



THE FORGOTTEN MEDIUM

Helping Mid-Sized Businesses to Scale Up

By Duncan Simpson, Maxwell Marlow and Daniel Pryor

BRIEFING PAPER

EXECUTIVE SUMMARY

- Medium-sized businesses (MSBs) and their specific challenges are neglected in public policy debates, they are the “Forgotten Medium”;
- The smallest and largest companies in the UK often benefit from government attention, tax schemes, and support programmes that are not offered to those in the middle;
- Scaling up MSBs is another method to boost the UK’s growth prospects. Although the largest firms (exceeding 250 employees) have a higher proportion of UK employees and revenues, MSBs are well-established and can serve as a safer investment opportunity. To that end, a cultural shift should occur among policy makers to ensure that these firms are not neglected;
- Numerous barriers currently exist which make it difficult for MSBs to grow. Many of these relate to the cut-off point of schemes, including the Enterprise Investment Scheme. Others, such as employees lacking the time or income to re-skill, can also prove a block;
- Some immediate policy changes can help alleviate these problems, such as with existing business support programmes, visa and immigration policy, childcare, the planning system, and public procurement. Independently and collectively, these policy changes could help MSBs to scale up;
- Most importantly, the definition of MSBs should change with the maximum number of employees being raised from 249 to 999.

ABOUT THE AUTHORS

Duncan Simpson is Executive Director at the Adam Smith Institute.

Maxwell Marlow is a Director of Research at the Adam Smith Institute.

Daniel Pryor is Head of Research at the Adam Smith Institute.

Policy debate has for decades focused on measures to support small businesses and startups. Big businesses – supported by industry groups and lobbyists – are more effective in making their voice heard too. At the same time, medium-sized businesses (between 50 and 250 employees) have been relatively neglected. They are the “Forgotten Medium” of Britain’s private sector.

Support programmes for medium-sized businesses rapidly taper off as they grow, just as they gain traction. The tax and regulatory burden increases dramatically and suddenly. It is therefore unsurprising that so few British scale ups succeed, as policies exacerbate the challenges they face. UK-wide productivity further languishes as a result, with few businesses succeeding in becoming large.

Helping more medium-sized businesses become large is vital to boosting the UK’s growth prospects. They are lower risk than startups, yet thousands of medium-sized businesses (MSBs) are growing and hiring annually and at a faster pace than small and large enterprises¹. MSBs are also essential to ensuring the proceeds of growth are shared across the UK – such as into the highly electorally contested ‘Red Wall’ seats – and play a vital role in the ‘levelling up’ agenda.

This paper explores the barriers facing MSBs and sets out the policy changes needed to help them scale to become large companies. It will suggest improvements to government business support programmes, how to better access growth capital, skills and labour market reforms, and changes to our tax and public procurement systems.

In short, the objective is that by supporting the “Forgotten Medium”, these businesses will grow larger, boosting economic growth, creating jobs and fostering innovation in the process.

BACKGROUND AND INTERNATIONAL COMPARISONS

UK law defines a medium-sized business (MSB) as meeting at least two of three conditions: turnover of not more than £36 million, a balance sheet less than £18 million, and no more than 250 employees.² The UK government also uses an EU-derived definition,³ which defines an MSB as having turnover of less than €50 million, a balance sheet below €43 million and staffing of less than 250. The former is used principally for company reporting requirements and the latter for procurement activities undertaken by government.

¹ Department for Business, Energy & Industrial Strategy, “Business population estimates for the UK and regions 2022: statistical release (HTML), 6 October 2022: <https://www.gov.uk/government/statistics/business-population-estimates-2022/business-population-estimates-for-the-uk-and-regions-2022-statistical-release-html#:~:text=the%20number%20of%20small%20employing,large%20businesses%20grew%20by%207%25>

² Companies Act, 2006, chap. 12, sec. 465: <https://www.legislation.gov.uk/ukpga/2006/46/section/465>

³ OJ L 124, May 20, 2003, p. 36–41: <https://eur-lex.europa.eu/eli/reco/2003/361/oj>

Other advanced economies have varying definitions.⁴ The US, for instance, also uses both ownership structure and industry type when classifying SMEs: manufacturing has fewer than 500 employees, but mining of copper and iron ore can have up to 1,500. Canada uses employee numbers, with MSBs having between 100 and 499 staff. This allows for greater flexibility in reporting, rather than our more rigid and constraining definitions.

Looking at SMEs more broadly, relative to other developed countries the UK's accounted for 54% of employment and 68% of value added in 2021. For the OECD, this was 68% and 59% respectively.⁵ This implies that SMEs have higher productivity in the UK, and the OECD notes that this is especially the case with micro firms in the UK. The UK also has a more favourable entrepreneurship framework relative to the OECD average. This in particular relates to the relatively low cost of starting a business and the simplification and evaluation of regulations.

But SMEs lag behind in other areas. As both importers and exporters, the UK's SMEs conduct less international trade and their participation in global value chains (multinational production processes) is significantly lower than the OECD average. And their ability to scale up into large

businesses is also impinged by technology: the UK has one of the lowest proportions of SMEs with fast broadband connections.⁶

According to government data, there were 35,940 MSBs in the UK in 2022 (using the employee banding of between 50 and 249 employees). These firms employed 3.5 million people (or 15.1% of employees); turnover was £0.7 trillion (17% of all firms' revenue), or almost £20 million for each MSB.⁷ The figure is even larger at 56,515 MSBs, counting all Companies and Building Societies within the 50-249 employment bands in ONS data.⁸

⁴ Daniel Liberto, "Small and Mid-size Enterprise (SME) Defined: Types Around the World", Investopedia, 21 July, 2022: <https://www.investopedia.com/terms/s/smallandmidsizeenterprises.asp>

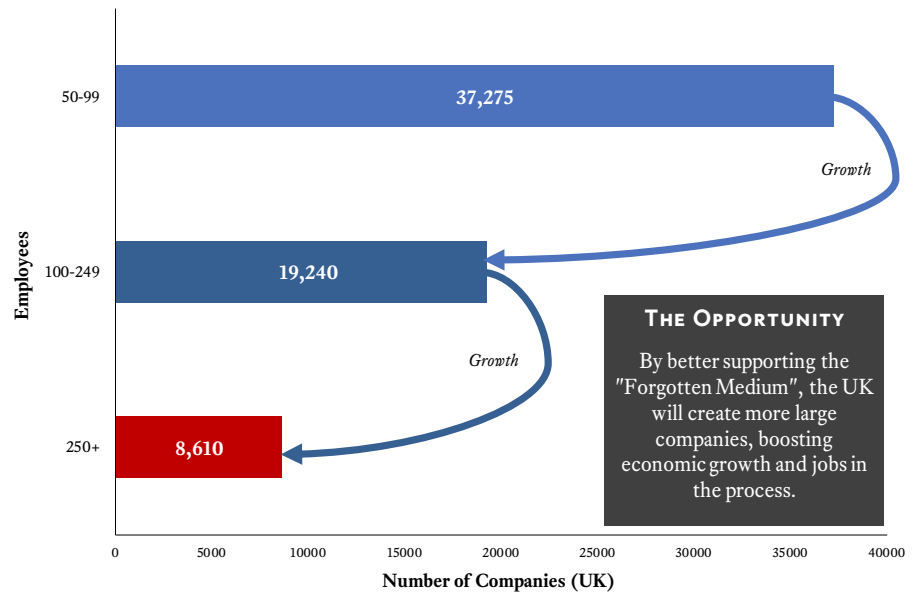
⁵ OECD, "OECD SME and Entrepreneurship Outlook 2021: UK", 2021: <https://www.oecd.org/cfe/smes/UK.pdf>

⁶ OECD, "Share of businesses with broadband contracted speed of 30 Mbps or more", OECD Going Digital Toolkit, 2022: <https://goingdigital.oecd.org/indicator/14>

⁷ Department for Business, Energy & Industrial Strategy, "Business Population Estimates for the UK and the Regions 2022", 6 October 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1106039/2022_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf

⁸ The discrepancy is potentially accounted for by the differences in definition between "employees" and "employment" used in segmenting data. Employees are defined as "People working for a business, but excluding owners and partners" while employment is defined as "People working for a business, including owners and partners". The latter definition includes more people, and thus more organisations.

FIGURE 1: MEDIUM AND LARGE COMPANIES IN THE UK



Source: ASI Analysis into the makeup of the “Forgotten Medium” based on an ONS release of the Inter-Departmental Business Register (IDBR) of 11 March 2022.⁹ For simplicity, the analysis focused on Companies (inc. Building Societies) rather than wider legal entity structures.

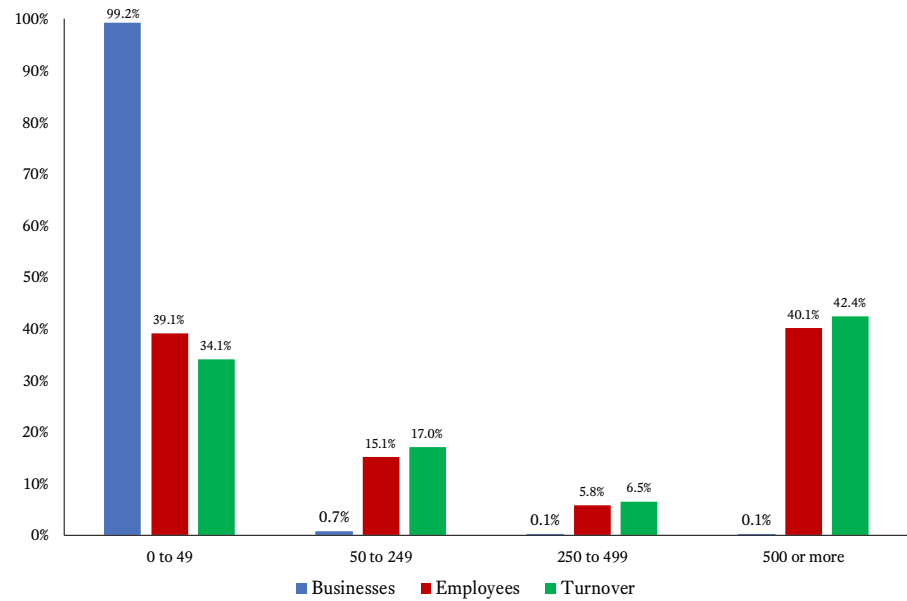
TABLE 1: UK BUSINESSES BY EMPLOYEE SIZE BAND

| EMPLOYEE SIZE BAND | BUSINESSES (#) | EMPLOYEES (000s) | TURNOVER (£ MILLIONS) | BUSINESSES (%) | EMPLOYEES (%) | TURNOVER (%) |
|--------------------|------------------|------------------|-----------------------|----------------|---------------|--------------|
| 0-49 | 5,465,320 | 9,025 | 1,416,908 | 99.2% | 39.1% | 34.1% |
| 50-249 | 35,940 | 3,482 | 707,532 | 0.7% | 15.1% | 17.0% |
| 250-499 | 3,880 | 1,334 | 270,917 | 0.1% | 5.8% | 6.5% |
| 500+ | 3,795 | 9,269 | 1,761,416 | 0.1% | 40.1% | 42.4% |
| Total | 5,508,935 | 23,110 | 4,156,773 | ~ | ~ | ~ |

Source: ASI analysis into the makeup of the “Forgotten Medium” based on an BEIS release of Business population estimates for 2022. This analysis differs from the subsequent ONS data, with fewer organisations in scope, but gives greater insight into overall employment and turnover impact.

The impact of MSBs is even greater if one were to also include businesses with more than 249 employees, but which are still not large enough to really merit being grouped together with large businesses. For simplicity, this initial overview of MSBs uses current definitions.

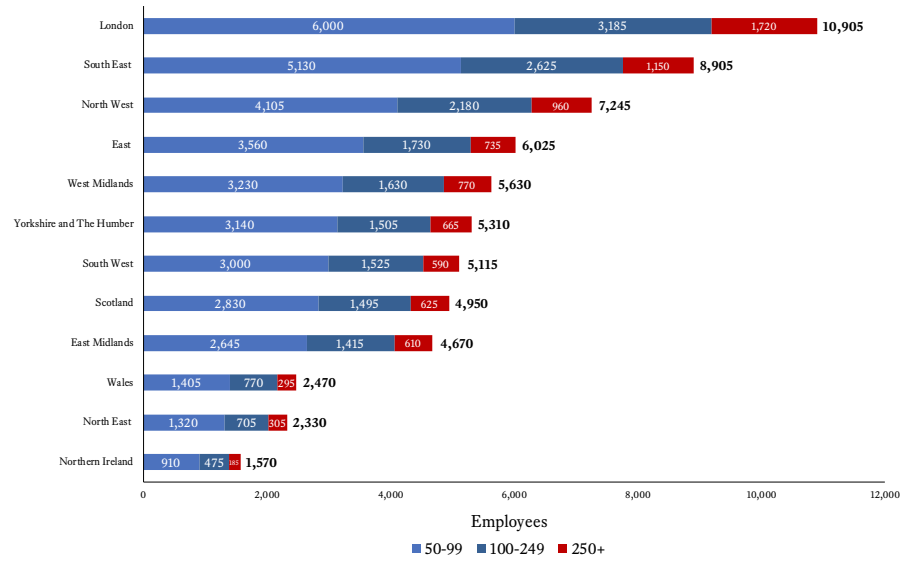
⁹ Office for National Statistics, “UK business: activity, size and location (2022 edition),” September 28, 2022: <https://www.ons.gov.uk/file?uri=/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation/2022/ukbusinessworkbook2022.xlsx>

FIGURE 2: CONTRIBUTION OF DIFFERENT SIZED BUSINESSES IN THE UK

Source: ASI analysis into the makeup of the “Forgotten Medium” based on an BEIS release of Business population estimates for 2022. This analysis differs from the subsequent ONS data, with fewer organisations in scope, but gives greater insight into overall employment and turnover impact.

The UK’s MSBs have a wide geographic and industry footprint. Over 83% of MSBs are outside London and the South East (see Figure 3), with large clusters in the North West, East, West Midlands, Yorkshire and The Humber, and South West (in rank order). Of the top 20 constituencies in the UK who have the highest proportion of MSBs (relative to small or large enterprises), 17 are outside of London and the South East.¹⁰ This suggests that measures that enhance the prospects of the “Forgotten Medium” could be disproportionately beneficial to enhancing economic prospects across the UK, supporting a more balanced growth strategy.

FIGURE 3: NUMBER OF MEDIUM AND LARGE COMPANIES IN THE UK (BY REGION)



Source: ASI analysis into the makeup of the “Forgotten Medium” based on an ONS release of the Inter-Departmental Business Register (IDBR) of 11 March 2022. For simplicity, the analysis focused on Companies (inc. Building Societies) rather than wider legal entity structures.

TABLE 2: TOP 20 CONSTITUENCIES FOR MEDIUM SIZED BUSINESSES (BY ABSOLUTE NUMBERS)

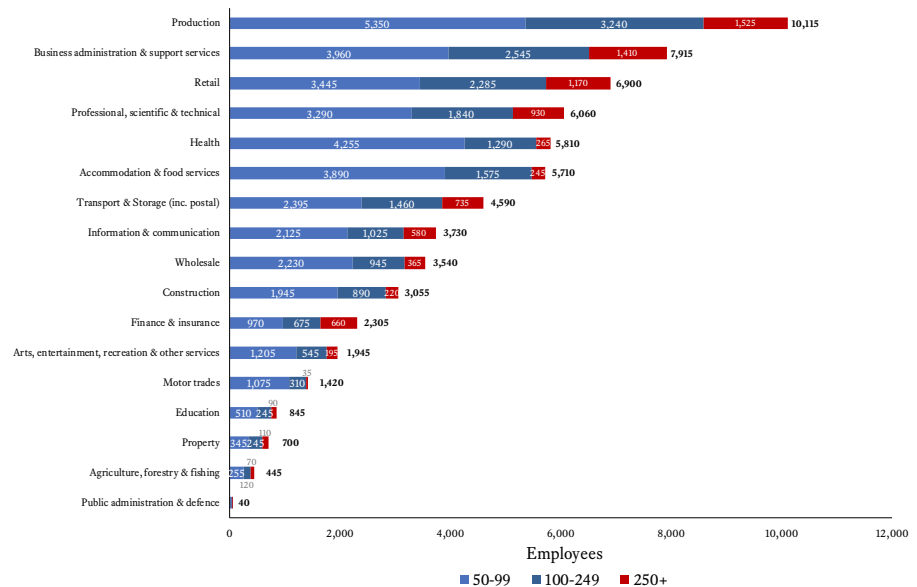
| REGION | AREA | EMPLOYEE BAND | | TOTAL |
|--------------------------|----------------------------------|---------------|---------|-------|
| | | 50-99 | 100-249 | |
| London | Cities of London and Westminster | 1,860 | 1,120 | 2,980 |
| London | Holborn and St Pancras | 525 | 345 | 870 |
| North West | Manchester Central | 415 | 240 | 655 |
| Yorkshire and the Humber | Leeds Central | 415 | 210 | 625 |
| West Midlands | Birmingham - Ladywood | 375 | 190 | 565 |
| London | Islington South and Finsbury | 330 | 185 | 515 |
| London | Bermondsey and Old Southwark | 320 | 190 | 510 |
| Scotland | Glasgow Central | 290 | 215 | 505 |
| South West | Bristol West | 260 | 150 | 410 |
| North West | Liverpool - Riverside | 240 | 130 | 370 |
| Northern Ireland | Belfast South | 205 | 130 | 335 |
| London | Hackney South and Shoreditch | 215 | 80 | 295 |
| East Midlands | Nottingham South | 185 | 100 | 285 |
| London | Poplar and Limehouse | 175 | 110 | 285 |
| South East | Milton Keynes North | 180 | 105 | 285 |
| East | Cambridge | 160 | 110 | 270 |
| Scotland | Edinburgh North and Leith | 175 | 95 | 270 |
| London | Hammersmith | 155 | 110 | 265 |
| North West | Salford and Eccles | 160 | 95 | 255 |
| North West | Stretford and Urmston | 160 | 90 | 250 |

Source: ASI analysis into the makeup of the “Forgotten Medium” based on an ONS release of the Inter-Departmental Business Register (IDBR) of 11 March 2022. This analysis was completed based on all VAT and/or PAYE based local units, not just companies, as the data was not provided disaggregated.

The industry groups of the “Forgotten Medium” are also highly varied (see Figure 4). With strong clusters around production (i.e. manufacturing-type industries), business services, retail, professional, scientific and technical industries, health, and accommodation and food services (i.e. hospitality). This distribution is important to appreciate, because much of the zeitgeist around SMEs is captured by commentariat obsessed with fintech and high tech startups, often with a particular focus on software. This is not to disparage these business models - which have proven highly scaleable - since they have been beneficial to the UK for creating wealth and jobs. It simply demonstrates that policy mak-

ers need to consider the breadth of the “Forgotten Medium” when seeking to maximise the impact of support on growth. Instead of “unicorn hunting” - a reference to the few start-ups that reach a valuation of over £1 billion - a more holistic strategy for MSBs will create wider growth if properly implemented.

FIGURE 4: NUMBER OF MEDIUM AND LARGE COMPANIES IN THE UK (BY INDUSTRY)



Source: ASI analysis into the makeup of the “Forgotten Medium” based on an ONS release of the Inter-Departmental Business Register (IDBR) of 11 March 2022. For simplicity, the analysis focused on Companies (inc. Building Societies) rather than wider legal entity structures.

BARRIERS TO MSBS SCALING UP

Capital raising is considered a barrier on an MSBs’ path to becoming a larger company. Micro and small companies are often more able to utilise a variety of equity and debt financing, including via government support schemes such as Start Up Loans from the British Business Bank. And the largest firms - who have more established product lines, stronger balance sheets, and more evidence of consistent cash flows - also benefit from easier access to capital markets. MSBs, however, are less able to access financing routes available to the extremities of company size.

SMEs as a whole are especially reliant on bank lending, with 85% of their outstanding debt coming from these sources in 2020 (with around half from the largest banks).¹¹ Outside of London, there is a relative lack of equity finance available, with the capital accounting for almost 50% of such deals.

There are, however, signs that this is changing. Between 2017 and 2019, almost all net growth in SME lending has been from smaller banks and alternative sources, such as peer-to-peer lending.¹² Overall, the reliance on established retail banks and

¹¹ Bank of England, “Open data for SME finance: What we proposed and what we have learnt”, March 2020: <https://www.bankofengland.co.uk/-/media/boe/files/fintech/open-data-for-sme-finance.pdf>

¹² *ibid.*

traditional commercial lending suggests that MSBs' access to new sources of financing could be expanded dramatically.

Separately, for MSBs to scale up to larger enterprises, access to high-skilled labour from abroad can be challenging. High Potential Individual visas - granting permission to stay in the UK for 2 years with a qualification from elite non-UK universities - usually have a processing time of 3 weeks and an application fee of £715.¹³ This relatively high cost - and the absence of an easier route to settlement - may well inhibit the most talented international graduates from entering the UK labour market. The list of universities - though prestigious - is also limited in the number of institutions that are included and therefore serves as a restriction on non-UK high-skilled labour.

UPGRADING EDUCATION AND RE-SKILLING

The British skills deficit has contributed to lingering poor productivity and profitability in MSBs. One estimate showed that if skills-led labour shortages remain, there will be a £39 billion deadweight loss to the economy by 2024.¹⁴ But with a comprehensive re-skilling policy solution, McKinsey estimated that success would create a productivity uplift of up to 12%,¹⁵ addressing some concerns of MSBs across the UK. Re-skilling has nominally been the centre of education reform since 2017. However, the National Skills Fund has been found to be difficult to access and lacks effectiveness despite its £2.5bn cost.¹⁶

The Augar Review - published in May 2019 - recommended the creation of a Life-long Learning Loan for everyone over the age of 18, with access to student finance and maintenance loans for all Level 4 - 6 qualifications. At a cost of £600 million between 2024-25 - with an emphasis on empowering consumer choice and industry-led skills training - the policy could help to close the skills gap over the medium term and return a 'profit' for the government's revenues.¹⁷

13 Gov.uk, "High Potential Individual (HPI) visa", accessed Feb 27, 2023: <https://www.gov.uk/high-potential-individual-visa/how-much-it-costs>

14 House of Commons Library, "Skills and labour shortages", January 10, 2022: <https://researchbriefings.files.parliament.uk/documents/CDP-2023-0001/CDP-2023-0001.pdf>

15 McKinsey & Company, "The economic case for reskilling in the UK: How employers can thrive by boosting workers' skills", November 16, 2020: <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/the-economic-case-for-reskilling-in-the-uk-how-employers-can-thrive-by-boosting-workers-skills>

16 Department for Education, "The National Skills Fund: Government consultation response", April 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1065705/National_Skills_Fund_consultation_response.pdf

17 Department for Education, "Post-18 review of education and funding: independent panel report", 30 May, 2019: <https://www.gov.uk/government/publications/post-18-review-of-education-and-funding-independent-panel-report>

MSBs also face numerous fiscal and regulatory challenges, with many schemes and allowances terminating when a company is scaling up and becoming formally categorised as a large business.

The Enterprise Investment Scheme (EIS) offers tax reliefs to individual investors for the purchase of shares in SMEs.¹⁸ This is for up to £5 million in one year or £12 million in a company's lifetime. But the company requirements for the EIS are restrictive: it is only available to firms that have gross assets of less than £15 million and fewer than 250 full-time employees at the time of share issuance.

Similarly, the Venture Capital Trust scheme (VCT) is another method for investors to benefit from front-loaded tax relief by investing in small, unquoted companies.¹⁹ The relief applies to income tax (up to subscriptions of £200,000), as well as income from dividends and capital gains upon disposal of ordinary shares. Yet a VCT has similar limitations to the EIS, with the same employee and gross asset cut-off points applying. This inhibits MSBs' ability to scale up and could lead to a higher preference for debt financing: with potential negative ramifications for financial stability.

However, MSBs can be advantaged through other tax reliefs and credits. The research and development tax relief for small and medium-sized enterprises can be claimed for firms with less than 500 employees and a turnover of below €100 million. The relief allows for firms to deduct 130% of the qualifying costs from annual profit on top of 100% deduction. This can then be used for costs such as staffing directly related to R&D, utilities, materials and software. While the R&D credit is less relevant for services firms who are less capital intensive, the varying criteria that firms can use to access the schemes points to a serious inconsistency in support schemes.

IR35 remains a significant frustration for contractors, agencies or consultants who require specific legal and tax treatment, creating ire among the independent business people who supplement labour and skills shortages.²⁰ The additional paperwork - and threat of tax avoidance accusations for misreporting - has created a difficult position for both MSBs and contractors. Off-role payment rules have constricted the freelance sector's ability to overcome key skills shortages and has further hampered growth in the sector.

The planning system remains a constant challenge for firms of all sizes in the UK. With existing procedures, a single wind-mill investment can require almost 2,000

18 HM Revenue & Customs, "Apply to use the Enterprise Investment Scheme to raise money for your company", accessed Feb 27, 2023: <https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme>

19 HM Revenue & Customs, "Venture Capital Schemes Manual", Jan 30, 2023: <https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm50010>

20 StopIR35, Submission to Parliament, n.d.: <https://committees.parliament.uk/writtenevidence/588/pdf/>

separate documents. This process can take years to complete and review (before considering the financial cost of surveys, lawyers, and interest on immobile loans), before building can begin.²¹ This expensive problem is seen across the country, and while it is difficult to estimate the amount of growth that is forsaken by such bureaucracy, it is clear that it burdens both developers and businesses.²² An extensive simplification, more dynamic and less expensive planning system would create dividends for businesses to house their employees, use new capital, and create growth in communities across the country. This is relevant to companies of all sizes and not merely MSBs.

EXCHEQUER IMPACT AND LEVELLING UP

MSBs contribute a relatively small amount to the exchequer via corporation tax. In 2020-21, receipts totalled £4.6 billion, or 19.5% of the SMEs' corporation tax. For all UK companies, it was 8.9%.²³ In the same year, the largest firms in the UK paid just under 50% of all corporation tax. Scaling up MSBs to larger firms could therefore result in higher receipts for the government.

The levelling up agenda - though more defined than when first announced - lacks clarity in many areas, not least with respect to MSBs. The levelling up white paper of February 2022 makes only one mention of medium-sized businesses specifically and only then with respect to local enterprise partnerships.²⁴ Yet there is a wide geographic spread of MSBs across the UK. Though London and the South East have the highest proportion of firms that are MSBs, the North West, East and West Midlands were third, fourth and fifth respectively.

Although the white paper contains details on the imbalances across UK regions for SMEs' - especially for access to equity finance - there is little that specifically addresses the MSBs. Removing the barriers to growth of these firms could serve as an efficient and financially prudent method to enhance the government's levelling up agenda.

²¹ Sam Dumitriu, "Building Back Faster," Works In Progress, February 24, 2023, <https://worksinprogress.co/issue/building-back-faster>.

²² Orton-Jones, Charles. "Why It's Time to Redraw a Dysfunctional Planning Regime." Raconteur, November 11, 2022. <https://www.raconteur.net/construction/how-bureaucratic-planning-rules-are-holding-back-construction/>.

²³ HM Revenue & Customs, "Corporation Tax statistics data tables 2022", September 22, 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1104711/Corporation_Tax_statistics_data_tables_2022.ods

²⁴ Department for Levelling Up, Housing and Communities, "Levelling Up the United Kingdom", February 2, 2022: <https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

Since the barriers to MSBs' growth are multi-faceted, a variety of policy changes could be introduced to aid their expansion. This incorporates tax, the labour force, planning reform, procurement, skills, and funding access. These measures are likely to benefit other businesses too, but are designed to be particularly attuned to the challenge of the "Forgotten Medium" group of businesses.

CLASSIFICATION AND RECOGNITION

- Cultural change should occur to place greater emphasis on the "Forgotten Medium". These firms are relatively ignored by the commentariat and policy makers compared to small enterprises/startups, and large corporations.
- There has been recent improvement; Research and Development Tax Relief HMRC defines a SME as a business with not more than 500 employees and an annual turnover not exceeding €100 million, with broader ambitions announced under the Truss administration.²⁵ However, that would have only applied to new regulations, with no proper mechanism or review of existing regulations.
- This broader definition needs to be truly extended across government as a new way of classifying SMEs, to capture the Forgotten Medium at the larger end, rather than penalising just as they become large. This has implications across various existing policy areas, and also for retained EU law.
- The government in October 2022 planned to consult on raising the threshold definition for SMEs to have up to 999 employees. This should be implemented as quickly as possible.

EDUCATION & SKILLS

- Full vouchers should be provided for people who enrol in educational areas, to spend on skills development and training through various chambers of commerce, City & Guilds, new schemes created by companies, and colleges. This would ensure greater choice for students, with more effective outcomes in dedication to training.²⁶
- The lifelong learning guarantee (as proposed in the Augar Report) should be implemented. Though the government is currently reviewing responses from a consultation that closed in February 2022, a full trial should be implemented in 2024 with a view to full roll-out in 2025.
- Additionally, lifelong learning should be deployable in a modular fashion, and for technical qualifications. For example, rather than a multi-year course to become a certified mechanic for boilers, a trainee should be able to learn a module focused just on domestic boilers, enabling them to fill specific gaps in the labour market more quickly, and thus becoming more employable for medium-sized businesses more quickly.

²⁵ Gov.uk, "Red tape cut for thousands of growing businesses", 2 October, 2022: <https://www.gov.uk/government/news/red-tape-cut-for-thousands-of-growing-businesses>

²⁶ Hastings, Justine S., Christopher A. Neilson, and Seth D. Zimmerman, "The Effect of School Choice on Intrinsic Motivation and Academic Outcomes." National Bureau of Economic Research, August 1, 2012: <https://www.nber.org/papers/w18324>.

- Training and re-training provision costs should be more tax-deductible for employers than is currently the case. This could enhance financial knowledge for employees of MSBs and smaller firms also wishing to scale up.
- The Apprenticeship Levy taxes employers and is used to fund apprenticeship training. In the West Midlands, Andy Street as mayor has successfully set up a “Transfer Fund” which enables large employers to pledge their unspent levy to fund the training of apprentices at SMEs. This transfer fund approach could be extended nationally, so that all unspent levy revenue from large businesses is diverted towards the forgotten medium. This could support more apprentices while supporting these businesses as they grow with staffing.
- Rolling out this role across other local intermediaries could significantly support the government’s desire to deliver on its agenda of improving the volume, quality and reach of apprenticeships.

TAX

FULL EXPENSING ON INVESTMENTS

- The Annual Investment Allowance (AIA) allows for the deduction of qualifying full value of purchased plant and machinery from profits before tax. It has been temporarily set at £1 million since April 2019 and this level will be made permanent from April 2023.²⁷
- The UK has seen a big improvement in its capital cost recovery (because of the introduction of the corporation tax super-deduction on plant, machinery and some integral features to buildings).²⁸ However, with this coming to an end in March 2023, it is imperative that the AIA cap should instead be abolished and extended to investments in buildings and structures at an unlimited range.
- The AIA applies to sole traders, partnerships, and limited companies. Making it unlimited has the potential to affect companies of all sizes and encourages investment spending.
- Expand R&D expensing credit for large institutions to 20%, as per advice by AstraZeneca.²⁹

RESTORING ENTREPRENEURS RELIEF

- Restore the allowance for Entrepreneurs Relief to £10 million. This could better reward entrepreneurs for building and scaling their businesses successfully. The Relief allows for a reduction in capital gains tax on the disposal of qualifying business assets.
- This would reverse the changes made in the 2020 budget when the Chancellor announced that the lifetime limit of Entrepreneurs’ Relief would be reduced from £10 million to £1 million.

²⁷ HM Treasury, “Autumn Statement 2022”, November 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible__1_.pdf

²⁸ Lisa Hogleve and Daniel Bunn, “Capital Cost Recovery across the OECD”, Tax Foundation, April 26, 2022: <https://taxfoundation.org/publications/capital-cost-recovery-across-the-oecd/>

²⁹ Matthew Lynn, “Rishi Sunak’s tax rise is already backfiring”, The Spectator, 9 February, 2023: <https://www.spectator.co.uk/article/rishi-sunaks-tax-rise-is-already-backfiring/>

PLANNING REFORM

- Housing in the UK is too expensive—particularly in areas with the best job opportunities. Where housing is being constructed, infrastructure does not create the sufficient ground for attracting growth.
- Housing scarcity harms medium-sized businesses in a variety of ways, including longer commute times (negative effects on health through lack of walkability, lower morale, lower productivity)³⁰ and difficulty recruiting (people find it more expensive and less appealing to move within range of better jobs).
- Commercial property in the UK is also too expensive—particularly in areas with the best job opportunities.
 - London has some of the highest cost for office space costs in the world³¹ and demand for office and warehouse³² space continues to outstrip supply across the country.³³
 - This lowers innovation as new ideas are less likely to be generated when it costs more to live and work close to others in major cities.
 - This also directly hinders business expansion with a disproportionate impact on medium-sized businesses, since production and manufacturing is likely to involve higher capital intensity.
- Policy recommendations aimed at addressing these concerns could include:
 - Simplify the developer contribution process by replacing section 106 agreements with a single infrastructure levy.
 - Make it easier to convert properties between different use classes.
 - Allow development on small areas of the green belt within walking distance of train stations, whilst preserving areas of exceptional beauty.

PUBLIC PROCUREMENT

- The Public Services (Social Value) Act 2012 creates artificial and arbitrary boundaries for medium-sized businesses across the country to access procurement contracts. It involves further red-tape and hoop-jumping to provide goods and services. It also requires further civil service time, resources, and budgets to process such applications.
- The Act is contrary to the intentions of the EU’s procurement framework, which seeks to ‘promote open and transparent competition for European public contracts, to support the free market and help ensure value for money in public purchasing.’³⁴

30 Guilherme Rodrigues and Anthony Breach, “Measuring up: Comparing public transport in the UK and Europe’s biggest cities”, Centre for Cities, 3 November 2021: <https://www.centreforcities.org/reader/measuring-up-comparing-public-transport-uk-europe-cities/>

31 Patrick McGregor, “Premium Office Space Around the World: Manhattan Might be Expensive, but London Takes the Cake”, Point 2, 4 August 2022: <https://www.point2homes.com/news/research/premium-office-space-around-the-world-2022.html>

32 Steve Farrell, “Demand for warehouse space continues to outstrip supply, driving up rents”, The Grocer, 9 May 2022: <https://www.thegrocer.co.uk/property-and-planning/demand-for-warehouse-space-continues-to-outstrip-supply-driving-up-rents/667310.article>

33 Scott Reid, “Demand for office space continues to outstrip supply in Glasgow and Edinburgh”, 10 November 2022, <https://www.scotsman.com/business/demand-for-office-space-continues-to-outstrip-supply-in-glasgow-and-edinburgh-3912664>

34 Department for Communities, “EU procurement rules”, accessed February 27, 2023: <https://www.communities-ni.gov.uk/eu-procurement-rules>

- The parts of the Act which inhibit MSBs from considering entering public procurement tenders should therefore be removed.

LABOUR FORCE

SHORTAGE OCCUPATIONS LIST

- In August 2022, the Migration Advisory Committee (MAC) was commissioned to review the Shortage Occupations List (SOL).³⁵ If a role is included on the SOL, it's afforded more relaxed eligibility criteria for sponsored work visa applications. The MAC review was originally due by the end of March 2023 but delayed after issues were discovered with ONS job data.³⁶ It was recently been delayed again by the Home Office³⁷ following news of high net migration figures but has since announced a Call for Evidence.³⁸
- Our current immigration system means that bureaucrats in Westminster centrally plan a large proportion of the labour market. This is despite lacking the necessary local knowledge and responsiveness to changing circumstances. In the long-term, harnessing the power of market forces via a visa auction system would build prosperity and fill skill shortages more effectively.³⁹
- It is vital the SOL is regularly updated to properly reflect the current state of the UK labour market. Sectors such as manufacturing, transport and storage - which are disproportionately composed of medium-sized businesses - are among those facing the largest shortfalls in workers.⁴⁰ Despite this, roles such as HGV drivers, forklift drivers and warehouse operatives aren't currently included on the SOL.⁴¹
- Industry bodies such as Logistics UK, UKWA,⁴² Make UK and the Road Haulage Association⁴³ have highlighted the need for policy reform to address high

³⁵ Migration Advisory Committee, "Letter from the Minister for Safe and Legal Migration to Professor Brian Bell", August 24, 2022: <https://www.gov.uk/government/publications/mac-commissioned-to-review-shortage-occupation-list/letter-from-the-minister-for-safe-and-legal-migration-to-professor-brian-bell-accessible>

³⁶ Adam Payne, "Home Office delays job market review over data hiccup", Civil Service World, September 21, 2022: <https://www.civilserviceworld.com/professions/article/migration-advisory-committee-shortage-occupation-list-review-delayed-home-office-data-hiccup>

³⁷ Adam Payne, "Home Office delays workforce review", Civil Service World, February 15, 2023: <https://www.civilserviceworld.com/news/article/home-office-delays-mac-shortage-occupation-list-review>

³⁸ Migration Advisory Committee, "Guidance for the SOL call for evidence 2023 (accessible)", February 27, 2023: <https://www.gov.uk/government/publications/shortage-occupation-list-call-for-evidence-2023/guidance-for-the-sol-call-for-evidence-2023-accessible>

³⁹ Pia Orrenius and Madeline Zavodny, "Prices not Points: A Post-Brexit Immigration Solution", Adam Smith Institute, March 18, 2018: <https://www.adamsmith.org/research/prices-not-points-a-post-brexit-immigration-solution>

⁴⁰ John Springford and Jonathan Portes, "Early impacts of the post-Brexit immigration system on the UK labour market", CER/UKCE, January 17, 2023: <https://www.cer.eu/insights/post-brexit-immigration-uk-labour-market>

⁴¹ UK Visas & Immigration, "Skilled Worker visa: shortage occupations", 15 February, 2022: <https://www.gov.uk/government/publications/skilled-worker-visa-shortage-occupations/skilled-worker-visa-shortage-occupations>

⁴² Logistics UK, "Industry calls on Immigration Minister for skills shortage support", December 22, 2022: <https://logistics.org.uk/media/press-releases/2022/december/industry-calls-on-immigration-minister-for-skills>

⁴³ Jonty Bloom, "Brexodus: Where have all the workers gone?", The New European, January 26, 2023: <https://www.theneweuropean.co.uk/brexodus-where-have-all-the-workers-gone/>

vacancy numbers but this has so far been unsuccessful. The Home Office should therefore immediately resume the MAC review of the SOL, ensuring the concerns of MSBs are addressed, and its recommendations are implemented as swiftly as possible.

YOUTH MOBILITY VISA

- This scheme is available for those between the ages of 18 to 30 from a small group of rich nations. With evidence of a small amount of savings, you are allowed to study, work in most jobs or be self-employed and set up a company for a period of two years.
- Australia, Canada, New Zealand, Monaco, Iceland and San Marino are the only countries that are allowed to use this scheme.
- The Youth Mobility Visa should be extended to those in the US in the same age group. This could allow a highly educated labour force to temporarily enter the UK for work or study: over 50% of 25-34 year olds have tertiary education in the US, higher than the OECD average.⁴⁴

CHILDCARE REFORM

- The OECD estimates that if workforce participation can be matched between women and men, owing to childcare obligations, the UK would see GDP growth of up to 10% by 2025.⁴⁵
- To aid that, child-staff ratios for childcare should be reformed. The UK's 1:4 ratio is the most perverse in Europe, where Denmark, Germany, and Sweden have no mandatory ratio.⁴⁶ For MSBs, where tight labour markets already cause scale-up problems, sufficient childcare provision would ease many of the employment tensions already felt in the sector.
- The UK has some of the lowest public funding for child-care for size-equivalent European countries, at \$6,200 PPP per child per year, compared to \$8,900 and \$8,700, for Germany and France respectively.⁴⁷
- The state-support system for childcare should be transformed into a single benefit which provides means-tested cash payments to support parents in purchasing care. This emphasises parental choice and secures lines of funding to providers.

HIGH POTENTIAL INDIVIDUAL VISA

- Two changes should be made to the scheme. The list of universities is very narrow at the moment and excludes, for instance, top-tier business schools and other institutions which generally specialise in post-graduate qualifications. It should therefore be expanded to include more of these institutions.
- The application fee should also be reduced from its current level to something more akin to the fee charged for the Youth Mobility Visa. This is to ensure that

⁴⁴ OECD Data, "Population with tertiary education", accessed February 27, 2023: <https://data.oecd.org/eduatt/population-with-tertiary-education.htm#indicator-chart>

⁴⁵ Treasury Committee, "Childcare inquiry", March 25, 2018: <https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/757/75704.htm>

⁴⁶ House of Commons Library, "Staff to child ratios in early years childcare", November 7, 2022: <https://commonslibrary.parliament.uk/research-briefings/cdp-2022-0195/>

⁴⁷ OECD Family Database, "Public policies for families and children: Public spending on childcare and early education", accessed February 27, 2023: https://www.oecd.org/els/soc/PF3_1_Public_spending_on_childcare_and_early_education.pdf

FUNDING

SOLVENCY II

- Proposed reforms to Solvency II were unveiled in the Autumn Statement in November 2022. This could allow the pension industry to unlock more than £100 billion, principally in social infrastructure and green energy supply.
- This could positively affect MSBs by serving as an alternative source of financing for them. The government should ensure delivery of these proposed reforms in 2023 to ensure that they are in place for 2024-25.

THE ENTERPRISE INVESTMENT SCHEME AND VENTURE CAPITAL TRUST SCHEME

- EIS requirements should be modified to ensure that they are more aligned to the R&D Tax Relief. This could entail raising the maximum employee number for a company to 999, turnover of up to €100 million (matching the R&D tax relief) and a balance sheet of up to €86 million. Alternatively, the definition of MSBs used for procurement purposes could instead be utilised (a turnover of up to €50 million and balance sheet total below €43 million).
- The proposed new requirements for EIS should also be applied to Venture Capital Trusts.

SEED ENTERPRISE INVESTMENT SCHEME

- The SEIS scheme should be modified to reduce some of the cut-off requirements.
- The maximum amount that a company can receive via SEIS should increase from £150,000 to £300,000. Additionally, the balance sheet requirements should be changed. Rather than gross assets being less than £200,000, the balance sheet total could be raised to £316,000. This would be equal to one of the qualifying conditions for micro-entity accounts.⁴⁸
- Since this is restricted to companies with less than 25 employees, this has limited appeal to MSBs. However, coupled with potential changes to EIS, this could bring about a more conducive environment for firms transitioning from small to medium and scaling up thereafter.

ADVANCE SUBSCRIPTION AGREEMENTS

- ASAs can be a cost-effective way for smaller firms to raise capital as an equity instrument rather than debt: investors pay subscription funds with shares issued at a later date. This can be done as part of a SEIS.
- However, HMRC ordinarily expects the date from subscription funds paid to share issuance to not exceed 6 months. This should be extended to 12 months as a matter of course and allow small and rapidly growing firms to access equity, rather than a preference for debt.

⁴⁸ Companies House, "Companies House accounts guidance: Micro-entity accounts", March 24, 2022: <https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts#micro-entity>