Supporting the UK's Economic Engine

Mid-Market Manifesto

July 2026

START

IDEAS | PEOPLE | TRUST

BDO

Foreword

Mid-market businesses are the economic engine of the UK and the government's growth agenda is dependent upon their success.

Entrepreneurial and agile, these businesses provide high-quality local jobs, stimulate regional investment, and are typically well-placed to scale.

Despite comprising less than 1% of private sector businesses[1], the UK mid-market accounts for more than one in three private sector jobs and more than 40% of private sector revenues[2].

This new data from BDO also shows the total number of mid-market businesses grew by 4.4% between Q2 2025 and Q2 2026, driven by the strength of regional economies, with the South West (+6%), East of England (+5.4%), Scotland (+5.1%) and North West (+4.7%) all outperforming the national average.

Against a backdrop of challenging economic headwinds, this demonstrates the resilience of the UK's mid-market. However, overall turnover from this segment of the market has not kept pace with new business growth, increasing by 3.1% to 2.44tn during the same period.

Unlocking the full potential of the mid-market is essential to achieve economic growth across the country and for the UK to remain globally competitive.

To deliver this, we need targeted government policies which remove unnecessary burdens, simplify the tax system, address skills shortages, and provide long-term regulatory stability.

Given the mid-market's disproportionate economic contribution, increasing this support is the most direct route to boost regional productivity and employment opportunities, and to encourage investment in the UK. It should be actioned with urgency.

Gervase MacGregor
BDO Executive Board

It is evident more targeted support is required to power the UK's economic engine to ensure these mid-sized businesses do not hit a ceiling just as they are poised to scale. However, these businesses are often overlooked by policymakers: too large to benefit from start-up support, but too small to influence government policy or win the recognition from politicians that blue chip firms command, leaving them in a policy gap.

As a leading adviser to the mid-market, this manifesto sets out policy recommendations which would help enable mid-sized businesses to achieve their full potential and play their part in delivering the government's growth agenda.

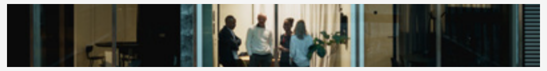
In addition, this document focuses on proposals for tax simplification to promote investment, boost employment and back entrepreneurship in the UK, as well as policies to support businesses in several of the growth-driving sectors identified in the government's Invest 2035 Modern Industrial Strategy where the UK has or could develop a competitive advantage: Advanced Manufacturing; Life Sciences; and Professional & Business Services.

We know that helping mid-market businesses to grow and thrive can have a significant impact on economic growth, with a 1% increase in growth potentially adding £35bn to the UK economy. Therefore, we welcome this timely report from BDO, setting out policy measures to support investment, productivity and international competitiveness.

In our most recent Quarterly Economic Survey, half of responding firms (51%) said that they were now more concerned about taxation than they had been three months ago. Simplifying the tax system through measures outlined in this report would have a tangible impact on business growth.

Shevaun Haviland CBE
Director General at
the British Chambers of Commerce

The number of **mid-market UK businesses**
grew by **4.4%**
between **Q2 2025** and **Q2 2026**



These mid-sized UK businesses
have increased turnover by 3.1%
over the course of the last year to **£2.44 tn**

and they now employ
11.1m PEOPLE
across the length and breadth of the UK
ACCOUNTING FOR MORE THAN
one in three private sector jobs

1. BDO defines the mid-market as businesses with revenues of £10m-£500m, including those that are AIM listed or private equity owned. The latest BDO data identifies 41,849 companies meeting these criteria, approximately 0.7% of UK private sector businesses overall, based on current projections from official government statistics showing 5.7 million businesses in October 2025.
2. Regional businesses drive mid-market expansion but targeted support is required to maximise growth (BDO)

Policy recommendations at a glance

Tax

- Simplify corporation tax by replacing marginal rates with a single rate
- Reduce the complexity and regulatory burden in R&D regimes
- Reform the Enterprise Investment Scheme (EIS) to support start-up and scale-up growth
- Encourage entrepreneurs to start, scale and stay in the UK through abolishing BADR and introducing a lower rate of CGT on long-term exit
- Reform VAT to reduce the growth cliff edge
- Provide longer-term certainty for internationally mobile founders, investors and senior executives through Foreign Income and Gains (FIG) reform

Skills

- Maintain access to priority technical skills through apprenticeship units
- Roll out the proposed "clearing-style" apprenticeship scheme at pace
- Ensure Skills England actively considers intelligence gathered by Local Skills Improvement Plans (LSIPs) to support its decision making
- Keep priority university routes affordable while expanding technical and apprenticeship pathways
- Create pathways to reskill under-utilised talent into priority sectors
- Support mid-market businesses to successfully deliver work experience placements

Manufacturing

- Implement a one-stop shop for mid-sized business export support
- Reduce energy costs and clarify eligibility for the British Industrial Competitiveness Scheme (BICS)
- Treat grid access as an industrial competitiveness issue (not just an infrastructure issue)
- Tackle the skills crisis with SME-specific metrics and a review of the apprenticeship levy
- Support practical technology adoption in the mid-market manufacturing base

Life Sciences

- Introduce more effective tax incentives for long-term investment in UK life sciences, adjusting holding period requirements for reliefs to reflect typical development timelines
- Extend CGT relief eligibility of the (SEIS) and the Enterprise Investment Scheme (EIS) to encourage the longer-term investment typically required to take a product to market
- Establish a filtration system to identify high-potential start-ups and spinouts with genuine commercial viability
- Create an online platform to clearly signpost the grants, specialized funds and tax incentives available to life sciences startups
- Lead regulatory standard setting in emerging fields where global regulatory standards are yet to be set, including the development of a new framework for AI in healthcare
- Encourage closer regulatory alignment with the US

Professional & Business Services

- Commit to targeted investment in training via Skills England to meet future employment demands within the sector
- Introduce new mutual recognition of professional qualifications (MRPQ) agreements with priority international partners including the US and EU
- Pilot the recently announced "clearing-style" system for apprenticeships with the PBS sector given its scale, strong regional footprint and consistently high volume of apprentice applicants
- Introduce extended tax credits or matched funding grants to support AI adoption in mid-market PBS firms
- Prioritise mid-market PBS visibility across regional centres of excellence

Tax Simplification

Tax should be treated as an integral part of the government's growth agenda.

The UK tax code is highly complex. In 1970 there were approximately 1,500 pages of tax legislation. Today, it stands at more than 23,000 pages – 10 million words – making it the longest tax code in the world with a word count equivalent to 18 copies of Tolstoy's War and Peace.

As many commentators have pointed out, length and complexity are not necessarily synonymous. Evolving economic conditions and business models will necessitate updates, and clarifications to close loopholes in the existing legislation will add length. However, there is broad consensus among UK tax experts and business leaders that endless tinkering to our tax legislation has made it overly complex. It is also incoherent in places, such as the VAT and income tax cliff edges which have been created by successive governments.

The complexity of the UK tax system is an administrative inconvenience, but it also undermines the certainty businesses need, absorbs time, increases compliance costs, and creates cliff edges which can distort investment, hiring and expansion decisions.

BDO's latest mid-market tracker of 500 businesses with revenues between £10m-£500m found that 85% of respondents have seen some form of increase in the time and money invested in tax compliance in the last year compared to five years ago[3].

The National Audit Office has reported that HMRC's costs of administering the tax system increased by 15% in real terms between 2019-20 and 2023-24[4], while HMRC estimates the annual compliance cost for businesses stands at £15.4bn[5].

The government has rightly focused on supply-side reform, regulatory simplification, planning and infrastructure. A targeted programme of tax simplification should sit alongside those reforms.

BDO recommends the Treasury prioritises measures which combine a clear growth rationale with a practical route to implementation.

3. Businesses weighed down by rising tax compliance burden, survey finds (BDO)
4. Increasingly complex tax system burdens government and business with billions in admin costs (NAO)
5. The cost of the tax system (HMRC)

To promote investment, boost employment and support entrepreneurship, BDO recommends the government should:

Simplify corporation tax by replacing marginal rates with a single rate

- A simpler corporation tax regime would support investment by reducing uncertainty, lowering compliance burdens and giving businesses greater confidence over the tax implications of growth.
- BDO recommends simplifying rates and allowances for corporation tax, including the removal of marginal rates. In BDO's view, the government should replace the current main rate and marginal relief system with a single rate of 21% (i.e. just below the EU average of 21.6%) to reduce the headline rate faced by larger and scaling businesses while minimising fiscal costs.
- Based on HMRC illustrative estimates, this would cost up to £16bn a year by 2029[6]. However, this would be offset by the benefits gained from incentivising investment and the resulting increase in tax revenues generated through better supporting long-term employment. To manage the projected cost, the government should also set out a roadmap to reduce the rate incrementally over a two- or three-year period, giving both a positive long-term message and a short-term incentive to businesses to bring forward capital investment so that tax relief is obtained at the current higher rates.

6. Direct effects of illustrative tax changes (GOV.UK)

Tax Simplification

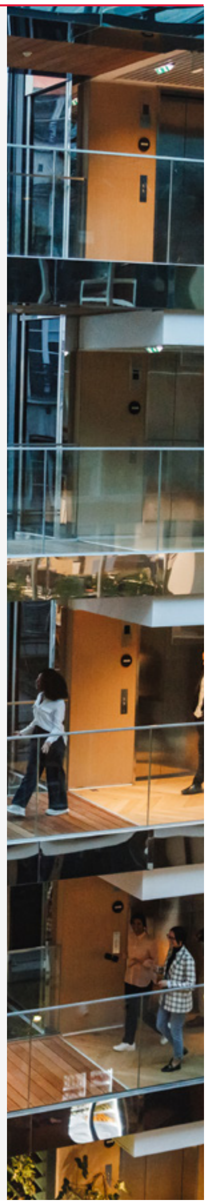
Reduce the complexity and regulatory burden in R&D regimes

- The current HMRC R&D support regime contains duplication and complexity. HMRC statistics estimate total R&D tax relief support for 2023-24 was £7.6bn, corresponding to £46.1bn of R&D expenditure[7]. Simplifying R&D support could therefore have a material effect on innovative investment.
- The regime should be simplified by removing the rules for R&D-intensive loss-making companies and leaving one scheme for companies of all sizes. This would align with the government's objective of reducing bureaucracy and accelerating delivery. If further support is required for loss-making R&D-intensive companies, this could be delivered through increased availability and range of grants.
- BDO also recommends extending the R&D claim notification deadline, so it aligns with the corporation tax payment date or CT600 filing date. Some companies are required to submit a claim notification form before the end of the claim notification period which can be six months after the end of the accounting period and missing this deadline can invalidate a claim.
- The current six-month deadline is not a standard tax filing deadline and can be missed even where the substantive claim is later fully evidenced in the return. Aligning it with standard corporation tax processes would remove a non-standard administrative burden while preserving HMRC's ability to scrutinise claims.

7. Research and Development Tax Credits Statistics: September 2025 (GOV.UK)

Reform the Enterprise Investment Scheme to support start-up and scale-up growth

- Entrepreneurship is critical to economic growth as it supports job creation, investment and innovation. However, the tax system is often regarded by entrepreneurs as a constraint rather than an enabler. The Enterprise Investment Scheme (EIS) is one area where the tax regime can be made more effective, building on the changes to EIS and VCT investment and gross asset limits from April 2026.
- BDO recommends raising the annual cash subscription limit to a more realistic sum for individuals attracted to EIS. This could be targeted at individuals who meet the 'business angel' tests. BDO's view is that CGT deferral relief is likely to be the most attractive tax relief for angel investors. To limit costs to the Exchequer, upfront income tax relief for investments over £1m, or £2m for knowledge-intensive companies could be lower.
- Alternatively, the government should consider the introduction of an Enterprise Investment Scheme+ for scale-ups. The current system can create a cliff edge between start-up and scale-up stages where companies risk losing investment as thresholds are met. A scale-up focused regime could help companies remain in the UK and continue to access growth capital at the point when they most need to expand.



Encourage entrepreneurs to start, scale and stay in the UK

- Support for start-ups can fall away at the point when firms most need to attract talent and capital. If the UK wants entrepreneurs to start, scale and stay, the tax system should recognise the value of long-term business building rather than rewarding value realisation only on exit. To address this, BDO recommends introducing a lower rate of CGT on long-term exit.
- The government has made clear it wants to encourage a healthier reinvestment cycle, with successful entrepreneurs recycling gains into new businesses. To support this, HMT could create a broad CGT reinvestment relief that allows CGT to be deferred where proceeds of selling a business are reinvested into another qualifying UK business.
- While it is not possible to reliably estimate the likely cost of such a reinvestment relief, part of the cost could be offset by abolishing Business Asset Disposal Relief (BADR), which would save approximately £800m a year, according to HMRC's estimates[8]. BADR currently applies at 18% for gains on qualifying assets disposed of from 6 April 2026, following a 14% rate between 6 April 2025 and 5 April 2026[9]. Rebalancing support from relief on exit towards relief for reinvestment would better support a 'start, scale and stay' approach and be a far more eye-catching relief than BADR, which is now worth so little as to have minimal impact on start-up behaviour.
- When combined with a lower rate of CGT on long-term ownership of assets, a reinvestment relief would dramatically change perception of the UK tax environment for entrepreneurs.

8. Tax relief statistics (January 2026) (GOV.UK)
9. Business Asset Disposal Relief: Eligibility (GOV.UK)

Tax Simplification

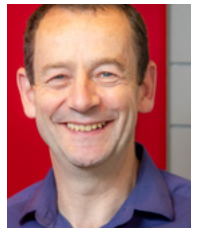
Reform VAT to reduce the growth cliff edge

- The current VAT registration threshold set at £90,000 creates a clear cliff edge for small and growing businesses. It is higher than any EU Member State and among the highest in the OECD[10].
- However, there is evidence that businesses approaching the threshold slow their growth. IMF analysis has found that annual growth in turnover slows by around 1 percentage point as businesses approach the threshold, with no compensating surge once the threshold is crossed[11]. Tax Policy Associates has also suggested that around 26,000 businesses may be limiting growth to avoid crossing the VAT threshold[12].
- It is evident that the VAT threshold can act as a growth brake. BDO therefore recommends replacing the sharp threshold with some form of tapered model which gradually increases the VAT rate as revenues rise, reducing the incentive for businesses to limit growth to stay below the threshold.
- To mitigate the risk of creating further complexity, we suggest VAT reporting and payment should be implemented through the simplest possible mechanism, such as by adopting the best features of the flat rate scheme. Introducing the transitional regime alongside a ‘VAT split payment regime’ for all businesses so that VAT payment is automatic would also be simpler for businesses and carry less error/underpayment risk for them.

10. Increasing the VAT registration threshold (GOV.UK)
11. Small Firm Growth and the VAT Threshold Evidence for the UK (IMF)
12. Is VAT stopping 26,000 businesses from growing? More on the VAT growth brake (Tax Policy Associates)

Provide longer-term certainty for internationally mobile founders, investors and senior executives through FIG reform

- Attracting international talent and investment is an important part of an economic growth strategy. The current Foreign Income and Gains (FIG) regime replaced the remittance basis from 6 April 2025 and is available for a four-year period. However, for internationally mobile founders, investors and senior executives making decisions about relocation, schools, business creation and long-term residence, four years may be too short a period to provide confidence the UK is a stable and attractive base.
- BDO recommends extending the FIG regime from four to ten years, alongside the introduction of a flat entry or annual fee. The objective is to give internationally mobile individuals enough confidence to make long-term UK investment decisions, while ensuring the regime makes an explicit contribution to the Exchequer.
- A longer-term regime with a clear annual fee would better match the time horizons associated with relocation, business formation and sustained investment. It would also help address the risk that the UK is seen as a short-term stopover rather than a place to build, invest and remain.



BDO’s research shows that many businesses are investing an increased amount of time and money on tax compliance. While HMRC may see this as evidence that companies are taking their tax obligations more seriously, it is clear the complexity of the system and the rising compliance burden risk acting as a drag on economic growth.

The government must continue to focus on simplifying the tax system to ease this additional pressure on business.

A simpler corporation tax regime and targeted support for entrepreneurs would support long-term investment, driving growth and job creation which would expand the tax base to generate a higher overall tax take for the Treasury.

Adam Frais
Partner, Head of Tax at BDO

Skills

The UK employment market is hindered by persistent skills shortages and regional disparities. In addition, pressure is mounting on businesses to employ people with advanced digital skills to remain competitive.

Mid-market firms often experience these pressures most acutely. Recent BDO research found that almost a third of mid-sized businesses (30%) say difficulties recruiting and retaining people with the right skills is one of their biggest barriers to growth over the next six months[13]. This is not a new problem but is intensified at a time when firms are already facing rising costs, including National Insurance Contributions and pension reforms, alongside ongoing economic uncertainty exacerbated by geopolitical instability.

Regional inequalities further compound the issue. Areas with higher levels of unemployment may appear to have a wider pool of available labour, but in practice this often reflects a mismatch between the skills people have and the roles employers need to fill. This disparity restricts the ability of mid-market firms, key local employers, to grow and reach their full potential.

13. Skills shortages risk stalling mid-market growth (BDO)

Mid-sized businesses provide more than one in three private sector jobs across the UK. Their contribution to the economy should not be overlooked. However, BDO's research has found difficulties recruiting and retaining people with the right skills are one of their biggest barriers to growth.

To address this, we need closer coordination between business, government, local authorities, and Skills England to deliver more targeted access to training provision, recruitment support, and sector-specific apprenticeships to meet future workforce needs.

Doing so is not only essential for business growth and the long-term creation of employment across the UK, but also for improving social mobility and widening access to opportunity. There is both a commercial and a moral imperative to ensure people from all backgrounds can develop the skills they need to succeed.

Louise Sayers
Partner, Head of People, Culture and Purpose at BDO

BDO recommends the following measures to help address the UK's skills challenges.

Maintain access to priority technical skills through apprenticeship units

While the government is right to prioritise apprenticeship funding for young people and entry-level pathways, reforms should not create gaps in the technical and higher-level skills needed to drive productivity.

Where funding is no longer available for some Level 7 programmes, the government should ensure apprenticeship units are available in areas such as management, leadership, digital transformation and other priority Level 4 and above skills.

This would ensure mid-market firms have access to shorter more flexible training to support their commercial objectives.

Roll out the proposed "clearance style" apprenticeship scheme at pace

The government's announcement of a pilot "clearance-style" system for apprenticeships has been widely welcomed and should now be implemented with a sense of urgency. Similarly to UCAS Clearing, this would ensure unsuccessful applicants are redirected to other suitable opportunities in their area.

The government will need to work closely with employers on the design and implementation of its proposed scheme to ensure practical realities, such as annual recruitment cycles and intake timetables, are appropriately considered.

Ensure Skills England actively considers intelligence gathered by Local Skills Improvement Plans (LSIPs)

BDO recommends mid-market firms should have a clearer role in shaping local and national skills policy given their importance to regional economies and the distinct workforce challenges they face.

The government should demonstrate how evidence gathered by LSIPs from mid-market employers is informing Skills England's decisions, including in relation to the provision of apprenticeships, modular training and funding priorities.

Regional vacancy reduction targets should be used to track whether the system is responding effectively to local labour market needs.

Skills

Keep priority university routes affordable while expanding technical and apprenticeship pathways

A successful skills strategy should not force a choice between apprenticeships and higher education. The UK's world leading universities are an integral source of talent and the country's offering to international investors.

The government should keep university financially accessible through targeted bursaries and maintenance or fee support for courses linked to national and regional skills needs.

Universities receiving this support should be required to show how local authorities and businesses have helped shape course content, ensuring this provision reflects employer demand, particularly in priority sectors such as manufacturing and life sciences.

Create pathways to reskill under-utilised talent into priority sectors

With youth unemployment jumping to an 11-year high[14], the government should introduce a targeted national programme for reskilling graduates not in sustained employment and help them transition into roles in priority shortage sectors. This should include short modular training linked to employer demand, and financial incentives for mid-market firms to recruit and retrain candidates who have a degree but do not currently meet all role requirements and fall outside of the current framework.

These pathways should complement the apprenticeship system, offering a faster and more flexible route for mid-career or graduate reskilling where full apprenticeships may not be suitable.

Support mid-market businesses to successfully deliver work experience

Alan Milburn's Young People and Work diagnostic report notes that entry routes into work must be strengthened[15].

Businesses can play an important role in rebuilding these routes, including through work experience as an essential stepping stone.

In May 2025, the government set out its ambition for all young people to complete the equivalent of two weeks' worth of work experience across secondary education (Years 7–11).

BDO fully supports this, however, more must be done to incentivise and enable small and mid-sized businesses to successfully deliver work experience, including flexible placement structures, as well as standardised proformas for risk assessments and safeguarding requirements which present a significant administrative burden for companies.

14. Youth unemployment statistics (House of Commons Library)
15. Young people and work: interim report (GOV.UK)

LSIPs are a critical part of the skills landscape, with Chambers of Commerce at the forefront of delivery. We therefore strongly support the recommendation that Skills England should use LSIP gathered evidence to support its decision making.

Shevaun Haviland CBE
Director General at
the British Chambers of Commerce

Advanced Manufacturing

The government's Industrial Strategy identifies advanced manufacturing as a priority growth sector and a foundation of long term productivity, exports and regional prosperity.

According to Make UK, as of last year manufacturing contributes £220 billion to national GDP, providing 2.6 million jobs and accounting for 48% of UK business R&D[16].

Despite playing a critical role in the government's growth agenda, anchoring larger supply chains, employing significant regional workforces, and possessing strong potential for rapid scaling, mid-sized manufacturers remain disproportionately exposed to uncertainty around skills, energy costs and exports.

Skills shortages remain a pervasive constraint for UK manufacturers, especially mid-sized firms, with 30% of mid-sized manufacturers struggling to find and keep staff with the right skills, according to recent BDO research[17].

At the same time, UK gas prices have been rising at their fastest pace in recent history, with conflict in the Middle East exposing Britain's vulnerability to the uncertainty of wider geopolitical turbulence and reliance on foreign energy resources, as well as causing large scale disruption to exports.

The growing queue for grid connections, driven in part by large load demand and rising use of AI, compounds the issue, tightening constraints on manufacturers seeking to expand or modernise, particularly those without the scale to "jump the queue."

16. UK Manufacturing: The Facts 2025 (Make UK)
17. Skills shortages risk stalling mid-market growth (BDO)

To unlock the full productive potential of mid market manufacturers, BDO recommends the following actions.

Implement a one-stop shop for mid-sized business export support

Mid-market manufacturers typically find export support is fragmented, hard to navigate, and overly scheme driven rather than user driven. This issue has become more acute in the context of global trade volatility.

The government's Trade Strategy introduced the Ricardo Fund and expanded UK Export Finance capacity, including a Small Export Builder product intended to improve SME access to export insurance and finance. However, it is unclear how targeted to mid-sized firms this is.

A light touch mid-market concierge could:

- Provide a human point of contact for firms overwhelmed by multiple schemes.
- Offer a triage system, matching each business to the right programme (including UKEF products and market access initiatives).
- Use local data to identify firms with untapped export potential and target outreach accordingly.
- Help firms prepare export documentation and readiness packs to reduce admin load on leadership teams.
- Flag relevant procurement opportunities and market-entry programmes to overcome the "too hard to navigate" barrier raised by mid-market businesses.

Advanced Manufacturing

Reduce energy costs and clarify eligibility for the British Industrial Competitiveness Scheme (BICS)

High industrial electricity prices continue to undermine UK manufacturing competitiveness. The government has committed to reduce costs for industry by 25% via the British Industrial Competitiveness Scheme (BICS), which is designed to exempt eligible businesses from the indirect costs of policy levies (RO/FiT/Capacity Market) from April 2027[18]. While this could transform the UK's industrial landscape, manufacturers are still awaiting clarity on the final scheme design and eligibility criteria. To be fully effective, the government must ensure the scheme is implemented as quickly as possible and reaches a wide scope of manufacturing companies.

Alongside BICS, the government is increasing support for the most electricity intensive firms through the British Industry Supercharger, raising the discount on electricity network charges from 60% to 90% from April 2026, benefiting around 500 businesses[19]. However, Supercharger eligibility is tightly defined through sector and business level tests, meaning many mid-market manufacturers will remain locked outside this support even where energy bills materially constrain growth.

The government should:

- Introduce energy cost relief targeted at mid-sized firms, with priority given to firms that are ineligible for current relief schemes, including those outside the Supercharger cohort and those that may fall below BICS thresholds but still face uncompetitive costs.
- Review current eligibility criteria for energy cost relief schemes. Make UK is right to advance the case for a wider review of current eligibility criteria[20]. For example, the use of Standard Industrial Classification (SIC) codes to determine eligibility for certain higher-level, non-domestic energy cost relief schemes excludes many small but critical suppliers.
- Publish an eligibility map, a timetable for onboarding firms, and clear interaction rules between BICS and Supercharger support so firms can understand the combined effects and avoid uncertainty when making decisions.

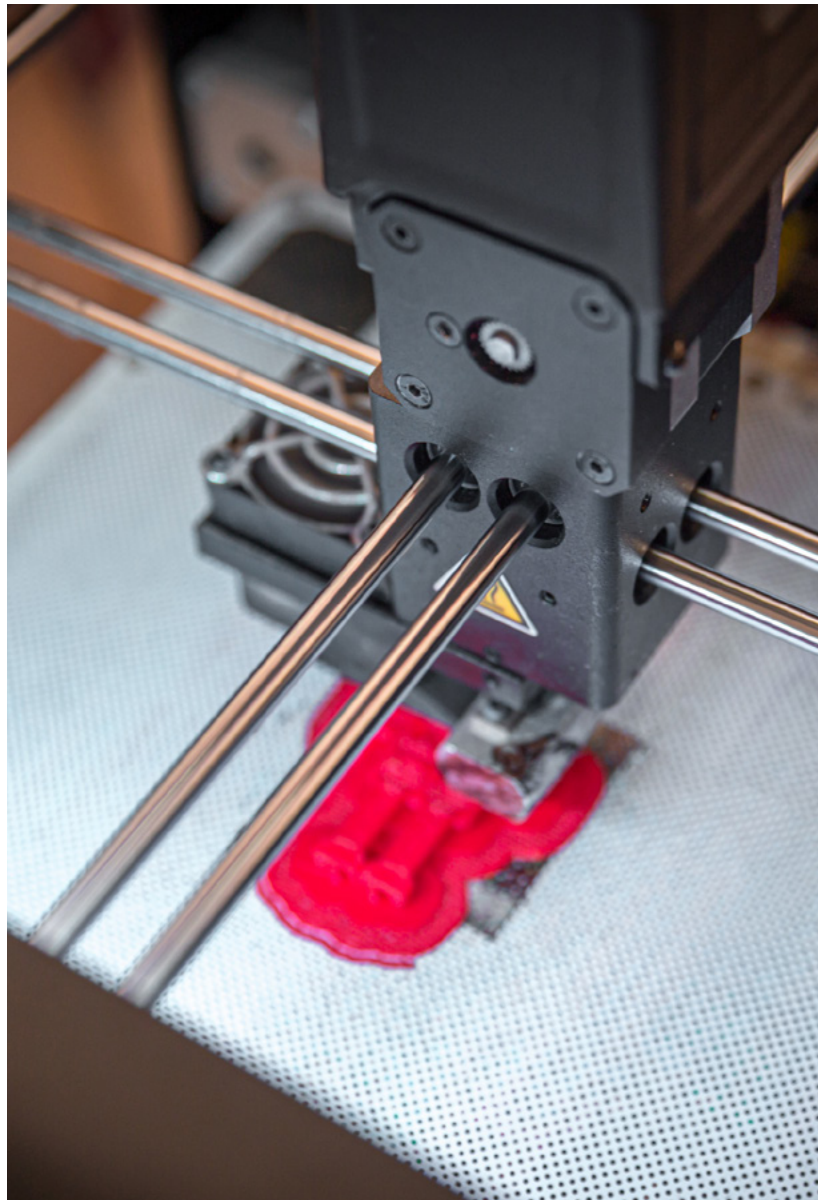
18. Government cuts electricity bill for 10,000 manufacturers in boost for UK competitiveness (GOV.UK)
19. British Businesses to Save over £400m a Year as Government Slashes Electricity Costs (GOV.UK)
20. Why Cutting Energy Costs Is Critical to the Future of UK Manufacturing (Make UK)

Treat grid access as an industrial competitiveness issue (not just an infrastructure issue)

Manufacturers' ability to invest is constrained not only by energy prices, but by the ability to connect new capacity to the grid in a timely way. For mid-market manufacturers, often less able to negotiate bespoke solutions, this raises the risk that capacity expansions are postponed or relocated.

The government should:

- Publish transparent prioritisation criteria for grid access that recognises supply-chain and regional employment impacts.
- Ensure any acceleration service explicitly supports mid-market manufacturing projects rather than only the largest strategic investors.
- Provide clearer guidance to firms on how to navigate connection queues and what evidence is required to qualify for faster routes.



Advanced Manufacturing

Tackle the skills crisis with SME specific metrics and a review of the apprenticeship levy

Manufacturing faces persistent skills shortages. Make UK analysis indicates 55,000 unfulfilled long-term vacancies in 2025 in manufacturing, costing an estimated £6bn in lost output each year, a burden that mid-sized firms are less able to absorb due to recruitment lead times and wage pressures[21].

The government should:

- Mandate Skills England to include engagement with mid-sized firms, including minimum SME engagement targets, regional delivery plans and vacancy-reduction targets reported regionally.
- Review and uplift Level 2 and Level 3 apprenticeship funding bands to reflect the true cost of delivery. While recent apprenticeship reforms are a good step towards improving flexibility and access to lower-level apprenticeships, without addressing underfunded bands, providers will continue to withdraw, limiting employer access to critical entry-level skills in sectors such as manufacturing.

Support practical technology adoption in the mid-market manufacturing base

The government should continue and strengthen its support for mid-market advanced manufacturers to identify and adopt new technologies in a practical, commercially viable way. While the ambition to digitise and automate UK manufacturing is clear, many mid-sized firms still struggle to move from awareness to implementation.

The government should:

- Increase funding for Catapult centres to support mid-market manufacturers with technology adoption audits, feasibility assessments and implementation planning.
- Create a clear, government backed pathway that helps firms move from awareness to implementation, combining technical advice, workforce training and access to finance.
- Use match funding, innovation loans or enhanced capital allowances to reduce the upfront risk of adopting new technologies.

Mid-market companies occupy a critical space in the manufacturing infrastructure, supporting both lower tier companies downstream and tier one and two companies upstream. Their importance in vital supply chains across all sectors cannot be underestimated.

Given the increase in global instability, technological acceleration, and the ability of capital and people to move around the globe, it's vital that we retain as much advanced manufacturing capacity in the UK as possible.

This means setting a policy framework that allows mid-market companies to upscale through investment in innovation, technology and skills whilst at the same time boosting export support. If we do this then these critical companies will continue to ensure advanced manufacturing plays a key role in the future of the economy.

Stephen Phipson CBE
Chief Executive, Make UK

21. Skills for Success: The Reforms Essential to Our Economic Future (Make UK)

Life Sciences

The government has set out its ambition to make the UK the number one life sciences hub in Europe by 2030.

Britain's foundational strengths in the sector are clear. The UK is a globally leading scientific research centre, home to 16 of the world's top 100 universities for life sciences and medicine, with respected academic institutions matched by specialist research infrastructure.

In addition to pharmaceutical giants AstraZeneca and GSK, the UK boasts a vibrant environment for biotechs and spinouts, third only behind the US and China, and a highly skilled talent pool.

However, to realise the sector's full potential and secure a competitive advantage internationally, we need to better support the UK's most talented entrepreneurs, startups and scaleups to translate their ideas into commercial success.

The UK performs well in discovery and early-stage innovation, but less consistently in scaling and retaining companies. While a high number of businesses are formed, fewer progress through later funding stages, and even fewer remain headquartered in the UK as they scale.

Investor confidence has been undermined in recent years by constraints in clinical trial delivery, slow uptake of innovative treatments and the UK's chronic underinvestment in medicines, resulting in declining venture capital (VC) funding for early-stage businesses. Compounding this, UK pension funds' risk aversion has restricted investment into high-potential biotech companies at a later stage in the life cycle, despite life sciences investments outperforming the wider market in realised returns.

This is particularly problematic for a sector which requires extensive upfront R&D before commercialising and relies upon long-term investment due to the clinical and regulatory requirements involved in taking a product to market.

The UK's funding challenge is not so much a limited depth of capital, but a mismatch between the types of capital available and the needs of life sciences companies at different stages, with the funding gap increasingly concentrated at the post-seed pre-Series A stage.

As a result, many of the most dynamic scalable life sciences companies leave the UK to secure funding, with Britain forfeiting tax revenues and opportunities to generate high-quality skilled jobs in the process.

Life sciences companies do not follow a conventional growth model. They typically operate over extended periods without revenue, require multiple rounds of capital, and transition gradually from research to development and commercialisation. Policy frameworks based on company size or simple R&D thresholds do not reflect this reality and should be reconsidered through this lens.

BDO recommends the following policy interventions to better support the sector's growth.

Introduce more effective tax incentives for long-term investment in UK life sciences

The government must help address the structural barriers deterring investment if we want to build and retain successful British biotechs.

Founders, early employees and investors in life sciences start-ups often commit time and capital over periods of 8 to 15 years before any return is realised. However, existing tax frameworks do not consistently reflect this level of risk and duration. If individuals who have taken significant long-term risk face tax outcomes designed for shorter-cycle businesses, the system fails to reward the behaviour it seeks to encourage.

The government should:

- Create a distinct tax incentive regime for long-duration innovation, adjusting holding period requirements for reliefs to reflect typical development timelines.
- Extend the capital gains tax (CGT) relief eligibility of the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS) from the current three-year holding period to 8 years to encourage the longer-term investment typically required to take a product to market.
- Reduce corporation tax under a more generous Patent Box regime to boost the UK's attractiveness in line with neighbouring countries such as Ireland and Belgium.
- Allow partial early equity release without disqualifying relevant individuals from long-term tax incentives to retain successful scaleups.

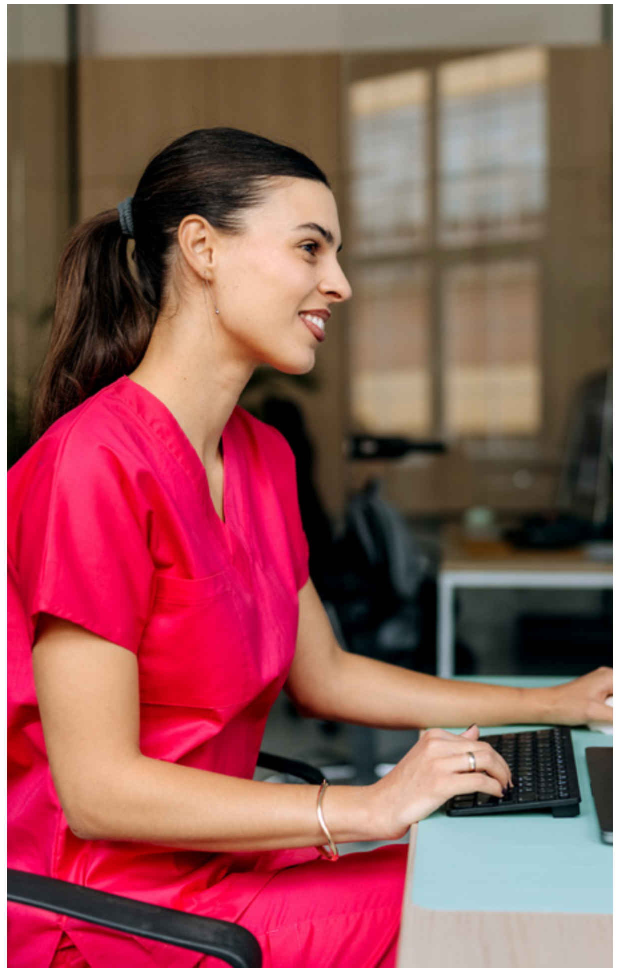
Life Sciences

Increase support for startups and spinouts

To realise the sector's full potential and secure a competitive advantage internationally, we need to better support the UK's most talented entrepreneurs, startups and spinouts to translate their ideas into commercial success.

The government should:

- Establish a filtration system to identify high potential start-ups and spinouts with genuine commercial viability. This should be an industry-led board comprised of experienced private and public sector experts, including academics, industry specialists and investors, to carry out early-stage commercial and regulatory due diligence to identify companies with the greatest growth potential that are financeable at formation.
- Create an online platform to clearly signpost the grants, specialized funds and tax incentives available to life sciences startups. To ensure opportunities are not missed, the government should improve access to this information and the criteria which need to be met to access this funding, including available support from the British Business Bank, National Wealth Fund, UK Export Finance, Innovate UK, Horizon Europe, Life Sciences Innovative Manufacturing Fund, NIHR Invention for Innovation (i4i) Programme, and the Pioneer Group, as well as detailed information relating to R&D tax credits and SEIS/EIS schemes.



Improve regulatory conditions to accelerate transatlantic access and position the UK as an attractive launch market for global capital

Speed, predictability and reliability in regulatory processes are key to determining where companies locate R&D activity, manufacture medicines and vaccines, and launch products.

The UK has suffered from significant challenges in meeting statutory regulatory processing timelines in recent years, in part due to Brexit, and because the UK's globally leading role in the Covid-19 clinical trials slowed its post-pandemic trials recovery.

The government should:

- Sustain the successful implementation of the O'Shaughnessy reforms to reduce clinical trial set-up times is an essential step to rebuild investor confidence by creating a more flexible and risk proportionate regulatory environment.
- Lead regulatory standard setting in emerging fields where global regulatory standards are yet to be set, including the development of a new framework for AI in healthcare.
- Encourage closer regulatory alignment between the Medicines and Healthcare products Regulatory Agency (MHRA) and the US Food and Drug Administration (FDA) to reduce unnecessary duplication, facilitate quicker and smoother transatlantic market access, and help position the UK as a more attractive launch market for global capital. Mutual recognition and international reliance routes, including FDA approved pathways for AI, would combat bureaucratic hurdles and speed up the delivery cutting-edge therapies and healthtech. Greater alignment with US standards would also provide more predictable timelines and strengthen the UK's reputation as a world-class destination for clinical trials and life sciences innovation.

Professional and Business Services

The UK is the world's second largest exporter of professional and business services (PBS), with the sector contributing more than £300bn to the economy each year[22]. As of June 2024, there were 5 million jobs in the PBS sector, accounting for 14% of all jobs in the UK[23].

PBS firms play a dual role: they are successful employers and wealth generators in their own right, while also acting as trusted advisors supporting businesses of all sizes and sectors across the UK to grow and scale.

The influence of lawyers, accountants, financial advisers, management consultants, recruiters, IT specialists and marketers extends far beyond their own balance sheets, enabling British businesses to operate effectively, innovate and grow across every region of the country.

As such, the knowledge and expertise provided by PBS firms is not only a commercial asset, but a vital enabler of sustainable economy-wide growth.

However, the sector has reached an inflection point. AI, automation and data driven models are rapidly reshaping service delivery, while firms face persistent skills shortages, rising cyber risks, shifting client expectations and increasing regulatory complexity.

To ensure the PBS sector can meet its full potential, BDO encourages the government to do the following.

22. Business and trade facts and figures.pdf (GOV.UK)
23. Skills England - sector skills needs assessments - professional and business services.pdf (GOV.UK)
24. Labour market and skills projections: 2020 to 2035 (GOV.UK)
25. Skills England - sector skills needs assessments - professional and business services.pdf (GOV.UK)
26. Professional and business services article business.gov.uk international (GOV.UK)

Take targeted action to address the skills gap

People are the single greatest asset for PBS firms, which compete primarily on expertise, judgement and trust. The sector's continued success depends on its ability to attract and retain highly skilled professionals across all regions of the UK. A strong, diverse and future ready talent pipeline is therefore critical not only to the sector's own growth but to the wider economy that relies on PBS firms to support it.

However, this pipeline is under growing strain. According to Skills England, by 2035 the PBS sector will require almost three million new workers to meet projected demand and replace those leaving the workforce[24].

Job increases will primarily be driven by a significant rise in highly skilled professional and managerial roles, while the number of administrative jobs is expected to decline. It is widely expected that increased automation will eliminate some heavily repetitive functions while creating a net gain of new jobs in AI, machine learning and robotics[25].

The government should:

- Commit to targeted investment in training via Skills England to meet future employment demands within the sector. This must include fast-evolving areas such as lawtech and ESG reporting. Skills England should work closely with professional bodies including the Law Society and the ICAEW to develop accredited modules which meet industry specific standards.
- Introduce new mutual recognition of professional qualifications (MRPQ) agreements with priority international partners including the US and EU. This is particularly important for lawyers and accountants given the cross-border nature of their work. Any expansion of MRPQs must operate as a two-way mobility offering, attracting overseas talent while protecting opportunities for UK qualified professionals to gain overseas experience and bring skills back to UK businesses. While these efforts should be led by regulators, it is essential for the government to set the broader strategy and facilitate legal implementation. Given the global reach of the PBS sector, the government should also establish a dedicated PBS engagement platform to inform the work of the Migration Advisory Council and Skills England, ensuring migration and skills policy is aligned with international competitiveness.
- Pilot the recently announced "clearing style" system for apprenticeships with the PBS sector given its scale (accounting for around 14% of UK jobs), strong regional footprint and consistently high volume of apprentice and graduate applicants[26]. Large PBS firms typically have comprehensive assessment centres for trainees and reject thousands of applicants each year who could be redirected to other suitable opportunities in their area.

Professional and Business Services

Encourage the acceleration of AI adoption across mid-market firms

The PBS sector leads the UK economy on AI adoption. However, mid-sized firms lag behind their larger counterparts and the government's PBS sector plan recognises that the digital adoption gap between large firms and the rest of the sector is widening.

The government should:

- Introduce targeted tax credits or matched funding grants to support AI adoption in mid-market PBS firms, not only for skills and training (where the majority of current funding is targeted) but also for investment in AI technologies and wider transformation costs such as integration, data governance and workflow redesign. It is in this wider integration that adoption often fails.
- Build on Skills England's recently announced AI short courses by developing a dedicated multi year PBS modular offer which moves beyond generic AI literacy to role relevant training. Skills England should publish clear regional uptake and outcomes data, working with local authorities to assess whether programmes are reaching the areas where skills shortages are most constraining growth.

The professional services sector is a powerhouse of UK growth and one of our most valuable exports. In addition to accounting for 14% of jobs across the UK, the sector helps facilitate economy-wide growth by supporting businesses of all sizes and sectors to operate, grow and scale.

Maintaining the UK's global competitive advantage is essential. This requires regulatory certainty, investment in infrastructure, more targeted training to equip young people with the right skills, and meaningful support to close the digital adoption gap between large firms and the rest of the sector.

Andrew Radford
Partner, Head of
Professional Services Group at BDO

Prioritise mid-market PBS visibility across regional centres of excellence

As the government establishes PBS centres of excellence across five high potential regions, it is essential that mid-market firms are deliberately included and not overshadowed by large corporates or early-stage SMEs.

There are various issues which disproportionately impact regional mid-market PBS firms, including a variation in skills challenges, with higher wages in London and the South East cited for limiting the talent available to businesses in other regions of the UK.

The government should:

- Establish Mid-Market Advisory Panels within each centre of excellence, involving larger PBS firms, government policy experts, local authorities and mid-market representatives. These panels should help shape regional strategies to ensure programmes, funding, and skills support are appropriately targeted and provide regular direct feedback to the government on what is working and where adjustments are needed.

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