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THE UK'S INVESTMENT SHORTFALL

WHY IT PERSISTS, AND WHAT A SUSTAINED RISE IN INVESTMENT WOULD MEAN

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FOREWORD

The UK has been stuck in a low-growth rut since the late-2000s financial crisis, and it has become the country's defining economic problem. Living standards have stalled, the public finances are under pressure, and every demand on the state, from the NHS to defence, is harder to meet than it would be in an economy expanding at even its previous pace. Faster growth would not solve everything, but without it little else gets easier.

A large part of the explanation lies with investment. For many years the UK has put less into new machinery, buildings, infrastructure and technology than its counterparts in comparable economies, so the capital available to each worker has grown more slowly and output per hour with it. None of this is new. Official bodies, think tanks and commissions of every political persuasion have pointed to it. What has been harder to pin down is exactly what holds UK investment back, and without that clarity the response has tended to be piecemeal rather than decisive.

The case for acting now is stronger than it has been for some time. Growth in the workforce, which has done much of the work in recent decades, is slowing and will have slowed to a crawl by the 2030s; from here, rising living standards will depend increasingly on productivity, and investment is the surest route to it. Public investment has risen, which is welcome. But with debt high, the tax burden near a post-war high and spending pressures growing, the state cannot make up the shortfall on its own. Most of the work will have to be done by businesses. At the same time a new Prime Minister, with a large majority and the better part of a parliament ahead, has the opportunity to set a direction for the economy and hold to it. For businesses committing to assets that will last thirty or forty years, confidence that today's rules will still broadly apply over the life of the asset matters as much as the rules themselves.

This report was commissioned by some of the biggest infrastructure operators and investors in the country. They encounter the barriers to investment described here in their day-to-day decisions, and wanted them set out clearly, measured against the economy as a whole, and put before those in a position to act on them. Oxford Economics' task has been to follow the evidence: the report benchmarks UK business investment against its peers, sets out three barriers that recur across the economy – the cost of delivering projects, the design of the tax system and the unpredictability of policy – and estimates what a sustained rise in investment would mean for output, productivity and earnings. Rather than prescribing a specific programme of reform, it offers a test by which proposals can be judged: whether they raise the return each pound of investment can earn, lower the cost of delivering it, or improve confidence in the environment over the life of an asset.

The obstacles are, for the most part, of the UK's own making, and that is a reason for optimism. Conditions can be improved, and the reward is a larger, more productive economy and higher living standards that endure. None of this is a quick win; the gains build over a decade and more. But the direction can be set now and backed by consistent decisions over the years that follow, and I hope the evidence in this report is a useful contribution to that work.

Innes McFee
Chief Executive Officer, Oxford Economics

September 2026

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EXECUTIVE SUMMARY

A LONG RECORD OF UNDER-INVESTMENT, AND THE RETURN ON CONVERGENCE

The United Kingdom has invested less, relative to the size of its economy, than almost every comparable country for more than a quarter of a century – under successive governments and through every phase of the economic cycle. This report measures that shortfall against the UK's G7 and OECD peers, examines the barriers behind it, and quantifies what closing it would be worth.

UK total fixed investment has consistently run below the average of peer economies since 2000. In 2025 the UK invested 18.9% of GDP against an average of 22.5% across the other OECD economies, and over the past quarter-century only crisis-hit Greece has invested a smaller share of GDP among the OECD's 38 members. Had the UK invested at the average rate of its G7 peers since 2000, cumulative investment would have been around £1.9 trillion higher by 2025. The consequences are visible in a productive capital stock that is now the smallest in the G7 relative to GDP – a shortfall that reflects in the size of the economy and in living standards.

£1.9 trillion

Cumulative shortfall in UK investment relative to the G7 average since 2000.

The shortfall is broad-based: business, residential and government investment have all run below peer levels for most of the period. Business investment accounts for the largest share, and it is the only component whose shortfall has widened over the period. Our benchmarking by asset type shows the under-investment falls on long-lived physical assets: over 2015–24 the UK invested a smaller share of GDP than its OECD peers in each main category of tangible asset – while investment in software and databases ran modestly above peers. On infrastructure, the strain shows across Britain's networks: Britain's railways are among the most intensively used in Europe and its major airports are running at or close to their permitted capacity. Overall, the UK invests least in high-productivity assets with the strongest spillovers to the wider economy – assets financed and built mainly by firms.

No single factor explains a shortfall this persistent. Drawing on evidence from the IMF, the OECD, the Bank of England, the OBR, the National Infrastructure Commission and others, and benchmarking the UK against its peers, we identify three features of the environment in which UK firms invest that consistently distinguish the UK from higher-investing economies:

- **The burden and design of business taxation.** The UK taxes profits broadly in line with its peers; taxes on business premises are what set it apart. The burden is the heaviest in our comparison of major economies: recurrent taxes on non-residential property are equivalent to around 1.05% of the private capital stock; only the United States comes close, and France, the next-highest European economy, collects around a third of the UK's level. The design adds to the burden: liabilities are set by the value of

3.8 pp

The UK's total investment shortfall in 2025 compared to the G7 average, as a share of GDP.

premises – for major infrastructure, by trading receipts or construction cost – so the charge scales with the asset rather than with profit, and rises when the asset is built or improved. In the CBI's 2026 survey, 32% of firms said business rates had played a major role in cancelling, reducing or delaying investment.

- **The cost of delivering and operating new capacity.** Adding capacity in the UK is more expensive and slower than in comparable economies, and much of the difference arises before construction begins: the average consenting period for nationally significant projects lengthened from 2.6 years in 2012 to 4.2 years in 2021, and the National Infrastructure Commission finds that consenting, compliance and unstable pipelines add costs that better practice could reduce by 10–25%. Industrial electricity prices are the highest among advanced economies, 27% above Germany, and the construction workforce is half a million below its 2008 peak against a need for more than 41,000 additional workers a year to 2030.
- **Policy unpredictability.** Much capital spending cannot be recovered once made, so where future policy is hard to predict, there is value in waiting rather than committing. UK policy uncertainty has run persistently above peers on cross-country measures, and the regime facing investment has been revised repeatedly – the capital allowances regime alone was substantially changed at least six times between 2008 and 2026. In IMF–OECD survey evidence, a reduced frequency of legislative change is the measure businesses rank highest for improving investment and location decisions. The cost is visible in financing: UK corporate borrowing spreads have averaged around 0.44 percentage points higher in periods of above-average policy uncertainty.

+1.7%

Real GDP gain by 2040, relative to baseline, if the UK closes most of its investment shortfall against the G7 – a permanent addition to output.

These barriers rarely arrive one at a time. A single project or investment can face a recurrent tax charge that rises when the asset is built or improved, higher costs to deliver and power it, and uncertainty about the rules it will operate under – all weighing on the same investment case.

+£1,540

Additional real disposable income per household in 2040 under a higher-investment scenario.

What would addressing these barriers be worth? We model a scenario in which the UK closes most of its total investment shortfall with the rest of the G7, delivered primarily through business investment, which rises from 10.6% of GDP in 2025 to 13.7% by 2040. Real GDP ends the period 1.7% above its baseline path; the productive capital stock is 8.7% larger; and real household disposable income is 2.1% higher – around £1,540 per household. These gains are permanent rather than cyclical, earned by expanding productive capacity. They build gradually over fifteen years, as firms respond progressively to a durably improved environment – and the estimates sit toward the cautious end of the comparable literature.

With the public finances constrained, most of any additional investment must come from the private sector. Public investment is already set to run at around 2.6% of GDP over this Parliament, its highest sustained level in more than four decades, and with public debt at around 101% of GDP the room to go further is limited. Even so, that programme closes only a fraction of the shortfall. The evidence assembled in this report supports a policy direction that strengthens the case for investing in the UK – raising the return each pound can earn, lowering the cost of delivering it, and improving the confidence with which both can be forecast over the life of an asset.

SECTION 1
INTRODUCTION: INVESTMENT, GROWTH AND THE ROLE OF THE PRIVATE SECTOR

1.1 WHY INVESTMENT MATTERS

Investment is the addition of new productive assets to the economy: the machinery and equipment firms use, the buildings they operate from, the homes people live in, the infrastructure that connects them, and the software and research from which new products and industries grow. Each year, the flow of investment adds to the stock of capital available to workers and firms. Over time, that capital stock is a central determinant of how much an economy can produce, and how much its people earn.

The link between investment and living standards runs through productivity. Workers with more capital, and better capital, produce more for each hour they work: growth-accounting studies across advanced economies attribute a large share of labour productivity growth – typically 40-50% – to capital deepening.[1] Higher productivity, in turn, is what makes sustained growth in real pay possible.[2] Investment supports employment too, first in the building and installation of new assets and then in the activity those assets sustain. An economy that persistently invests less than its peers should expect, in time, to produce less, earn less, and raise less in taxes that fund public services than they do.

1.2 A LONGSTANDING SHORTFALL, RECOGNISED BY SUCCESSIVE GOVERNMENTS

The United Kingdom is such an economy. For at least a quarter of a century it has invested less, as a share of national income, than almost every comparable country – under governments of every stripe, and through every phase of the economic cycle. Section 2 measures the shortfall in detail; here we note its persistence. A pattern that has survived so many different political and economic conditions is a feature of the UK economy itself rather than the product of any single government or event.

It has not always been this way. Total investment climbed steadily through the post-war decades, averaged more than 20% of GDP across the 1970s and 1980s, and peaked at around 24% in 1989. It has not approached that level in any year since; over the past decade it has averaged around 18%.[3] Investment levels have moved a long way in the past in response to policy choices, and can move again.

Successive governments have recognised the problem, and it now sits near the centre of economic policy. The 2024 Mais Lecture delivered by the then Chancellor, Rachel Reeves, identified weak investment as a principal cause of the UK's productivity slowdown. Reforms to the fiscal framework at Autumn Budget 2024 made room for around £120 billion of additional public capital spending over the Parliament and the 10-Year Infrastructure Strategy commits £725 billion to the national pipeline.[4] Some elements of tax policy have moved in a supportive direction, with full expensing of qualifying plant and machinery made permanent and corporation tax capped at 25% under the Corporate Tax Roadmap.[5] Early signals from the new Government point to continuity of ambition: Prime Minister Andy Burnham has argued that stronger regional investment, modern infrastructure and greater devolution are routes to stronger private investment and productivity.

1.3 PUBLIC AND PRIVATE INVESTMENT

Investment in the UK is a joint enterprise between the public and private sectors, and the two are at their best when they reinforce one another. Public investment builds much of the platform on which private returns depend – the roads and rail network that connect markets and the schools and hospitals that sustain the workforce – and well-chosen public projects raise the returns to private investment around them.[6] This crowding-in is the explicit premise of the Government's strategy, which counts on public infrastructure spending drawing private investment in alongside it.

The relationship is not automatic. Public investment must be paid for, and when it is financed by taxes that fall on business returns – or delivered through regulatory obligations that raise private costs – it can displace some of the investment it is designed to attract. Whether a public pipeline adds to national investment or partly substitutes for it depends on how well projects are chosen, how efficiently they are delivered, and especially on how the burden of financing them is distributed across the economy.

In the UK's current circumstances, the fiscal arithmetic settles where the emphasis must fall. Public sector net debt currently stands at around 101% of GDP – some £3.1 trillion – and the room for additional borrowing within the fiscal rules is limited.[7] Even on current plans, public investment can close only a fraction of the UK's investment shortfall. The great majority of any additional investment must be undertaken by the private sector, and the test of policy is therefore whether the UK offers the private sector sufficient reason to commit capital.

That reason is a calculation. Firms and investors commit capital where expected returns, adjusted for risk, exceed their cost of capital – and because capital is internationally mobile, the comparison runs between whole jurisdictions as much as between individual projects. For the large, long-lived and irreversible assets that dominate infrastructure – terminals, networks, plants and power – the policy environment enters the calculation directly: taxes claim a share of the return, delivery costs determine how much capacity each pound buys, and where future policy is hard to predict, there is value in waiting rather than committing, so that some investment is deferred or lost even if the feared changes never materialise.[8] Each element of that calculation is largely within the reach of policy.

1.4 ABOUT THIS REPORT

This report was commissioned by a group of the UK's largest private infrastructure investors and operators.[9] They appraise, finance and operate long-lived assets in the UK, and encounter the conditions this report examines project by project. The purpose of commissioning this work is to set that experience against the aggregate evidence. The analysis and conclusions drawn are Oxford Economics' own.

Section 2 measures the UK's investment shortfall against the G7 and the wider OECD, and what it has cost. Section 3 examines the barriers behind it: the burden and design of business taxation, with business rates the leading example; the barriers to delivering new capacity, particularly around energy, planning and construction labour; and the unpredictability of policy itself. Section 4 quantifies what closing the investment shortfall would be worth to the UK economy by 2040, and Section 5 draws out the implications for policy. Overall, the report concludes that closing the UK's investment shortfall depends on the private sector, and on policy that raises the return investment can earn, lowers the cost of delivering it, and supports confidence over the life of the long-lived assets on which growth depends.

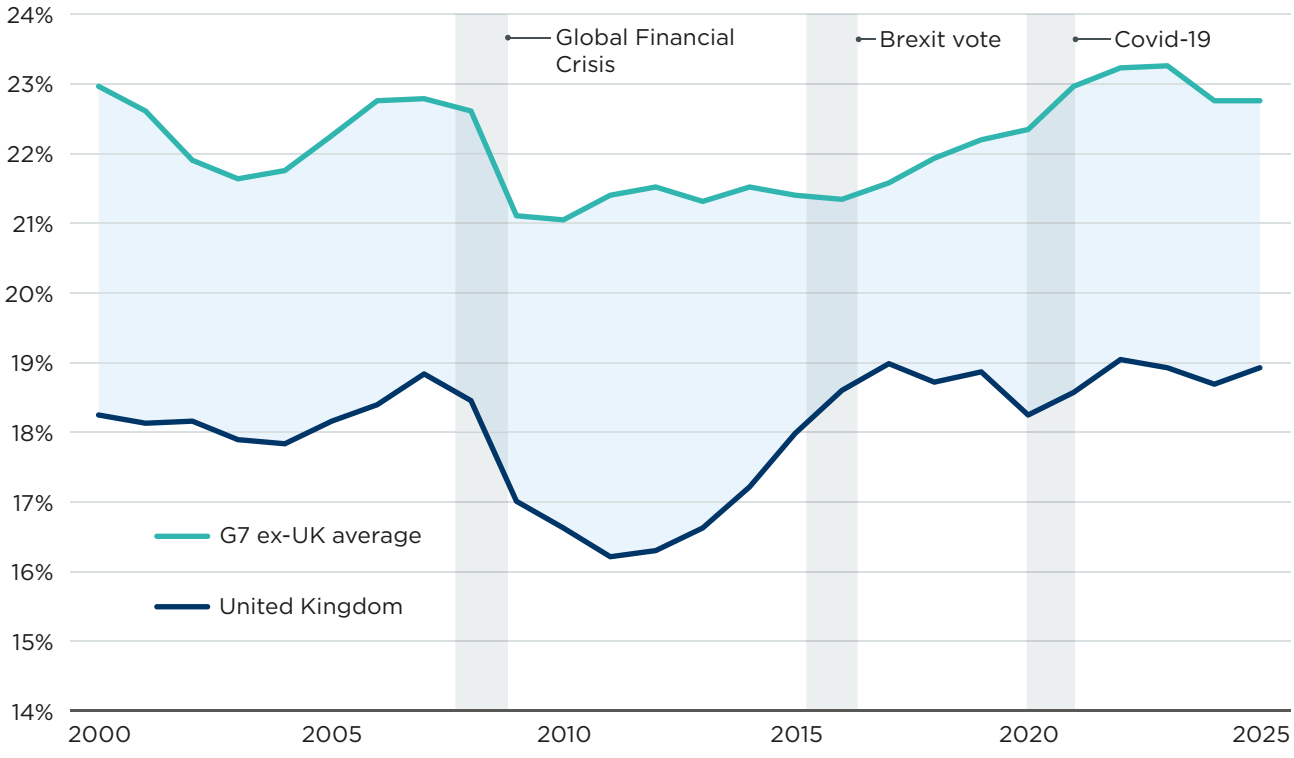
SECTION 2
THE SHORTFALL AGAINST THE UK'S PEERS: LARGE, PERSISTENT AND COSTLY

2.1 A QUARTER-CENTURY BEHIND ITS PEERS

The UK has sat at or near the bottom of the G7 for total fixed investment consistently for the past 25 years. In every year since 2000, UK total fixed investment has run below the average of the other G7 economies – by between 2.6 and 5.2 percentage points of GDP – and the shortfall has been strikingly consistent across political settings, averaging 4.1 percentage points under Labour governments and 4.0 under Conservative governments. In 2025, it stood at 3.8 percentage points of GDP – just under the average of the last 25 years (Figure 1).

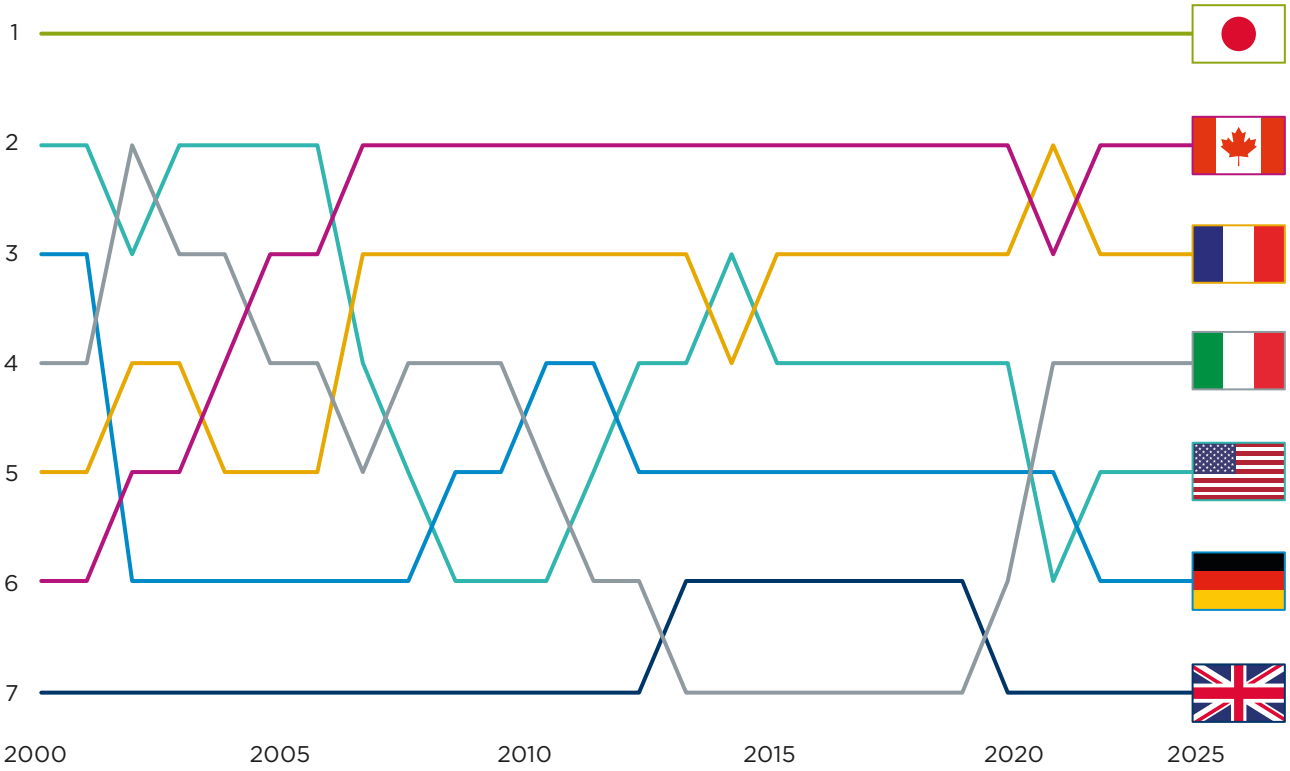
The shortfall predates the financial crisis, the UK's departure from the European Union and the pandemic. Each of these events affected investment across advanced economies; none of them created, and none of them much altered, the UK's position relative to its peers. The persistence of the pattern through very different governments, shocks and cycles points to fundamental features of the UK's investment environment, rather than temporary or cyclical factors.

Figure 1: Total fixed investment as a share of GDP, UK and G7-excl. UK average 2000–2025 (%)



Source: Oxford Economics based on national accounts data.

Figure 2: G7 nations ranked based on total fixed investment as a share of GDP, 2000-2025

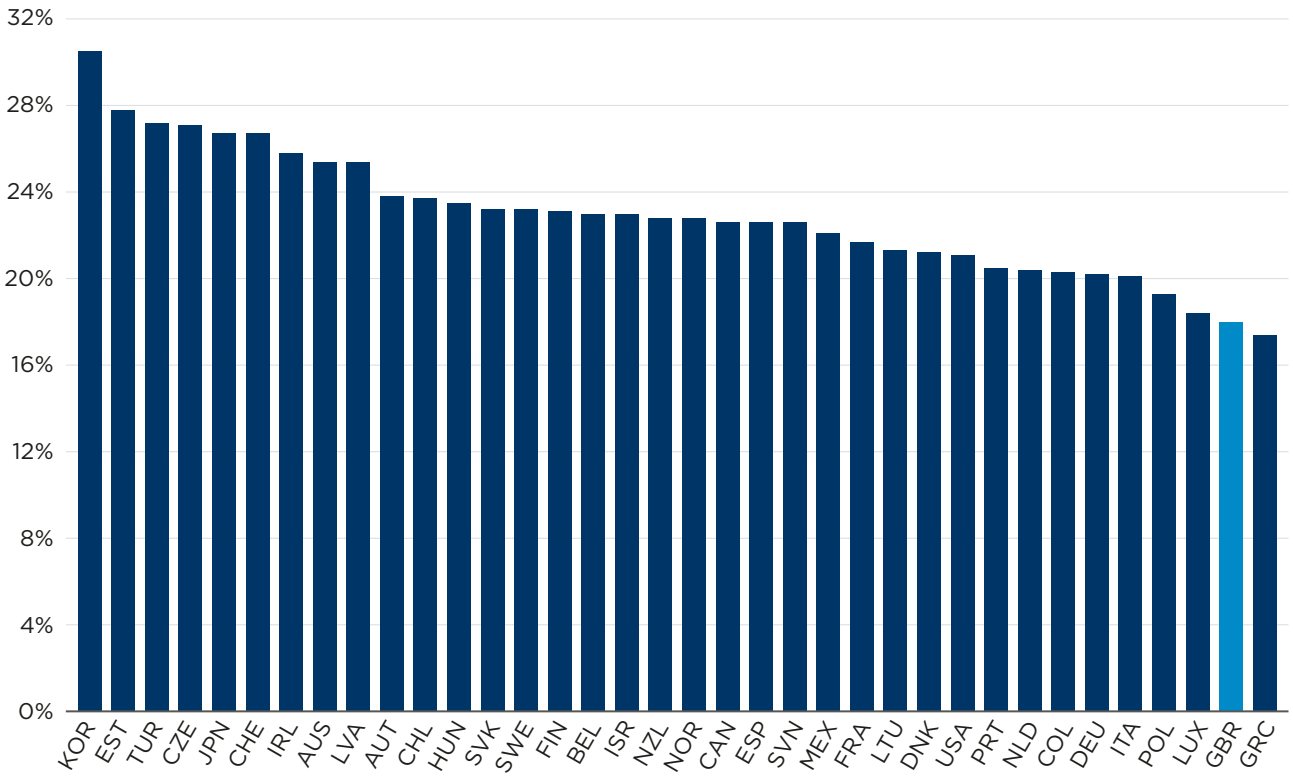


Source: Oxford Economics based on national accounts data.

Widening the lens to the OECD's 38 member economies confirms the UK's lagging performance. In 2025 the UK invested 18.9% of GDP against an OECD average of 22.5%; matching that average would have meant around £109 billion of additional investment in that year alone. Over the past quarter-century the UK has invested a smaller share of GDP, on average, than every OECD economy bar one. The exception is Greece – and only because a sovereign debt crisis cut Greek investment to around a third of its pre-crisis level for nearly a decade; in the years before that crisis, Greece out-invested the UK by wide margins. In no year since 2000 has UK investment exceeded 19% of GDP, a level every other OECD member has surpassed at some point in the period, and in the years before the financial crisis – when capital was cheap and investment strong across advanced economies – the UK ranked last among all members. Against the broader OECD the shortfall has narrowed somewhat since the early 2000s – though less because UK investment rose than because the average of other member economies slipped toward it.

Today the UK sits fifth from the bottom. The four economies below it – Greece, Costa Rica, Luxembourg and Poland – are not ones it would likely choose as comparators. Greece is recovering from years of economic crisis, and closing its investment gap is the organising aim of its national growth plan.[10] Costa Rica is a middle-income economy whose infrastructure shortfalls the OECD identifies as a central development challenge.[11] Luxembourg's ratio reflects the scale of financial activity booked in a small economy rather than low investment in any meaningful sense. Poland's government set itself a target in 2016 of raising investment to 25% of GDP – a target that receded as, in the IMF's assessment, uncertainty weighed on firms' willingness to commit capital.[12] Economies that fall below the UK's level after a crisis have tended to recover past it. The UK's position reflects no crisis, and no recovery.

Figure 3: Average total fixed investment as a share of GDP, OECD economies, 2000–2025 (%)



Source: Oxford Economics based on national accounts data.

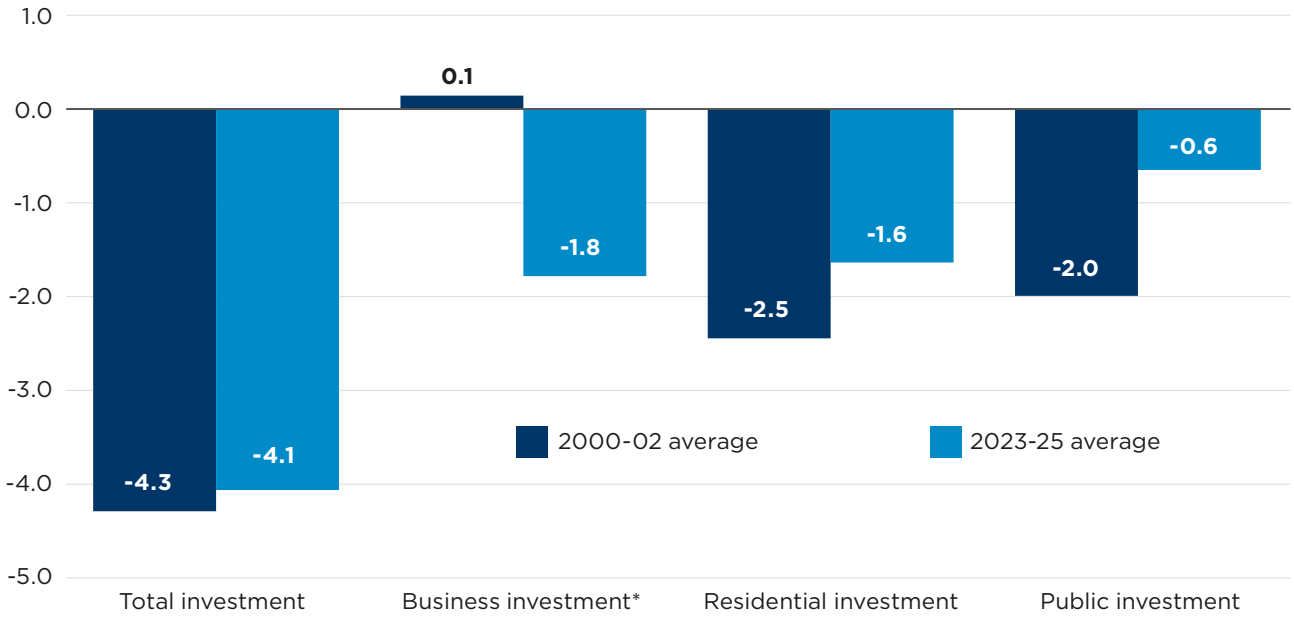
2.2 BUSINESS INVESTMENT: A CRITICAL SHORTFALL

The UK's investment shortfall is broad-based: business, residential and government investment have all run below peer levels for most of the period. Its composition matters, however, because the components differ in what they mean for productive capacity. Business investment accounts for the largest share of the shortfall, and is the only component whose shortfall has widened: since 2000 the residential and government gaps with the rest of the G7 have narrowed, while the business investment gap has roughly trebled (Figure 4). Business investment is the component most directly tied to the machinery, technology and commercial infrastructure on which productivity depends, and policy that aims to close the shortfall must therefore give firms a reason to invest.

Residential investment has also lagged. It stood at 3.6% of GDP in 2025, and the UK has ranked last in the G7 for housing investment in 24 of the past 26 years; the age of the housing stock tells the same story, with around 40% of UK homes built before 1946 and only 7% since 2001, against 18.5% in Spain and 16% in Portugal.[13] The housing shortfall is real, and its costs – in affordability, in labour mobility, in living standards – form part of the price of under-investment. But the business shortfall is larger still – in both absolute and relative (as a percentage of GDP) terms.

Government investment has likewise tended to lag peer economies, but unlike residential and business investment, it is already on track for improvement. Public sector net investment fell from around 5% of GDP in the 1960s to below 1% by the late 1990s and remained subdued for most of the period since. Following the fiscal framework reforms of Autumn 2024, it is now set to average around 2.6% of GDP over this Parliament – its highest sustained level in more than four decades – narrowing much of the remaining distance to the G7 average for government investment.[14]

Figure 4: Fixed investment by component, UK less rest-of-G7 average (Percentage points of GDP)



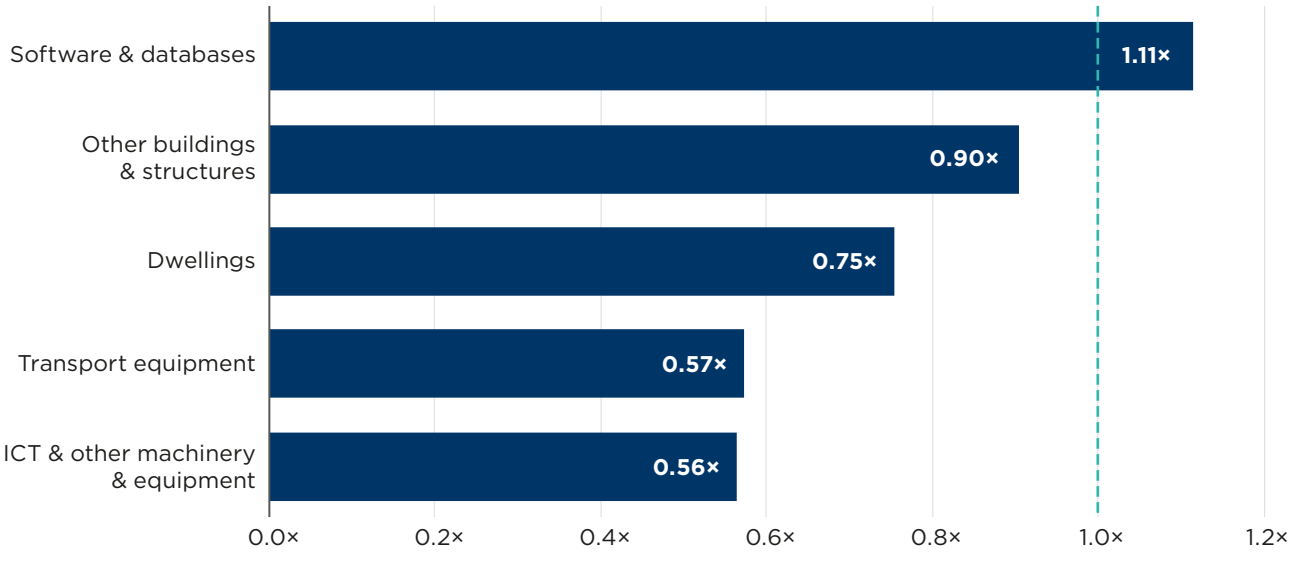
Source: Oxford Economics based on national accounts data.

*Derived as total investment less public and residential investment.

That recovery is welcome. It also raises the stakes for the environment facing private investment. Much of the UK's infrastructure is financed, built and operated by private companies, and the Government's plans count on public investment drawing private investment in alongside it. A public pipeline, however ambitious, will deliver less than intended if the environment facing the private sector remains discouraging.

The shortfall by asset type falls on physical capital. Over 2015-24 the UK invested a smaller share of GDP than its OECD peers in every category of tangible asset, while investment in software and databases ran modestly above (Figure 5). The shortfall is in the long-lived assets that add directly to productive capacity, and it is not offset by the UK's well-documented strength in intangibles.

Figure 5: Investment by asset type, share of GDP, UK relative to OECD[15] (OECD = 1.0×), 2015-2024 average



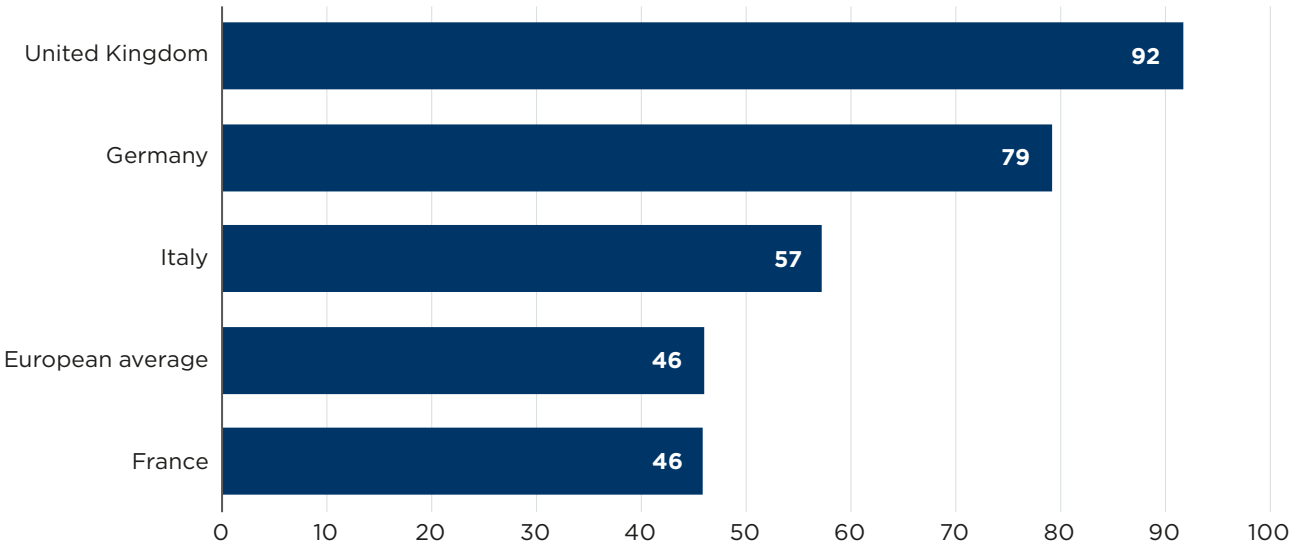
Source: Oxford Economics, OECD.

Network infrastructure – including energy, water, digital and transport – matters more than its share of that total, because its benefits are not confined to its owners: users and third parties gain from capacity, connectivity and reliability they do not pay for directly. The evidence bears this out: OECD analysis finds that network infrastructure raises long-run growth by more than ordinary additions to the capital stock:[16] a ten-percentage-point increase in broadband penetration raised annual per-capita growth by 0.9–1.5 percentage points across the OECD;[17] and a meta-analysis dedicated to transport finds consistently positive output effects, reinforced by the way better connections enlarge labour markets and deepen competition.[18]

Investment as a share of GDP measures additions to capacity, but does not fully reveal whether capacity is adequate to the demand placed on it. A closer look at the latter reveals other evidence of under-investment in transport infrastructure, because the UK's transport networks are under strain. Britain's railways carried about 92 train-kilometres per route-kilometre per day in 2024, among the highest rates in Europe and well above France (46), Italy (57), Germany (79) and the European average of 46. (Figure 6).[19] Intensity of that order leaves little slack. Network Rail has designated the West Coast Main Line fast lines between Camden and Ledburn junctions as congested infrastructure, with insufficient capacity for all proposed additional services without loss of performance or resilience. In Manchester's Castlefield corridor, an attempt to run 15 trains an hour rather than 12 between Deansgate and Piccadilly produced such disruption that the corridor was declared congested and services were cut back to 12.[20]

Aviation shows a similar pattern. Heathrow handled a record 84.5 million passengers in 2025 on 477,883 air transport movements – 99.6% of its annual limit of 480,000 – leaving capacity for fewer than six additional flights per day. With little room to add flights, further growth increasingly depends on airlines using larger aircraft and filling more seats. This capacity constraint is met with unmet demand in the allocation of runway access: airlines requested approximately 314,000 slots for summer 2026, but only 291,000 could be allocated. Gatwick is in a similar position: it schedules more movements an hour on a single runway – 55 in 2025, 57 from 2026 – than any other airport in the world, with recent gains coming from air-traffic-control and separation technology rather than new capacity.[21] The evidence shows that the UK's transport infrastructure operators are operating at or close to capacity, limiting the scope to accommodate additional services and un-met passenger demand.

Figure 6: Number of trains per day per route km, 2024



Source: IRG - Rail

The pattern is not confined to infrastructure. Through a sectoral lens, the UK also invests far less than its peers in manufacturing capacity – around 1.5% of GDP in recent years, against more than 3% across the rest of the G7 and nearly 4% in Germany – a sector where output per hour runs well above the economy-wide average.

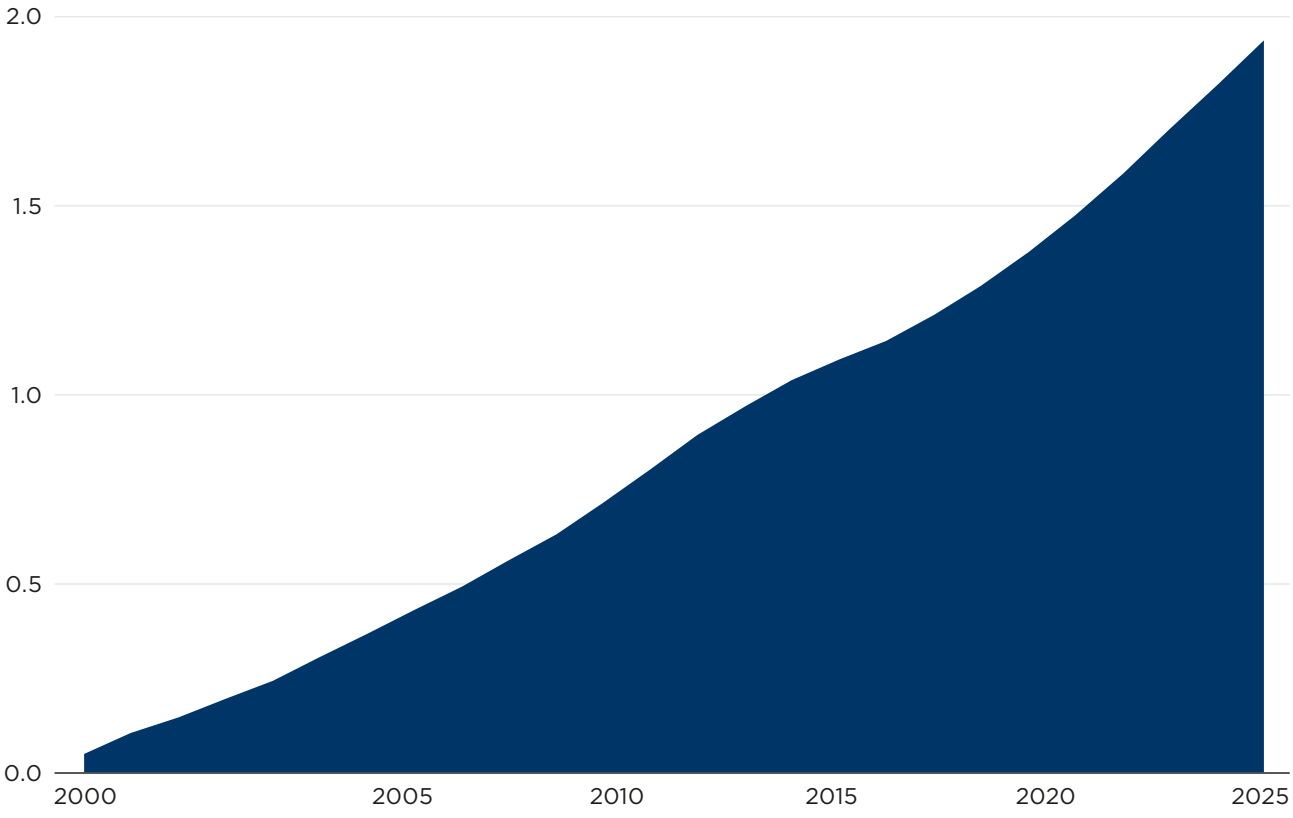
Overall, the UK has tended to invest least in the long-lived assets and high-productivity sectors with the strongest spillovers, and to run its most important networks closest to their limits – and because these networks, plants and technologies are primarily financed and built by firms, it is business investment that will be needed to close the distance.

2.3 THE COST OF UNDER-INVESTMENT

Annual shortfalls compound. Had the UK invested at the average rate of the other G7 economies each year since 2000, cumulative investment would have been around £1.9 trillion higher by 2025 – a sum equal to around a fifth of the UK's current productive capital stock: machinery, buildings, housing and infrastructure that was never created (Figure 7).[22]

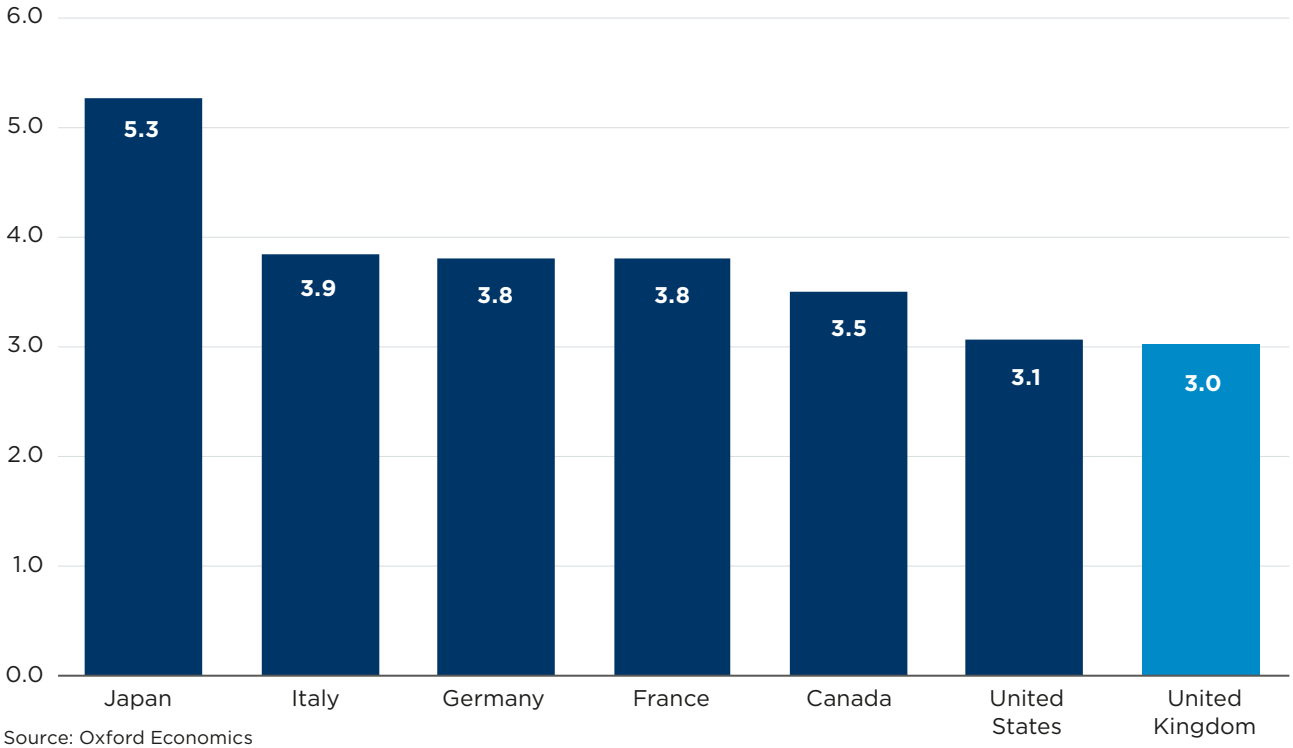
That capital stock – what remains of cumulative past investment after depreciation and retirements – is now the smallest in the G7 relative to GDP. On the OECD's internationally comparable measure of productive capital, the UK's stock is equivalent to around 3.0 times annual GDP – against 5.3 in Japan, 3.9 in Italy and 3.8 in Germany (Figure 8). The UK's capital stock growth has also slowed – having grown by an average of 2.7% a year between 1996 and 2008, 2.0% between 2010 and 2019, and 1.7% since 2020, while capital per hour worked has been declining since 2012.[23]

Figure 7: The UK's cumulative investment shortfall relative to the G7, 2000-2025 (£ trillion)



Source: Oxford Economics

Figure 8: Productive capital stock relative to GDP across G7 economies, 2025



Source: Oxford Economics

These are not abstractions. Output per hour in the UK stands around a fifth below the level of the United States, and around a tenth below France and Germany. The international evidence points squarely at investment as a key differentiator.[24] While most advanced economies have seen a post-2008 productivity slowdown, the UK's experience is distinctively worse due to a much greater slowdown in capital per hour worked – a shortfall which, alongside slower skills growth, accounts for the severity of the UK's "productivity puzzle" relative to major comparators, and which explains around half of the UK's productivity level gap with the US.[25] The result is that UK workers have access to roughly a third less capital for each hour they work than peers in the US, Germany, France and the Netherlands – amounting to an aggregate shortfall of around £2 trillion.[26]

Lagging productivity has made UK households poorer. Analysis for the Resolution Foundation's Economy 2030 Inquiry estimates that, had UK business investment matched the average of France, Germany and the US since 2008, the productivity gains – with pay rising in step with output – would have added around £1,250 per year to the average worker's earnings.[27] The estimate holds everything else about the UK economy constant and varies only how much its firms invest, making it a measure of what under-investment alone has cost.

These channels reinforce one another. Weaker investment slows productivity; slower productivity holds back pay; and stagnant incomes weaken the demand and the confidence against which firms take their next investment decision – a cycle in which under-investment entrenches itself. A shortfall this large, this persistent and this concentrated in business investment points to durable features of the UK's investment environment – and it is to these areas that the report now turns.

SECTION 3
THE KEY BARRIERS

3.1 IDENTIFYING THE KEY BARRIERS TO INVESTMENT

No single factor explains a shortfall that has lasted more than a quarter-century, and the explanation is not found in any single study. This section draws together a substantial body of evidence from the IMF, the OECD, the Bank of England, the Office for Budget Responsibility, the National Infrastructure Commission and the academic literature, and benchmarks the UK against its G7 and OECD peers across a range of policy-related factors. A factor is treated as a key barrier where it meets two tests: it consistently distinguishes the UK from higher-investing economies over many years, and strong evidence links it to weaker investment outcomes.

Three factors stand out:

1. The burden and design of business taxation, with business rates a leading example;
2. The cost of delivering new capacity – especially energy, planning and labour shortages; and
3. Policy unpredictability.

Each of these factors lowers the expected return on committing capital to the UK, or raises the risk attached to it, and each is open to reform through policy. One factor deserves separate mention: demand. In surveys, weak demand is a consistent factor firms cite for holding back investment, and the squeeze on household spending since 2022 is a serious headwind for the medium term and for shorter-horizon projects. However, demand fails to explain the long-run shortfall, which has persisted through strong and weak demand environments alike – including the 2000s, when the UK combined the G7's fastest consumption growth with its lowest investment share. For long-lived assets, infrastructure above all, demand has typically run ahead of capacity.[28]

Other factors also matter. Some accounts point to deeper causes, including patterns of corporate ownership and a market-based financial system that are argued to shorten the horizons over which UK firms invest.[29] The empirical evidence for their effect on investment remains contested, and the UK is not a clear outlier on either count. This report concentrates on barriers that are well evidenced, clearly identifiable and within reach of policy.

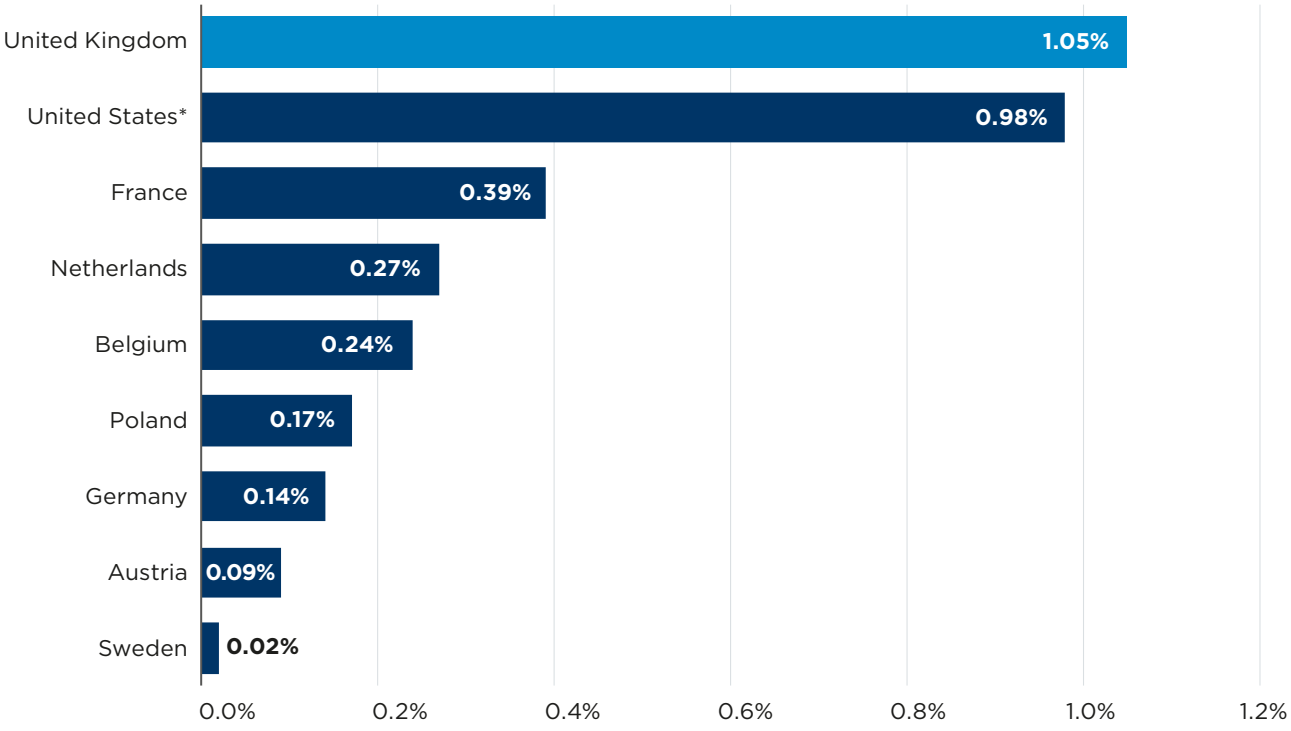
3.2 THE TAX BURDEN ON CAPITAL

The heaviest and most distinctive burden the UK's tax system places on investment falls on productive assets themselves: recurrent charges, led by business rates, that are payable regardless of whether the assets ever earn a return. With the overall tax take on course for its highest sustained share of national income since the late 1940s,[30] how that burden is distributed matters – and a key distinction related to investment is between taxes on profits, which claim a share of success after it materialises, and taxes on assets, which are due regardless. On the first, the UK is broadly in line with its peers. On the second, it has no parallel in the OECD.

The taxation of profits is the smaller part of the story. At 25%, the UK's headline rate of corporation tax is the lowest in the G7, and the Corporate Tax Roadmap's commitment to cap it for this Parliament provides a welcome anchor (although the rise that took it there in 2023 was announced, cancelled and reinstated within 18 months). For capital-intensive investment, however, the rate is only half of what sets the tax cost of a project; the other half is how much of the investment the tax base recognises, and here the UK's record has been thinner and less stable. Relief for industrial buildings was withdrawn between 2008 and 2011, leaving most structures – the category into which most infrastructure falls – with no allowances at all until a 3% rate arrived in 2018; the Annual Investment Allowance has been reset repeatedly between £25,000 and £1 million; and the settlement around permanent full expensing has since been followed by a cut in the main writing-down allowance. While the headline corporate tax rate compares favourably and the overall burden of corporate taxation has been broadly in line with peers, the regime's persistent weakness is its instability.

On the taxation of business assets, the UK truly stands apart. Business rates raise around 1.4% of GDP – among the heaviest recurrent taxes on commercial property in the developed world. Relative to the assets being taxed, UK recurrent taxes on non-residential property are equivalent to around 1.05% of the private capital stock – the highest in our comparison. Only the United States, at 0.98%, is close; France, the next-highest European economy, collects 0.39%, Germany 0.14% and Sweden 0.02% (Figure 9).[31] The Tax Foundation's International Tax Competitiveness Index, which scores the tax systems of all OECD members on comparable criteria, reaches the same conclusion: its 2025 edition ranks the UK's recurrent property tax burden as the heaviest of the 38.[32]

Figure 9: Recurrent taxes on non-domestic property as a share of the private capital stock, select peer economies, 2023 (%)



Sources: Oxford Economics, IMF; OECD; EY; Tax Foundation.

*The United States does not report the household/non-household split within the OECD classification. The figure shown is an Oxford Economics estimate applying the business share of US property tax collections to the OECD total.[33]

Taxation of this kind sits awkwardly with the economics. A tax on the buildings, machinery and networks a business adds is effectively a levy on the act of investing, and firms report behaving accordingly. In the 2026 CBI survey of around 700 firms, 32% said business rates had played a major role in decisions to cancel, reduce or delay investment; of those affected, 76% cited the level of bills, and 53% cited uncertainty over future liabilities as undermining long-term planning.[34] For long-lived assets, uncertainty about the ultimate liability weighs in addition to the liability itself.

For large infrastructure assets, the way business rates are assessed adds further to the investment burden. Business rates are normally based on what a property would fetch in rent. Airports and other infrastructure are rarely rented, however, so there is no market rent to observe: instead HMRC's Valuation Office estimates the rateable value from the trading performance of the business using the asset – by the receipts and expenditure (R&E) method – or, for some assets, from what the asset cost to build (the contractor's basis).[35] Three consequences follow for investment. First, unlike corporation tax, the charge is not a share of profit actually earned: it is set in advance from a judgement of the trading the asset should support, and is then payable in full, for years at a time, however revenues and costs turn out. Second, investment that adds capacity tends to raise the trading on which the valuation rests – and under the contractor's basis feeds into the valuation directly – so building or improving an asset can raise the future tax charged on that same asset. Third, because the key inputs rest on professional judgement rather than observable market evidence, operators cannot reliably predict their liabilities over the decades an asset must earn, and can face large swings between revaluations.[36]

Table 1: Recurrent property taxation of business and infrastructure assets, select peer economies

Economy	Tax burden, % of private capital stock (2023)	Valuation basis	Treatment of infrastructure
United Kingdom	1.05%	Rental value	Airports and similar assets valued on trading receipts (R&E) or construction cost; liability rises with receipts and, under the contractor's basis, with new capital; no specific relief.
United States	0.98%	Assessed property value, set locally	Utilities and other infrastructure often centrally assessed on enterprise value; rates and exemptions vary by state.
France	0.39%	Cadastral (administrative) values	Same base as other property; statutory one-third reduction for airport premises.
Germany	0.14%	Cost-based approach for commercial property	Under the federal Bundesmodell used by 11 of 16 states, airports and similar special-purpose property are valued by the cost approach; standardised construction cost plus land value rather than trading receipts; no specific relief.

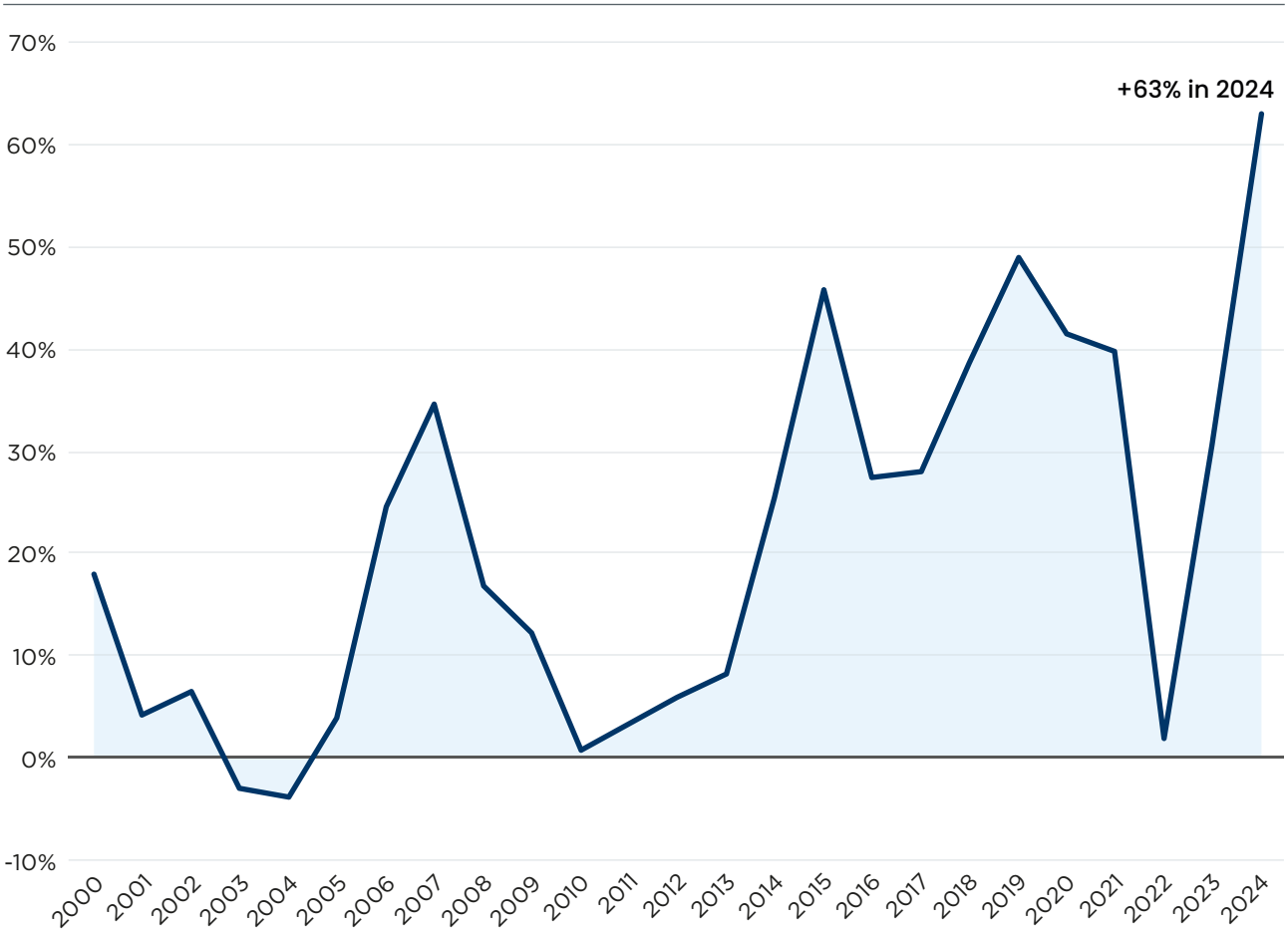
No major comparator combines a property-tax burden at the UK's level with the assessment of major infrastructure by reference to its trading or its construction cost. The nearest relatives of the UK's methods survive for some specialist properties in rating systems descended from its own – in Ireland, Australia and New Zealand – but in each case the overall burden is a fraction of the UK's. The major comparators pair far lower burdens with valuation bases that do not respond to trading: France assesses property on a cadastral basis and applies a statutory reduction of around one-third for airport premises; Germany's cost-based system collects a fraction of the UK level; and the United States, whose burden approaches the UK's in aggregate, generally assesses on property value, with widespread exemptions for infrastructure (Table 1). That combination – the heaviest recurrent burden, assessed by methods under which liabilities rise with trading and, for some assets, with the cost of building – distinguishes the UK from other major economies with which it competes for capital.

3.3 THE COST OF DELIVERING AND OPERATING: ENERGY, PLANNING & LABOUR

Aside from tax, investment faces the costs of building and operating new capacity. Here, three constraints stand out: energy, construction labour, and the planning system.

Energy is the largest and most persistent, and the UK's disadvantage is most acute on electricity. Industrial users paid £266 per megawatt-hour for electricity in 2024, including taxes and levies:

Figure 10: UK industrial electricity prices relative to the IEA median, 2000–2024 (%, including taxes)



Source: DESNZ Quarterly Energy Prices, Table 5.3.1 (September 2025). Premium calculated as the UK price relative to the IEA median, including taxes and levies.

27% more than in Germany, around twice the level in Japan and more than three times that in Canada. The premium is longstanding: UK prices have exceeded the IEA median in every year since 2005, reaching a record 63% above it in 2024. Within the G7 the UK was the most expensive economy for industrial electricity in 2021, 2023 and 2024 (Figure 10). It is also home-grown: UK industrial gas prices sit close to the IEA median, so the electricity premium reflects domestic market arrangements and policy rather than the cost of the fuel itself.

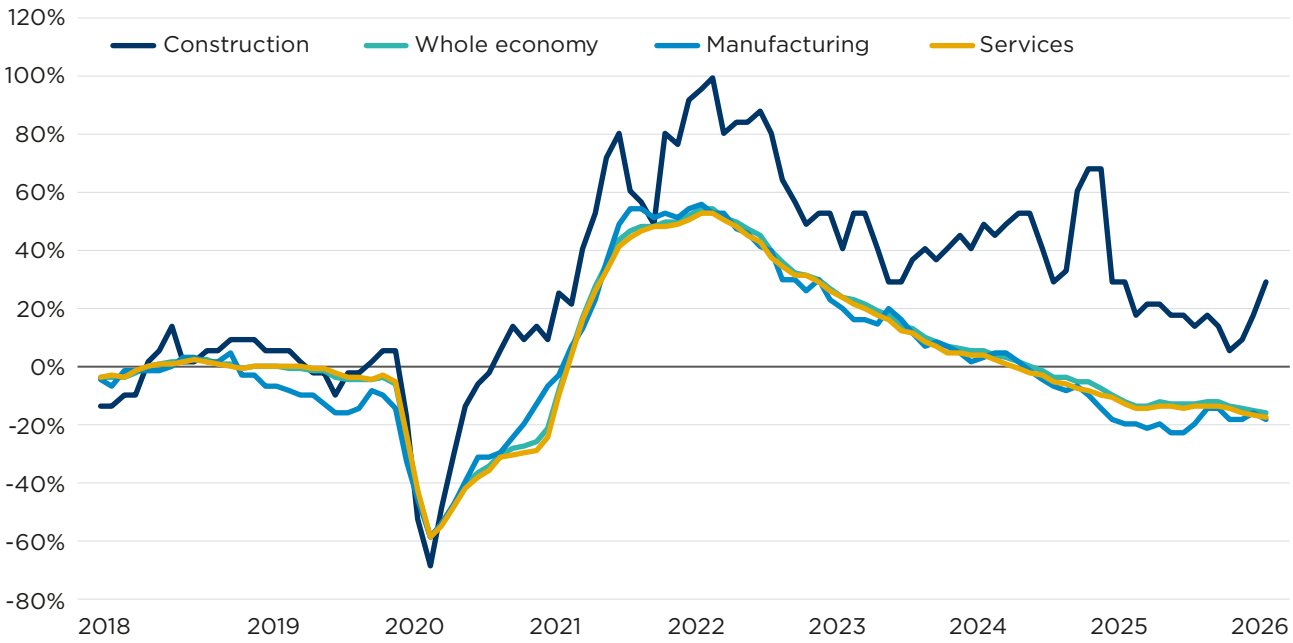
Two features of the UK system sustain the premium, and both are matters of policy. The first is the gas-linkage of electricity prices: gas-fired generation sets the wholesale price in around 98% of hours in Great Britain, against roughly a quarter in Germany and 7% in France, so industrial users pay gas-linked prices however cheaply the electricity was actually generated. The second is the loading of policy costs and network charges onto industrial bills, with historically narrower exemptions than energy-intensive users receive in France or Germany.

High electricity costs pose serious barriers to investment: 38% of manufacturers report having delayed investment because of energy costs, and around a quarter have moved production abroad or are considering doing so.[37] On policy cost loading, the Government has begun to act: the British Industry Supercharger exempts around 370 energy-intensive businesses from most policy costs, and the British Industrial Competitiveness Scheme will cut eligible manufacturers' bills by up to 25% from 2027. Both are steps in the right direction, but most firms paying the premium remain outside their scope, and announced reform is only the beginning of realised improvement.

Delivering new capacity is also more expensive, and slower, in the UK than in comparable economies. London has ranked first or second among 100 global cities for construction costs in every edition of the Arcadis index since 2020, and UK construction costs have risen around 30% faster than GDP per capita since 2007; for infrastructure specifically, UK tram projects have cost around twice the European average per mile.[38] Much of the additional cost arises before construction even begins. The average period for consenting – the process by which nationally significant projects obtain planning approval – lengthened from 2.6 years in 2012 to 4.2 years in 2021, and each additional year of consenting adds development spending, defers revenues, and extends the window in which costs, demand and policy can move against the project. The National Infrastructure Commission concludes that better project design, budgeting and consenting could reduce outturn costs by 10–25%.[39] Cost differences on this scale are large enough to change investment decisions, often determining whether a UK-based project clears its hurdle rate – the minimum return an investor requires before committing – when the same project would clear it comfortably elsewhere.

The Commission locates much of the cause upstream of the projects themselves. Decisions on nationally significant projects are taken against National Policy Statements – documents in which the Government sets out the national need for each type of infrastructure, so that individual applications need not relitigate it. Several of these statements then went years without update after they were first issued, leaving decisions to be made against policy that no longer reflected current commitments. With the statements out of date, questions the framework was meant to have settled were fought out case by case in the courts instead: the share of consent decisions taken to judicial review rose to 58% in recent years, against a long-term average of around 10%.[40] Both the timetable and the outcome of consenting have become harder to predict.

Figure 11: UK % difference in job vacancies from 2018 average, 3-month moving average



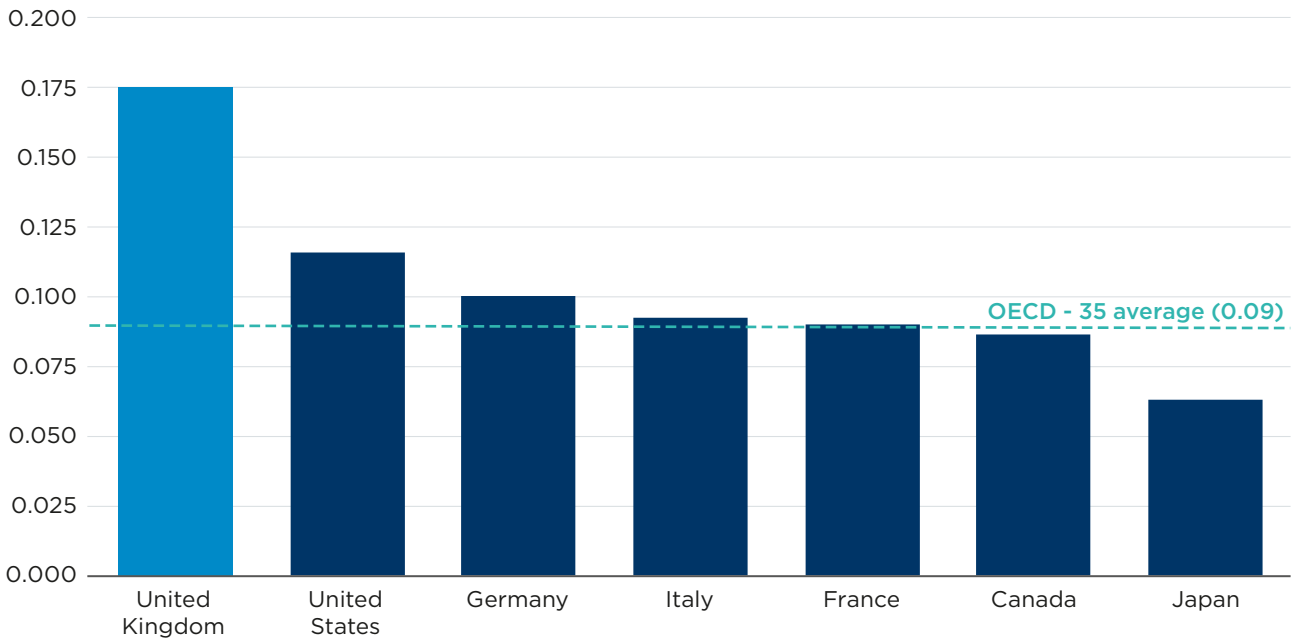
Source: ONS

Even a viable, consented project must then be built – and the capacity to build is tightening. The construction workforce, at around 2.1 million, is half a million below its 2008 peak, while the sector needs more than 41,000 additional workers each year to 2030. Construction vacancies remain around 30% above their 2018 average even with output broadly flat, and neither migration nor training is filling the gap – around 1,660 Skilled Worker visas were issued for construction occupations in the year to September 2025, about 4% of the annual requirement (Figure 11), while apprenticeship starts have fallen by a third since 2015.[41] While shortages of this kind are common across the G7, the UK is distinctive in combining an ageing workforce, a decade of declining training and a diminishing supply of overseas labour following recent migration policy changes. The Government's £600 million skills package is a significant response, but training pipelines take years to expand – and in the meantime, scarce labour means longer programmes, higher tender prices and larger contingencies.

3.4 POLICY UNPREDICTABILITY AS A COMMITMENT BARRIER

The barriers above describe what investment in the UK costs. The third barrier concerns how confidently those costs – and the returns against them – can be predicted. Policy uncertainty describes the difficulty economic actors face in anticipating the future direction, timing and implementation of government policy. On the World Uncertainty Index, a cross-country measure of policy uncertainty that counts the frequency of uncertainty-related language in the Economist Intelligence Unit's country reports,[42] the UK has recorded the highest average policy uncertainty in the G7 since 2010 – and the highest of the 35 OECD economies the index covers – at around one and a half times the level of the next-highest G7 economy and close to double the OECD average (Figure 12).[43] Nor does the finding rest on any single episode: the UK ranked first in the G7 in 2010–15, before the EU referendum, as well as in 2016–21, and it is the only G7 economy whose uncertainty has exceeded one and a half times its own pre-2000 average in every quarter since 2010. The United States has recorded higher readings since 2022, but the UK remains well above its own historical norm.

Figure 12: World Uncertainty Index, G7 countries, average 2010-2026 (3-quarter weighted moving average)



Source: Oxford Economics calculations, World Uncertainty Index

Uncertainty affects investment through three primary channels. Because much capital spending is irreversible, uncertainty raises the value of waiting: firms defer commitments until the picture clears.[44] It raises financing costs, as lenders and investors demand compensation for policy risk. And it weighs on demand, as households delay large purchases, weakening the revenues against which firms judge new projects.[45]

The UK has supplied these channels with steady material. The tax regime facing investment has been revised repeatedly – the capital allowances regime alone was substantially changed at least six times between 2008 and 2026 (Table 2) – and the political leadership responsible for it has changed hands frequently over the same period. What matters for investment is less each individual change, several of which improved the generosity of relief, but the cumulative record of revision. International evidence identifies exactly this record as the problem: in a survey of 724 businesses across 62 countries for the IMF and OECD, the frequency of legislative change ranked among the leading sources of tax uncertainty, and a reduced frequency of changes in tax legislation was the single measure businesses ranked highest for improving certainty in investment and location decisions.[46] By that standard, the UK's record is poor: a firm committing capital for decades has had little basis for assuming that the regime it invests under will be the regime it earns under.

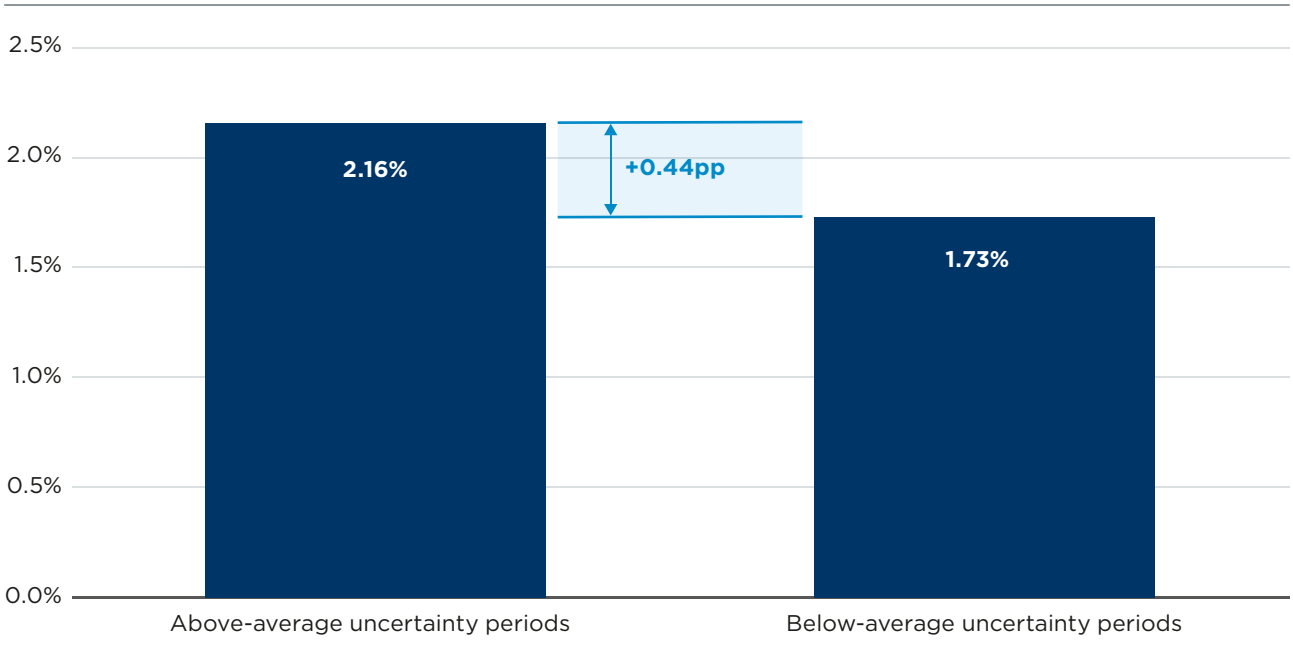
Table 2: Major changes to the UK capital allowances regime, 2008–2026

Year	Change
2008	Annual Investment Allowance (AIA) introduced at £50,000
2012	AIA cut from £100,000 to £25,000; writing-down allowances reduced
2019	AIA raised from £200,000 in 2016 to £1 million on a temporary basis
2021	Super-deduction introduced at 130% for qualifying plant and machinery
2023–24	Full expensing introduced, then made permanent alongside the Corporate Tax Roadmap
2025-26	Main-rate writing-down allowance cut from 18% to 14%; new 40% first-year allowance introduced

Uncertainty is also visible in the cost of capital. Rising policy uncertainty widens corporate credit spreads even after accounting for macroeconomic conditions, with the largest effects among firms in regulation-intensive industries, firms facing high effective tax rates, and firms dependent on external finance.[47] The UK pattern is consistent with this evidence. Over the period since 2000, UK corporate borrowing spreads have averaged 2.16% during periods of above-average policy uncertainty, against 1.73% when uncertainty was below average – a difference of around 0.44 percentage points (Figure 13).[48] This is an association rather than a causal estimate, and other conditions vary across these periods; but the pattern is consistent with international evidence that policy uncertainty raises financing costs.[49] For infrastructure, which is typically financed with a high share of long-dated debt, an addition of this size to borrowing costs compounds over the life of an asset, feeding into hurdle rates and, ultimately, into the charges operators must levy.

Tax uncertainty reaches firms, and investment, in two primary forms. The first is policy uncertainty: changes to the regime itself, illustrated by the record above. The second is implementation uncertainty: rules that are stable on paper but whose application to a given taxpayer is hard to predict. The IMF–OECD work ranks the two together – alongside frequent legislative change, businesses identify unpredictable or inconsistent treatment by tax administrations among the main sources of tax uncertainty. As Section 3.2 set out, liabilities under the R&E method are set from professional judgement about the trading an asset should sustain, and are then payable in full whatever happens – so even a stable rates regime produces liabilities that operators cannot reliably forecast over the decades their assets must earn. The CBI finding that a majority of affected firms cite uncertainty over future liabilities, and not bills alone, confirms that firms experience the system in exactly this way. So does the Government's own consultation record: in the Transforming Business Rates Interim Report,[50] stakeholders reported an inability to predict the outcomes of a revaluation, and almost a quarter of written responses called for greater transparency over the methods used to value their premises.

Figure 13: Average UK corporate bond spreads in above- and below-average uncertainty periods, 2000–2025 (%)



Source: Oxford Economics analysis of corporate bond spreads and the World Uncertainty Index.

3.5 HOW THE BARRIERS COMBINE

The barriers examined in this section operate on different terms of the same calculation. Delivery costs determine how much capacity each pound of investment buys; taxes – and business rates above all – claim a share of the return and, through the R&E method, impose liabilities that rise with the very act of building; and unpredictability raises the rate at which all future returns are discounted. Their combined effect is an environment in which the same project, with the same engineering and the same demand, is worth less in the UK than elsewhere – and in which some projects that would proceed elsewhere do not proceed at all.

Each barrier is a matter of policy design and administration rather than of geography or geology, and each could be materially improved without re-engineering the UK economy. Section 4 quantifies what narrowing the investment shortfall would be worth to the UK economy; Section 5 sets out what addressing the barriers would involve, against the test the barriers themselves define: whether a reform raises the return each pound of investment can earn, lowers the cost of delivering new capacity, or improves the confidence with which returns can be assessed over the life of an asset.

BREXIT AND THE DECISION MAKER PANEL – THE COST OF UNCERTAINTY

The clearest UK evidence on what uncertainty costs comes from the Bank of England's Decision Maker Panel, a large representative survey of UK businesses established after the 2016 referendum. Bloom et al. (2019) estimate that Brexit-related uncertainty reduced UK business investment by around 11% in the three years following the vote, relative to a counterfactual in which the referendum had not taken place.[51] Firms more exposed to Brexit cut investment by more, and the analysis attributes the shortfall to uncertainty itself rather than to weaker demand. Notably, the costs accrued years before Brexit implementation, when the UK's trading arrangements actually changed. And they were paid regardless of the eventual outcome – whether or not the scenarios firms feared ever materialised.

SECTION 4
THE RETURN ON CONVERGENCE: MODELLING A HIGHER-INVESTMENT UK

4.1 PURPOSE AND APPROACH

The preceding section identified the barriers that hold UK business investment below that of its peers: a tax system whose heaviest recurrent burden falls on productive assets, the costs of delivering and operating new capacity, and a policy environment that is difficult to predict. This section asks what the UK economy would gain if those barriers were substantially addressed. It presents a scenario in which a more favourable environment for business investment – across the economy, not only in infrastructure – allows the UK to recover its business investment shortfall in full, returning to the share of GDP invested by the rest of the G7. The macroeconomic consequences are traced through the Oxford Economics Global Economic Model: the effects on GDP, the capital stock, productivity, and household disposable income by 2040. The scenario is a what-if exercise rather than a forecast; its purpose is to quantify what is at stake.

4.2 SCENARIO DESCRIPTION

The scenario raises UK business investment from 10.6% of GDP in 2025 to 13.7% by the end of 2040, phased in progressively – closing the UK's business investment gap against the rest of the G7. Stronger activity then generates a further increment of investment of its own accord, and the result is to all but close the UK's total investment gap: around 94% of the 3.8 percentage point shortfall against the rest of the G7 in 2025 (total investment of 18.9% of GDP, against 22.7%). Table 3 summarises the modelling assumptions.

The fifteen-year horizon reflects how investment responds to reform rather than how quickly policy could move. Even if barriers were lowered relatively rapidly, much of the response would arrive with a lag: projects released by faster consenting still take years to design, finance and build, and firms commit to long-lived assets progressively, as the improved environment demonstrates its durability. The gains therefore build gradually over the horizon.

Because capital goods are import-intensive, around a third of the additional spending flows into higher imports, calibrated from the import content of each asset type in the UK's recent investment mix. This adjustment ensures the scenario does not overstate the boost to UK output, and implicitly assumes the UK's business investment mix across sectors and asset types remains broadly similar to recent years.

Table 3: Scenario assumptions

Element	Assumption
Horizon	2026–2040 (15 years), with the target share reached by 2040 Q4
Scenario target	UK business investment rises from 10.6% of GDP in 2025 to 13.7% by 2040 – matching the equivalent share of GDP invested across the rest of the G7
Profile	Progressive build-up over the horizon, reflecting the gradual response of investment to reform
Imports	Additional investment carries import content of around one-third, calibrated by asset type from the UK's historical investment mix. The scenario adopts a variable import profile characterised by frontloaded investment in equipment and backloaded investment in buildings and structures, as well as an increasingly domestic supply chain as productive capacity expands. A sensitivity test applies a higher import share (42.4%) throughout, consistent with the historical import share for equipment.

Several qualifications apply. The scenario does not model specific policies. No individual reform from Section 3 is directly represented in the modelling, no specific assumptions are made about the exact mechanisms by which the major barriers to investment will be addressed, and no allowance is made for the potential cost of doing so. In particular, the scenario assumes no reduction in the overall level of taxation across the private sector as a whole, though receipts naturally rise in the scenario compared to the baseline because the economy is larger. Instead, it represents the scale of the investment response that could reasonably follow if the principal supply-side barriers to business investment were substantially lowered over the coming years through reforms with limited direct fiscal cost: greater policy predictability, faster planning and consenting, reformed tax administration, grid connections, and an easing of construction labour shortages.

The scale is grounded in evidence on those channels. Bloom et al. (2025) estimate that the post-2016 deterioration in the UK's policy environment reduced business investment by 12-13% – around 1.25 percentage points of GDP.[52]

Oxford Economics and ICC (2026) find that the uncertainty around US tariff announcements in 2025 (to which the UK was less exposed than other major economies) reduced UK business investment by 0.5% within that year.[53] The OBR has scored residential planning reform alone at 0.2% of GDP by 2029-30 and over 0.4% by the mid-2030s – commercial and infrastructure consenting unscored – while reducing public borrowing.[54] And the reordering of the grid connection queue is expected by the system operator to release tens of billions of pounds a year of already-committed private investment.[55] Effects of this kind, individually evidenced, span the scale of the increase modelled here. The scenario assumes only that a durable improvement across these fronts elicits the response the evidence implies; the results remain indicative of scale and direction rather than precise estimates.

4.3 RESULTS: THE UK ECONOMY IN 2040 UNDER HIGHER INVESTMENT

The gains come principally through a larger capital stock. The sustained rise in investment expands the productive capital stock by almost £379 billion in real terms (chained 2023 GBP) – 8.7% above the baseline – raising capital per worker by 8.3%. Labour productivity rises by 1.3% as a consequence, and real GDP in 2040 is 1.7% above its baseline path. Unlike a temporary demand stimulus, these gains endure: the additional assets remain in place and permanently raise the economy's productive capacity.

As a sensitivity test, holding the import content of the additional investment at 42.4% throughout the horizon reduces the 2040 gain to 1.4%. The range brackets the uncertainty over the composition of the additional investment – between equipment, buildings and structures, and intellectual property – and over how far domestic supply chains respond as investment strengthens.

Three features of the results are especially worth highlighting. First, the gains are permanent rather than cyclical. GDP 1.7% above baseline is an increment that recurs in every subsequent year – one earned by expanding capacity rather than borrowed from future demand.

Second, the gains arrive because work is more productive. Real household disposable income rises by 2.1% above baseline – around £46 billion in 2040, or roughly £1,540 per household (in 2023 prices). The gains follow the shape of the problem: the UK's shortfall has been in capital per worker, and it is capital per worker that drives the recovery in incomes.

Third, the scenario changes the economy's trajectory as well as its level. Business investment ends the period matching the share of GDP invested by its G7 peers, with stronger activity still drawing in further investment. The UK would enter the 2040s accumulating capital at the rate of its peers rather than falling further behind, with the remaining distance in total investment reduced to a fraction of today's.

Figure 14: Gains by 2040 under the higher-investment scenario, compared to baseline

WHAT IS INVESTED	WHAT IT BUILDS	WHAT IT EARNS
+£88 billion **Business investment** +21.5% above baseline	**+£379 billion** **Productive capital stock** +8.7% above baseline	**+£1,200** **Output per job** +1.3% labour productivity
£620 billion **Cumulative additional investment, 2026–40** Gross of depreciation	**+£9,100** **Capital per worker** +8.3% above baseline	**+£1,540** **Real disposable income per household** +2.1% – around £46bn in aggregate

Scenario less baseline, 2040, real terms (chained 2023 prices). Source: Oxford Economics

4.4 THE RESULTS IN CONTEXT

The results sit toward the cautious end of the published literature on sustained investment increases, for two reasons: the gains are earned almost entirely through expanded productive capacity, with little credited to demand; and the higher imports the additional investment draws in are netted off, so only its domestic content adds to activity along the way.

One useful check comes from the experiment the UK has just run in reverse. Bloom et al. (2025) estimate that the post-2016 deterioration in the UK's investment environment reduced business investment by 12-13% –around 1.25 percentage points of GDP – and GDP by 6-8% by 2025, through investment and several other channels. The relationships in this scenario would attribute around 1 percentage point of that GDP loss to the investment decline alone – a reasonable, and arguably conservative, share.

Most quantified scenarios of sustained investment increases concern public rather than business investment. Estimated effects range from around 1% of GDP per percentage point of additional investment at horizons comparable to this scenario's (OBR), to 2.2–2.9% in the long run (NIESR), with the European Commission's modelling of Germany's infrastructure fund and IMF evidence for advanced economies in between.[56,57,58,59] These are informative benchmarks: over long horizons, both forms of investment work through assets installed into the economy's productive capacity, and per pound of capital the evidence gives business investment no discount. Several of the cited studies are debt-financed and credit substantial demand effects; this scenario adds no public borrowing and credits very little to demand, so it should sit below them. It does: 1.7% after fifteen years – roughly 0.8% per percentage point – is at the bottom of the range and closest to the OBR's modelling. The scenario also treats the additional capital as ordinary capital, taking no credit for the above-average returns to network infrastructure documented in Section 2. And because a capital stock accumulated across generations turns over only gradually, the gains at 2040 are not the end point: they would continue to build beyond the horizon.

SECTION 5
POLICY IMPLICATIONS

5.1 THE CONDITIONS FOR STRONGER INVESTMENT

The evidence assembled in this report carries important implications. The UK's investment shortfall is persistent, is concentrated in business investment and tangible assets, and reflects alterable features of the investment and policy environment. With public finances constrained, additional investment must come from the private sector – and because firms have choice in where to invest, it will materialise only where expected returns, adjusted for risk, justify commitment over the life of the asset. Several conditions follow.

- **The design of taxation matters as much as its burden.** The UK taxes profits broadly in line with its peers; where it stands apart is in recurrent taxes on productive assets. The Government's response to its November 2025 call for evidence on business rates and investment is the immediate occasion to weigh how heavily long-lived assets are taxed relative to profits, and how the liability is set.

- **Predictable administration is part of a predictable tax system.** Tax uncertainty arises from how rules are applied as well as from how often they change, and firms cite uncertainty over future liabilities alongside the level of bills as a drag on investment. These are questions of administration: valuation can be made more transparent, and liabilities more predictable, without major implications for revenue or for the wider fiscal position.

- **Predictability carries economic value, with little direct fiscal cost.** UK policy uncertainty has run persistently above its historical norm, and the record of revision facing investors is long. Unlike most policy levers, greater predictability is a product of how decisions are made, sequenced and communicated rather than of additional spending.

- **Delivery costs determine how much capacity each pound of investment buys.** The UK combines the highest industrial electricity prices among advanced economies, long consenting periods and a shrinking construction workforce. Recent measures, including the Planning and Infrastructure Act, reformed grid connections, the British Industry Supercharger and its successor scheme, are directed at these constraints. Their test is whether they translate into shorter consents, lower bills and a growing workforce.

- **The returns to a better environment are substantial, permanent and gradual.** Our modelled scenario indicates that recovering the business investment shortfall by 2040 would leave GDP 1.7% above its baseline path and real household disposable incomes around £1,540 per household higher – gains earned by expanding productive capacity and delivered through business investment. They build over fifteen years because firms commit to long-lived assets progressively, as an improved environment demonstrates its durability. Because the gains build with a lag, delay is not costless: each year in which the conditions are not met pushes the benefits further out.

The conditions for stronger investment are known and within reach: a higher return on each pound invested, a lower cost of delivering it, and greater confidence that both will hold over the life of the asset. Where they are met, investment should follow.

SECTION 6 APPENDICES

6.1 METHODOLOGY

MODEL

The scenario set out in Section 4 is produced using the Oxford Economics Global Economic Model, a quarterly, fully linked model of the world economy in which short-run outcomes are demand-determined and long-run outcomes are governed by the supply side: potential output is determined by a production function in which capital services, labour and total factor productivity combine to set the economy's productive capacity. The scenario is run against the July 2026 baseline forecast. Employment responds during the adjustment but converges toward a path determined by labour supply and the equilibrium unemployment rate, neither of which the scenario affects; reported results therefore operate through productivity and household incomes.

SCENARIO DEFINITION AND CALIBRATION

The scenario raises UK business investment to the average share of GDP invested by the other six G7 economies, with the effect of all but closing the UK's total fixed investment gap – around 94% of the 3.8 percentage point shortfall in 2025. The size of the imposed addition is calibrated from the 2025 gap between UK business investment (10.6% of GDP) and the average share of private non-residential investment across the other six G7 economies (13.7%). This gap, of around 3.2 percentage points of GDP, is converted into a path of additional investment in cash terms, phased in progressively over 2026–2040, deflated to real terms, and imposed on real UK business investment as an ex-ante addition to the baseline path. The phase-in is specified so that business investment reaches the benchmark share of GDP by the end of 2040; because stronger activity itself draws in further investment, the outturn marginally exceeds the target (13.8% against 13.7%). The benchmark is held at its 2025 level throughout: if peer investment shares rise over the period, the scenario understates the convergence required, which is a conservative property.

Definitions differ across countries in the underlying data: the UK figure follows the ONS business investment definition, while peer figures are derived as total investment less government and residential investment, as few peer economies publish an equivalent headline series. The scenario is therefore anchored to the total investment gap, which is measured on a fully consistent basis across countries; the business investment path is the instrument through which that gap is closed. Routing the addition through business investment – the component most directly tied to productive assets – rather than spreading it across dwellings and government investment in peer proportions, is the allocation with the strongest link between investment and productive capacity. A consequence of this routing is that business investment ends the horizon somewhat above the peer-average share, offsetting residential and government investment shares that remain below peer levels; total investment matches, but does not exceed, the peer benchmark. Two features of the treatment bear on that comparison. Costs of ownership transfer – fees and duties on transactions in land and existing buildings, which the national accounts capitalise as investment but which add no productive capacity – are held at their baseline path throughout, so the whole of the scenario's additional investment is productive capital formation. And because peer business investment figures are derived residually, they include peers' own transfer costs, while the UK series raised in the scenario excludes them: the same measured share therefore represents more productive investment in the UK than it does for the comparators, offsetting at least part of the apparent difference on like-for-like measures.

Of the £601 billion of additional business investment over 2026–2040, around 88% is the imposed convergence path; the remaining 12% arises endogenously as stronger activity draws in further investment. A small endogenous addition to residential investment contributes to closing the total gap. Together, these movements close around 94% of the 2025 total investment gap by 2040.

TRANSMISSION

Additional investment cumulates into the productive capital stock through the model's perpetual-inventory accounting, raising capital services and, through the production function, potential output. The economy is modelled close to capacity throughout, so the reported gains reflect expanded productive capacity rather than a demand impulse: real GDP ends the period 1.4–1.7% above its baseline path, labour productivity rises correspondingly, and real household disposable income is around 2.1% higher than baseline by 2040. The gains build gradually over the fifteen-year horizon and are permanent rather than cyclical.

IMPORT CONTENT OF ADDITIONAL INVESTMENT

Additional investment draws in imports, which moderates the near-term domestic activity effect of the investment path; it does not alter the contribution of the installed capital to productive capacity, which accrues to the UK economy wherever the capital goods are manufactured. The import intensity of the additional investment cannot be known in advance. The central treatment applies a declining import-content profile, averaging around one-third, reflecting the scope for domestic supply chains to respond as the higher level of investment persists; on this treatment, real GDP in 2040 is 1.7% above baseline. A sensitivity test instead holds the import content at 42.4% throughout the horizon – the import intensity of the machinery, equipment and intangibles mix of business investment, excluding buildings and structures, which are predominantly domestically supplied – under which the gain is 1.4%.

WHAT THE SCENARIO DOES NOT MODEL

The scenario quantifies the value of convergence; it does not model the policy package that achieves it. The scenario implies the barriers to investment identified in Section 3 are substantially addressed, but no assumptions are made on how this happens, nor any allowance for the costs involved. Reforms with material fiscal cost would require financing whose design would bear on the net gains; several of the barriers identified, including predictability, administration and consenting, are matters of policy design rather than expenditure. No change is assumed to monetary or fiscal policy settings beyond the model's standard reaction functions.

REPORTING CONVENTIONS AND SENSITIVITY

Percentage effects are reported relative to the baseline path in the stated year. Cash figures are expressed in chained 2023 prices. Comparisons with published studies of sustained investment increases are indicative only: most model public rather than business investment, whose transmission differs; the studies cited bound the plausible range.

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