

Mid-market manifesto

Supporting the UK's economic engine

October 2023

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A manifesto for Britain's entrepreneurial mid-market businesses

At the beginning of the year, when the Prime Minister outlined his five priorities for 2023 and Labour Leader Keir Starmer set out his five missions for a better Britain, both noted their ambitions to grow the economy, create jobs and opportunities, and improve productivity across the country.

Politicians are right to focus on these areas, and the success of the UK's mid-market businesses will be essential to making these a reality.



What do we mean by the mid-market?

The UK's mid-sized, high-growth and entrepreneurial businesses are an essential and dynamic element of the UK economy.

Mid-market businesses - those with revenues between £10m and £300m, often AIM listed, and private equity owned businesses, what BDO calls the 'economic engine', should be at the heart of the UK's policy thinking. Innovative, ambitious and at the forefront of developing new technologies, the UK's mid-sized entrepreneurial businesses are engines for growth - seeking growth through their global reach and employing millions of people.

Yet these businesses are frequently overlooked and undervalued by policymakers.

In comparison, the mid-sized companies that largely drive the UK economy remain relatively unknown, their issues and opportunities unaided. Effectively these firms often fall into a policy and profile gap: too small to make their voices heard amongst larger high-profile enterprises but too big to take advantage of the attention given to start-ups.

Part of the reason for this relative obscurity is that this segment of business is hard to define. Mid-market firms cover a broad swathe of the UK economy and encompass family-owned businesses, private equity-backed companies, AIM-listed and main market businesses.

But despite the variety of shapes, sizes and funding structures, these businesses share some common characteristics. They are entrepreneurial and ambitious, they are high-growth and fast-developing, and they are innovative - breaking the mould within their sectors.

According to RBS, a boost of 1% to the UK's high growth mid-sized business population would drive an additional 238,000 jobs and £38 billion to Gross Value Added ('GVA') within three years. If these businesses succeed, so does the UK.

They also already punch above their weight in economic terms. Despite making up around 1.5% of total businesses in the UK, they are responsible for one in four jobs and a third of UK revenue.

As we approach an election, we believe this is the time to stand up for the mid-market and fight its corner. We don't yet have all the answers, but we hope that the policy ideas below provide food for thought and kick start conversations with policy makers.



Set HMRC and the tax system up to help mid-market businesses succeed

As firms grow, the complexity of dealing with their tax obligations increases. Mid-market businesses in the UK are often subject to the same complex tax obligations as large corporations, yet don't have the Government support, or teams in place to ensure they are able to help navigate them.

HMRC's own 'tax gap' estimates show that compliance failures by SMEs have increased in recent years. To free mid-market businesses up to focus less on admin and more on growth, the Government should:

- ▶ **Ensure HMRC gives mid-market businesses more dedicated support:** Small businesses have a single case handler and large corporates have dedicated teams at HMRC. Meanwhile, mid-market businesses can often be left without a dedicated point of contact. Appointing a similar contact for mid-market businesses would help increase compliance.
- ▶ **Provide a clear, stable and long-term tax roadmap:** Last minute changes to tax policy mean businesses lack the certainty they need for long-term planning and investment in the UK. Mid-market businesses can be particularly vulnerable to uncertainty and we call on government to provide a clear and stable roadmap for businesses tax.
- ▶ **Create a simpler plain-English tax system:** Mid-market business leaders in the UK struggle to navigate the tax system, which is often complex and time consuming. Legislation like the Corporate Interest Restriction rules, requiring corporations to undergo a separate tax return and to do so a year in advance, could be reviewed to be more streamlined, with old rules removed if no longer applicable.
- ▶ **Provide flexibility on paying arrears for pandemic loans:** With pandemic related financial support packages now closed, many businesses are being required to repay costs on these loans all at once, at the same time as they are grappling with a period of high inflation. Post pandemic, businesses are doing well to stabilise back at pre-pandemic levels of trade and profitability and are simply not generating the levels of cash required to make accelerated payments against historic arrears and deferrals. HMRC need to recognise that a business can only afford to pay what its cash flow allows and should therefore approach repayment plans for pandemic liabilities with flexibility, to prevent otherwise healthy businesses from struggling. If payment plans are unrealistic we will see a greater rise in insolvency numbers.
- ▶ **Create a cross-party commission on tax:** As we approach an increasingly divided political climate, what is really required for business is consensus. Establishing a new cross-party commission, backed by the government of the day, would help to develop, and subsequently gain widespread agreement for pragmatic solutions to key issues - such as merging income tax and NIC.



Ensure mid-market businesses have access to capital

For the UK's mid-market businesses to maintain their role as an engine for growth, they need continued access to capital. These businesses are ambitious, looking to move to the next level and expand their offering. If they don't have ways to fund this in the UK, they will look to other markets for funding. To retain these businesses in the UK, the Government should:

- ▶ **Make listing more accessible:** Many businesses that want to float on a stock exchange, might have concerns over how they go about it, and more can be done to support these businesses in doing so. Government should work with the FCA to ensure its proposed reforms to listing requirements are carried out, including plans to create a single equity category, moving away from the current tiered system.
- ▶ **Reform tax rules to boost equity:** Government should foster an environment that encourages investment in the UK's growing mid-market businesses and take more steps to promote 'patient capital' investment in the UK. Similar measures to the EU proposals for a debt-equity bias reduction allowance (DEBRA) to give direct tax relief for equity investment in mid-sized businesses could work well. Government should also work with businesses to review the Enterprise Investment Scheme and Seed Enterprise Investment Scheme, to see how they can be made more attractive to investors. Finally, investment in green tech and knowledge-intensive industries should be incentivised through improved tax reliefs.
- ▶ **Activate tax levers to encourage investment:** Whilst we recognise that the government needs to get value for money from its investment in R&D tax credits, we recommend that a new single scheme for both large and SME businesses is not allowed to become too restrictive and includes higher rates of relief for truly innovative businesses in target industry sectors.
- ▶ **Establish a holistic grants programme:** Grants are vital in helping the UK economy to lead on R&D, technology and green investment. There are over 100 Government grants available to small businesses¹, many of which are capped at businesses with under 250 employees, cutting the mid-market out. Where there are grants available, there is no consistent way of knowing they exist, if you are eligible and how to access them. A new, holistic grants programme would help to foster growth, particularly amongst this group.

¹ <https://www.startuploans.co.uk/business-guidance/get-small-business-government-grant/>



Create a frictionless trade environment for the mid-market

Post-Brexit, there is a real opportunity for the UK to strengthen its role as an exporter by making it more straightforward for mid-market businesses to sell to new markets rather than getting caught up in red tape.

Recent BDO research found that a quarter of British businesses are planning to expand exports or build new facilities abroad within the next six months.

To help unlock the potential of mid-market businesses to achieve the UK's exporting ambitions, the Government should:

- ▶ **Reduce complexity in exporting:** Complexity means that once again mid-market businesses lack the resources to navigate the system. In a recent survey, 32% of businesses called for simplified export regulations and listing requirements, a reduction in bureaucracy would encourage more to take part.
- ▶ **Increase export support for the mid-market market:** Current support is targeted at small businesses. For example, UK Export Finance launched a product in 2022 to help support SMEs to boost global trade through challenging market conditions. This programme could be expanded to include the mid-market, helping them to start or expand exporting.



Ensure mid-sized businesses have the skills pipeline they need

Many mid-market businesses are struggling to recruit for the roles they need to fill to grow and expand.

To address this, the Government should:

- ▶ **Act quickly to reform the Apprenticeship Levy:** We believe plans to develop a more flexible approach to the Levy should be progressed, helping more businesses to invest in the workforce. For example, building on local authorities' efforts to establish an Apprenticeship Levy 'Transfer Fund', by expanding programmes to a national level and giving more mid-market business access to levy funds.
- ▶ **Develop targeted skills and training support for the mid-market:** The establishment of a new mid-market business skills hub would help to provide advice and guidance for this vital market and fill a current gap in government support. Only businesses with fewer than 50 employees are eligible for existing Government support, and bigger corporates will have large, dedicated HR teams that help them to onboard and manage apprentices, meaning the mid-market again miss out.
- ▶ **Establish a strategy to join young people up with local jobs:** Despite positions being available across the UK, young people are often not aware of the career opportunities on offer and default to university as a result. To address this, Government should work with businesses, local authorities and the education system to connect young people to mid-market employers in their region that offer training and apprenticeship opportunities.



Unlock opportunities for mid-market businesses to shift to a sustainable economy

A sustainable future is something that requires all parts of society to contribute to, including the mid-market. Whilst our evidence shows that 99% of mid-sized businesses leaders are aware and keen to engage in the green economy, many don't know where to start. Targeted activity would allow this portion of UK businesses to help the country meet its environmental goals.

- ▶ **Tailored advice for the mid-market:** The [UK Business Climate Hub](#) has launched to help SMEs measure, track and report on their emissions and save money by using less energy. This is a good start but mid-market businesses, which have greater complexities and more stringent requirements, would benefit from tailored advice on how to invest in and/or pivot their companies towards green energy and funding pots available. There is also a huge, at times overwhelming, number of levers and activities that businesses could use to become more sustainable. The businesses we work with are often asking for direction on which ones to follow - we ask government for an integrated approach on reporting through legislative change with one clear definitive requirement that encapsulates what good looks like.
- ▶ **Lead, empower and incentivise businesses to evolve into more sustainable business models:** Most UK businesses recognise that there are both environmental and business benefits from moving into the circular economy but for the mid-market, it can be financially challenging to invest. The Government should introduce incentives, such as reduced taxes on reuse, repair, and remanufacturing activities to incentivise circular designs and business models.
- ▶ **Encourage businesses to utilise broader funding opportunities available to them:** We are in danger of being unable to transition to Net Zero by 2050 without the participation of the mid-market business; government green subsidies for business therefore will be key.
- ▶ **Incorporate green skills into existing training opportunities:** Over a quarter of the businesses we work with, consider a skills shortage to be one of the biggest challenges they'll face this year. Integrating green energy and ESG into more flexible apprenticeships, bootcamps and T-Levels, and creating a statutory requirement for all schools and Further Education institutions to make young people aware of green career pathways available would help to ensure this pipeline is available.



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