparency would improve confidence while better incentives would encourage energy efficiency and productivity-enhancing improvements.

Simplifying sector-specific taxation through:

Replacing the Energy Profits Levy. The current EPL weakens the commercial case for North Sea investment by imposing an elevated tax burden irrespective of whether exceptional profits are being earned, while repeated changes to its design have made future investment returns harder to predict.

- Implement HM Treasury's proposed 'Oil and Gas Revenue Levy' in April 2027. A predictable mechanism that applies additional taxation only when oil and gas prices are unusually high would more closely reflect the EPL's original purpose of taxing genuine windfall profits, while providing a more stable basis for long-term investment.

Not introducing Overnight Visitor Levies. A patchwork of local visitor levies would increase administrative burdens across the hospitality sector.

- Avoid introducing local Overnight Visitor Levies and instead improve fiscal devolution through funding mechanisms that avoid additional administrative burdens. This would support local government finance without creating additional complexity for businesses.

Creating a simpler tax administration system through:

Maintaining stability within the core business tax framework. Stable tax policy supports long-term investment decisions.

- Maintain commitments on Corporation Tax, Full Expensing, R&D tax relief and the Patent Box. Preserving these commitments would reinforce confidence in the UK's investment environment.

Reducing tax administrative burdens by 25%. Businesses increasingly report that tax administration has become almost as burdensome as taxation itself.

- Commit to reducing tax administrative burdens by at least 25%. Simplifying administration would free up management time, lower compliance costs and improve productivity.

Modernising tax administration through:

- Creating a single HMRC customer administration tracking tool. Named case ownership, digital correspondence and real-time case tracking would make HMRC significantly easier to navigate.
- Resolving systemic PAYE, VAT and Corporation Tax account errors. Addressing recurring reconciliation problems would reduce unnecessary disputes and administrative effort.
- Expanding advance assurance mechanisms. Earlier certainty would reduce compliance costs and improve investment decisions.
- Reviewing overlapping governance and data reporting requirements alongside ensuring HMRC investigations and information requests are proportionate. Simplifying duplicate reporting obligations would reduce burdens for large businesses.
- Introducing a simpler IR35 framework. A clear safe harbour would reduce uncertainty for businesses engaging genuinely self-employed contractors.
- Simplifying the tax treatment of employer-provided health support. Removing unnecessary tax barriers would encourage greater investment in workforce health.
- Completing the digitalisation of VAT administration. Modernising remaining paper-based processes would improve efficiency for both HMRC and businesses.
- Aligning Corporation Tax more closely with commercial accounting systems. Reducing unnecessary adjustments would simplify tax compliance and lower administrative costs.
- Modernising Corporation Tax administration. Digitalising legacy processes would allow businesses to manage tax affairs through integrated finance systems rather than manual workarounds.
- Simplifying international tax compliance following Pillar Two implementation. Reviewing overlapping reporting requirements would reduce complexity while maintaining the integrity of the international tax framework.

Conclusion

The Government has rightly made economic growth in every postcode a core ambition. Considerable progress has already been made in laying the foundations for that ambition through the Modern Industrial Strategy, infrastructure investment, planning reform, regulatory reform and efforts to crowd in private capital. The challenge now is ensuring that these ambitions translate into higher business investment, stronger productivity and rising living standards.

This report argues that doing so requires greater attention to the cumulative cost of doing business. Labour costs, energy prices, regulation and taxation each serve legitimate policy objectives, but should not be viewed in isolation. For businesses, these pressures ultimately converge on a single balance sheet, where their combined effect reduces the financial headroom available to recruit, invest, innovate and grow.

The evidence presented throughout this report shows that the UK's competitiveness challenge is increasingly one of cumulative pressure rather than any single policy. Businesses are absorbing higher operating costs at the same time as demand has weakened, industrial electricity prices remain internationally uncompetitive, regulatory systems have become more fragmented and administrative complexity has increased. Together, these pressures reduce investment, slow productivity growth and ultimately constrain improvements in wages and meaningful action to tackle the cost of living.

The opportunity is therefore equally cumulative. Reducing the cost of employing people, restoring internationally competitive energy prices, improving regulatory delivery and simplifying the tax system would not simply reduce costs for business. Together, these reforms would strengthen the UK's attractiveness as a place to invest, support the adoption of new technologies, accelerate the energy transition, create more breathing space for hiring and accelerated wage growth, and improve the economy’s long-term productive capacity.

The recommendations set out in this report are intended as a practical programme of supply-side reform to achieve those objectives. They do not seek to reduce standards or weaken protections. Instead, they are designed to ensure that Government's wider ambitions for growth, investment and competitiveness are supported by an operating environment that enables businesses to succeed.

Taken together, these reforms would create the conditions for businesses to turn renewed confidence into investment, innovation and growth. By increasing the financial headroom available to firms and strengthening the UK's international competitiveness, they can help unlock the productivity gains needed to support higher wages, rising living standards and sustainable economic growth across the country.

Annex A: Prominent regulatory burdens across 15 foundational sectors

Agri-Food

Regulation	Challenge
Habitats Directive	The Habitats Directive plays an important role in protecting environmentally sensitive sites. However, businesses operating on or near designated areas report that compliance requirements can be disproportionately burdensome. Extensive environmental assessments, additional planning documentation and lengthy consent processes increase the cost and time required to progress development, while restrictions on land use can limit opportunities for business growth without compensation for the additional costs incurred.

Automotives

Regulation	Challenge
Zero Emissions Vehicle (ZEV) Mandate	The Zero Emission Vehicle (ZEV) Mandate sets legally binding annual targets for vehicle manufacturers, with targets rising to 80% for cars and 70% for vans by 2030. Despite £billions of industry investment in designing, building and marketing ZEVs, including £12 billion in discounts since the mandate came into force, the market has consistently fallen short of annual targets, and the gap is expected to widen as compliance trajectories become significantly more demanding. The Mandate was designed at a time when electricity costs were lower, battery prices were expected to fall more rapidly, and demand for zero-emission vehicles was forecast to grow more quickly than has materialised. While compliance flexibilities exist through banking, borrowing, trading and the purchase of credits, these mechanisms create additional costs for manufacturers and do not address the underlying challenge of insufficient market demand. The re-introduction of a consumer grant has helped, but there is now unanimity amongst automotive business leaders that targets are behind schedule, and the current framework risks undermining investment, competitiveness and consumer choice as other major

	automotive markets adapt their transition pathways to reflect changing market conditions.

Aviation

Regulation	Challenge
Sustainable Aviation Fuel (SAF) Mandate and Revenue Certainty Mechanism	The UK aviation industry remains committed to achieving net zero by 2050 and supports the SAF mandate. However, the UK's SAF mandate requires a 10% SAF blend by 2030, compared with 6% in the EU, while SAF remains significantly more expensive than conventional jet fuel. Airlines are concerned that the pace of implementation is increasing operating costs ahead of sufficient domestic production capacity of advanced SAFs being available, creating a competitiveness challenge for UK carriers relative to international rivals. While the Revenue Certainty Mechanism is intended to support investment in UK advanced SAF production, concerns relate to its current design, which would be funded through a levy on aviation fuel suppliers that will be passed through to airlines, and risks adding a further layer of cost to the sector and consumers.

Beer, Pubs and Breweries

Regulation	Challenge
Pubs Code	The Pubs Code, overseen by the Pubs Code Adjudicator (PCA), regulates the relationship between the UK's largest pub-owning businesses and their tied tenants. While introduced to address concerns within the sector, many of the issues that originally justified the legislation have now been resolved. Survey evidence indicates that most tied tenants are satisfied with their relationship with pub companies, with satisfaction levels averaging 7.6 out of 10[43]. Despite this, businesses argue that the Code continues to impose significant compliance and administrative costs. The British Beer and Pub Association (BBPA) estimates that compliance costs operators around £4.6 million annually, equivalent to approximately £187,000 for each free-of-tie agreement made through the Code[44]. Businesses also report that the PCA provides limited formal guidance, requiring operators to interpret compliance expectations through experience rather than clear regulatory advice. They further argue that regulatory

intervention has, in some instances, extended beyond the Code's original statutory intent, increasing administrative burdens and uncertainty without delivering commensurate benefits.

Chemicals

Regulation	Challenge
UK REACH	Duplicative UK REACH registration requirements impose significant costs on industry without delivering proportionate additional benefits, reducing competitiveness and diverting investment away from innovation and growth. Businesses are now concluding that it makes little commercial sense to re-register low return and volume products under UK REACH, given the costs associated with the additional administrative burden.

Construction

Regulation	Challenge
Building Safety Act	The Building Safety Act was introduced to strengthen the safety of higher-risk buildings following the Grenfell Tower tragedy, and businesses across the construction sector strongly support its objective of improving building safety and restoring public confidence. However, businesses report that the implementation of the new regime has significantly increased the cost and complexity of delivering development projects. New Gateway approval stages, expanded documentation requirements and additional regulatory oversight have lengthened project timelines and increased compliance costs, particularly for higher-rise residential developments. The challenges resulting from the Building Safety Act are evidenced by a large national housebuilder announcing that it has stopped buying new land and is reducing investment in new work due to unprecedented increases in regulatory costs, and a medium sized scaffolding contractor who is experiencing significant delays in projects worth 18% of company turnover due to the projects struggling to navigate Gateway Two of the Building Safety Act. While the objectives of the Building Safety Act remain essential, greater attention should be given to improving the efficiency, proportionality and predictability of its implementation so that safety

	improvements can be delivered without unnecessarily constraining investment or the pace of development.

Energy

Regulation	Challenge
Planning	The UK's planning system is not organised under a single entity, with England, Scotland, Wales, and Northern Ireland all having separate systems. There is overlap between some of these nations, as well as at least one lower-tier and higher-tier system for projects based on their significance. Projects in all areas lack binding statutory timelines. England's Nationally Significant Infrastructure Projects (NSIP) system aims to deliver projects within two years, yet the average has remained around four. With recent changes to the UK Government's Planning and Infrastructure Act 2025 and the Welsh Government's Infrastructure (Wales) Act 2024, these are expected to be brought down further. However, these will not be sufficient to reduce times adequately, and further reforms can be made across all of the UK's planning systems.

Food and Drink Manufacturing

Regulation	Challenge
Packing producer responsibility framework	Businesses are required to report and fund packaging schemes across EPR, PPT and the PRN system, creating duplication, complexity and avoidable compliance costs. The current PRN system also creates significant price volatility without delivering corresponding improvements in recycling outcomes.

Hospitality

Regulation	Challenge
Nutrient Profiling Model (NPM)	Hospitality businesses remain committed to supporting healthy eating, and the sector has invested significantly to reformulate dishes and create healthier options on menus. However, the introduction of the 2018 NPM, including how it applies to the advertising and promotions legislation, risks negatively impacting business investment in this area. This is because significant investment has been spent on complying with the current NPM. Introducing a new NPM, with changes to the way that products are defined as healthy (and a move to free sugars), will mean businesses and suppliers have to learn a new system – creating bureaucracy and ultimately reducing the amount of money available for investment.

Logistics

Regulation	Challenge
Operator’s licence (O-licence) advertising requirements	Operators applying for a new O-licence, or seeking to vary an existing operating centre, are required to publish a notice in a printed local newspaper. This requirement typically costs between £300 and £700 per application, with higher charges in areas where only one qualifying newspaper remains. The requirement no longer fulfils its original purpose, as declining local newspaper readership means these notices have limited visibility, while businesses remain exposed to delays and additional costs if technical publication requirements are not met.

Mineral Products

Regulation	Challenge
Mineral planning system	Permitted reserves of construction aggregates are being consumed around twice as fast as they are being replenished. In other words, the mineral planning system is not delivering the permitted reserves needed to maintain a steady and adequate supply of essential construction minerals over the long term. Capacity constraints within mineral planning authorities, environmental regulators and statutory consultees contribute to lengthy determination periods, undermining confidence, increasing costs for businesses and delaying investment. The resulting decline in permitted reserves risks constraining the future supply of materials needed to deliver housing, infrastructure and economic growth. The supply of essential mineral products cannot be taken for granted; it must be strategically planned, managed and monitored to ensure future demand can be met from cost-effective and sustainable domestic sources.

Offshore Energies

Regulation	Challenge
Restore a predictable and delivery-focused UKCS regulatory regime	Regulatory uncertainty is holding back investment in UK oil and gas projects. Limited visibility of future licensing and weak alignment between licensing, permitting and environmental decisions create avoidable rework and delay. This risks the early closure of hubs, pipelines and terminals that support domestic production, skilled jobs and the wider offshore energy supply chain.

Retail

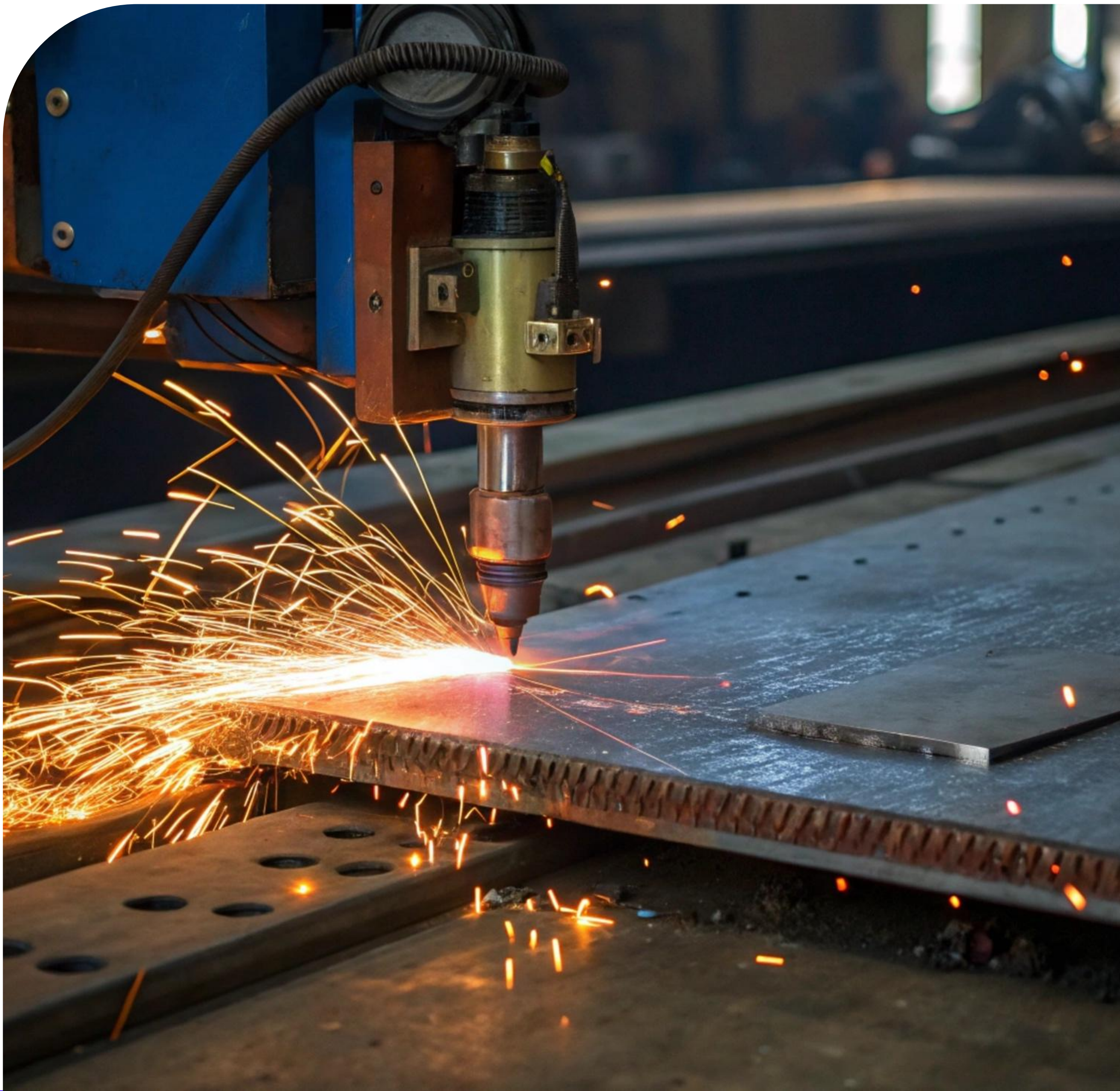
Regulation	Challenge
Employment Rights Act – Guaranteed Hours	The Employment Rights Act introduces a requirement for employers to offer permanent contracts with guaranteed hours to employees on low or zero-hours contracts. Key aspects of the policy, including the reference period, definition of low hours and calculation of regularly worked hours, remain subject to secondary legislation. Retailers are concerned that if implemented incorrectly, the policy could significantly reduce labour market flexibility, increase administrative costs and reduce the availability of flexible employment opportunities.

Shipping

Regulation	Challenge
Cumulative burdens and frictions at UK borders	Ship operators face a growing number of overlapping requirements across passenger screening, freight controls, data reporting and compliance frameworks, often introduced with limited notice, unclear responsibilities and poor cross-government coordination. As a result, ship operators are operating in an increasingly fragmented environment, having to manage gaps in system interoperability and policy alignment, which affects efficiency, service reliability, passenger experience and the competitiveness of UK maritime routes. Examples include a combination of novel freight and passenger scanning trials, expanding passenger data requirements, duplicate reporting risks, the risk in the future of narrowing the number of ports being allowed to use the "arrived export model" for smoother trade flows, enforcement uncertainty, and additional government cost recovery pressures. Often these are being developed without taking into consideration maritime operational realities. Together, these measures risk reducing efficiency, competitiveness, and the effectiveness of the UK's ambition for a modern, intelligence-led border. The Independent Chief Inspector of Borders and Immigration (ICIBI) has highlighted concerns around refusals and cancellations of entry permission[45]. This has been a particular issue for foreign seafarers, who are legally entitled to shore leave, transfer and transit to and from ships leaving the UK. Such fragmentation often creates market distortions on shipping routes, which can range from the Government's Common User Charge at Sevington for agri-food inspections[46], to novel scanning trials at certain ports. In addition, land-based maritime roles that support ships calling at UK ports, such as stevedores, may be affected by the Employment Rights Act 2025 in ways that could inadvertently increase operational inefficiencies and impact service levels.

Steel

Regulation	Challenge
UK carbon pricing framework (UK ETS, UK CBAM and EU CBAM)	The steel industry faces growing compliance costs and investment uncertainty from the combined operation of the UK Emissions Trading Scheme (UK ETS), the EU Carbon Border Adjustment Mechanism (EU CBAM) and the introduction of the UK CBAM. Businesses must comply with increasingly complex emissions reporting requirements while facing higher carbon costs through tighter UK ETS caps and a reduction in free allocations. At the same time, concerns remain that the UK CBAM, in its current form, will not provide equivalent protection against carbon leakage to the EU regime, creating competitive disadvantages for UK producers and increasing uncertainty over future investment.



Annex B: The CBI's foundational sector business tax contribution methodology

Calculating the total business tax contribution, 2024/25 and 2025/26

The main data source used to progress the CBI's business tax contribution analysis is the **ONS's monthly public sector receipts data**. This dataset provides a monthly figure for each type of revenue, including corporation tax, duties and business rates. Non-business-related revenues, such as PAYE income tax, are not included in the analysis, with the share of each tax paid by business calculated.

For some taxes, an estimate of how much is paid by business needs to be calculated, with the approach taken to key taxes presented below:

- **Social contributions (includes NICs):** Employees' NICs was excluded given this is paid by employees. The share of employer NICs paid by the public sector was also excluded. **HMRC's yearly tax receipt dataset** was used for scaling.
- **Income tax paid through self-assessment:** Income tax paid on sole traders' profits from self-employment is considered a business tax, with the contribution estimated using **government data on personal income statistics**. The dataset provides the number of self-employed by income range, and the mean of each range's income.
- **VAT:** Where the goods or services offered by a company are VAT exempt, VAT is not charged to customers. This is the case for many financial services activities, so these companies cannot recover their input VAT, leading to irrecoverable VAT. **PwC's report on the total tax contribution of financial services in 2023** was used to identify an irrecoverable VAT paid figure which was then used as a proxy in the analysis. For 2024/25 and 2025/26, figures within **PwC's report on the banking sector** were used and scaled accordingly. While this is a slight underestimate as it excludes any irrecoverable VAT paid by non-financial businesses, the rest of the economy is not exposed to the same extent, or at all, to irrecoverable VAT.
- Other taxes such as fuel duties, Insurance Premium Tax and Stamp Duty Land Tax, were estimated in a similar manner. Public sector employers were excluded to only account for private sector contributions. This differential is relevant for taxes such as the Growth and Skills Levy.

Once all taxes paid by businesses are verified, the totals are summed – providing 2024/25 and 2025/26 total contribution figures for each tax.

Calculating the foundational sectors' business tax contribution, 2024/25 and 2025/26

2-digit Standard Industrial Classification (SIC) codes were used to breakdown the business tax contribution for each foundational sector, with some tax data (e.g. **corporation tax**) available at the 2-digit SIC code level. For taxes that are not attributable at the 2-digit SIC code level, estimations were made. For example, a bottom-up approach, using NOMIS BRES data on the number of employees and ASHE data on the average salary per employee, was used to calculate how much each foundational sector contributed in employer NICs.

For taxes where it was both not possible to break down at the 2-digit SIC code level or adopt a bottom-up approach, a distribution of another tax considered similar or a CBI assessment based on how the tax works was used to understand the contribution made by each foundational sector. Despite the larger margin of error for these taxes, their effect is limited given we have been able to use either a 2-digit SIC code or a bottom-up approach for most of the business taxes included within the analysis.

The table below shows the SICs assigned to each foundational sector:

Foundational Sector	SIC Code(s)
Agri-Food	01 – Crop and animal production; hunting and related service activities
Automotives	29 – Manufacture of motor vehicles; trailers and semi-trailers
Aviation	51 – Air transport 52.23 – Service activities incidental to air transportation
Beer, Pubs and Breweries	11.05 – Manufacture of beer 56.302 – Public houses and bars
Chemicals	20 – Manufacture of chemicals and chemical products 21 – Manufacture of basic pharmaceutical products and pharmaceutical preparations
Construction	F (41-43) – Construction
Energy	35 – Electricity; gas; steam and air conditioning supply

Food and Drink Manufacturing	10 – Manufacture of food products 11 – Manufacture of beverages
Hospitality	I (55-56) – Accommodation and Food
Logistics	H (49-53) – Transport and Storage
Mineral Products	08.11 – Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate 08.12 – Operation of gravel and sand pits; mining of clays and kaolin 09.90 – Support activities for other mining and quarrying 23.51 – Manufacture of cement 23.52 – Manufacture of lime and plaster 23.61 – Manufacture of concrete products for construction purposes 23.63 – Manufacture of ready-mixed concrete 23.64 – Manufacture of mortars 23.69 – Manufacture of other articles of concrete, plaster and cement 23.70 – Cutting, shaping and finishing of stone 23.99 – Manufacture of other non-metallic mineral products n.e.c
Offshore Energies	A business tax contribution analysis was not progressed for the offshore energies sector as its activities span several broader SIC categories and cannot be isolated reliably within the available tax data.
Retail	47 – Retail trade; except of motor vehicles and motorcycles
Shipping	50 – Water transport 77.342 – Renting and leasing of freight water transport equipment Other shipping activity not clearly assigned to SICs was also considered in the analysis
Steel	24 – Manufacture of basic metals

It should be noted that, whilst the underlying methodology used to calculate the business tax contribution from each tax is consistent across the foundational sectors, some points of difference should be considered based on the SIC codes used:

- For some foundational sectors, such as construction, there is close alignment between the sector and the relevant 2-digit SIC codes. These codes have therefore been used to estimate both the sector's business tax contribution and GVA, with the analysis capturing the full range of sector activity.
- For other sectors, such as aviation, there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed.
- For sectors where some SIC-codes did not directly match to sector activities, such as shipping, an additional step was required. Relevant SIC codes encompassing activities to which the sector contributes were identified, with sector-level GVA estimates then used to apportion the business tax contribution within those SIC codes to the foundational sector.

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