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20 March 2015

Dear Sirs

Response to Consultation Paper – EU Audit Reform

We thank you for the opportunity to respond to the above Consultation Paper. We would like to state at the outset that we support the majority of the reforms as set out in the EU Directive and Regulations and believe they will contribute to the maintaining, and in some areas enhancing, objectivity and independence of the audit. In addition, we consider they will support the objective of the profession and the Competition Commission to improve accessibility to the audit market for firms of all sizes.

There are however a number of areas of concern in respect of potential unintended consequences that implementation of the Directive and Regulations in the UK could have, in particular regarding:

- Proportional application of the EU audit reforms to smaller entities and private equity companies with listed debt
- Use of a white list approach for acceptable non-audit services
- Inhibition of capital markets in the provision of non-audit services

Proportional application of the EU audit reforms to smaller entities and management bandwidth

Our first and most serious concern is the application of the EU audit reforms to smaller listed entities on the AIM market and other non-EU Regulated markets. The FRC apply the current EU Audit Directives and Regulations to all Listed Entities not just those listed entities that are traded on an EU regulated stock exchange, to which they must apply. In our opinion to include these smaller entities, which rarely, if ever, constitute significant public interest and which do not have the management bandwidth, nor financial resource to accommodate the restrictions that would be placed on them by the additional stricter requirements to be applied to PIEs, risks leading to a constraint of the capital markets, which in turn may make the UK an unattractive place to list. This is expanded upon in our response to Question 4.

Use of a white list approach for acceptable non-audit services

In our opinion, another significant area of concern, which was reinforced by our attendance at the recent FRC event where we heard the views of Audit Committee Chairs, is that to adopt only a white

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list approach risks resulting in Audit Committees considering such a list as services that are sanctioned by the FRC; leading them to no longer give independence the due consideration it deserves. This is particularly relevant if taken together with the cap on non-audit fees which could lead to Audit Committees rubber stamping those non-audit services contained on the list up to the 70% cap. This is expanded upon in our response to Question 15.

Unintentional impact on private equity backed companies

There are an increasing number of companies, often private equity backed companies, which have overseas listed, but non-traded, debt for structural purposes; again, we do not consider these to have the same public interest characteristics as a company that has quoted equity or debt that is freely traded. Unlike most groups of companies, private equity groups commonly have a number of affiliated companies with different auditors, with the resultant restriction on which firms they can approach with respect to the provision of non-audit services. We are aware that the BVCA are responding specifically on this point so have only briefly commented on this aspect in our response to Question 4, however, we firmly believe that such companies should not be subject to the same restriction as might apply to companies with freely traded financial instruments, or PIEs.

Should you have any queries, arising from our responses, or wish to discuss them further please contact James Roberts on 01293 591098.

Yours faithfully

BDO LLP
James Roberts
Partner
For and on behalf of BDO LLP

Cc Detailed responses to consultation questions

BDO's Mid-Market Manifesto

Section One – Auditing Standards

Question One

Do you agree that the FRC should, subject to continuing to have the power do so after the Audit Directive and regulations have been implemented, exercise the provisions in the Audit Directive and Audit Regulation to impose additional requirements in auditing standards adopted by the Commission (where necessary to address national law and, where agreed as appropriate by stakeholders, to add to the credibility and quality of financial statements?

BDO agree that it is appropriate for the FRC to have the flexibility in setting standards to address matters of national law. In respect of implementation of additional requirements, *agreed appropriate by stakeholders as necessary to improve the quality of corporate reporting and audit*, we highlight the importance of balancing these considerations with the fact that most of the UK PIEs operate in the wider international arena and the benefit in ensuring consistency of standards at an international level, through the IAASB standards. It would significantly help business where one member state identifies a need to improve standards that all member states should be involved in their assessment and implementation.

We consider there is a risk, if individual member states implement changes unilaterally, rather than collectively seeking to improve standards of auditing and reporting, that this will result in a patchwork approach to International Regulation and Standards. Given the multi-national reach of entities we are concerned that clarity of standards applied across the group structure could be lost. This would detract from stakeholders' understanding of the standards applied to the audit of the group and as such the confidence they place in that entity and ultimately in the market.

If additional requirements or complete additional standards are to be implemented in isolation from IAASB requirements, these should only be introduced where there is a clear demonstrable need, and following extensive consultation with stakeholders, which can only be achieved through the identification of concerned stakeholders and evidential support of those concerns.

Section 2 – Proportionate Application and Simplified Requirements

Question 2

Do you believe that the FRC's current audit and ethical standards can be applied in a manner that is proportionate to the scale and complexity of the activities of small undertakings? If not, please explain why and what action you believe the FRC could take to address this and your views as to the impact of such actions on the actuality and perception of audit quality.

Question 3

When implementing the requirements of Articles 22b, 24a and 24b, should the FRC simplify them, where allowed, or should the same requirements apply to all audits and audit firms regardless of the size of the audited entity? If you believe the requirements in Articles 22b, 24a and 24b should be simplified, please explain what simplifications would be appropriate, including any that are currently

addressed in the Ethical Standard 'Provisions Available for Small Entities' and your views as to the impact of such actions on the actuality and perception of audit quality.

BDO considers that in relation to non-listed entities the Ethical Standards are capable of proportionate application in both scale and their complexity to the activities of those undertakings and their respective audit firms; importantly they do allow for the auditor to exercise judgement with regards to the individual facts and circumstances. It is important that anyone reading an audit report has the assurance that the same standards of independence and objectivity are required of that auditor, as is required of all auditors. For this reason BDO would support the requirements of Articles 22b, 24a and 24b being implemented in full i.e. apply to all audit firms.

The one area BDO do not consider the current standards to be capable of being applied proportionately, is to a certain subset of those entities listed on a non-EU regulated market, such as those on AIM or CISX. In essence, many of these entities are small, have significant portions of their capital owned by management (or in the case of Private Equity backed companies, 100% of debt owned by the private equity house) and are akin to closely owned SMEs with a portion of funds provided primarily from sophisticated investors. Furthermore they do not pose the type of systematic risk to the market posed by larger corporate entities listed on the Main Market. This is a real concern in relation to the current standards as we consider that they inhibit many of these companies from obtaining the best advice on a timely basis and contribute to difficulties obtaining high quality financial reporting advice and ultimately we question whether this is really required in the public interest. We set out our concerns in respect of applying the new stricter requirements to such entities in our response in the next section but would urge the FRC to consider the proportionality of the application of the existing stricter listed requirements to such entities, when considering what changes need to be made to implement the new EU Directive and Regulation.

Section 3 - Extending the More Stringent Requirements for Public Interest Entities to Other Entities

Question 4

With respect to the more stringent requirements currently in the FRC's audit and ethical standards (those that are currently applied to 'Listed entities' as defined by the FRC) that go beyond the Audit Directive and Regulation:

(a) should they apply to PIEs as defined in the Audit Directive?

In the main, the population of EU defined PIEs represent entities of significant size that are of a Public Interest nature, and often pose a systematic risk to the market. As such the additional requirements, currently contained in the FRC standards, would not appear sufficiently onerous to warrant reversal in respect of those entities and are already embedded in both corporates and audit firm processes and culture. However, BDO are also conscious that the EU definition of PIE will in fact capture a number of small previously unaudited entities, whom may have smaller audit firms that service them that do not currently have the systems in place to manage the impact of the stricter requirements with our response to the BIS Discussion Paper we have recommended the provision of support to such entities.

(b) should they continue to apply to some or all other Listed entities as currently defined by the FRC? If so, which of those requirements should apply to which types of other Listed entities?

We are fortunate in the UK listed market to support a number of different capital market places, other than the main list, that assist smaller companies (many of which could be considered to be SMEs), to raise external finance, mainly from sophisticated investors and professional investment firms, and promote growth. The majority of these entities do not pose the systematic risks to the market that the FRC is seeking to abate. BDO consider the application of the existing more stringent requirement has had a detrimental effect on this class of entity, generally in their ability to obtain the best advice on a timely basis and particularly in respect of the quality of their corporate reporting. We would urge the FRC to remove the more stringent requirements currently imposed on this class of entity; such a move would, without compromising independence in practice, support growth by enabling constituents of those capital markets to obtain timely advice as well as providing an avenue for significantly improving the quality of corporate reporting, which is perhaps the real risk in terms of the Public Interest .

As an illustration of the size of companies listed on the smaller, non-EU regulated markets, BDO has analysed the companies listed on AIM, as at 30 November 2014, by their market capitalisation, as set out below:

Market Capitalisation	**Number of companies**	**Percentage of AIM**	**Representation of Market Value £m**	**% of Market Value**
< £10m	395	35.94%	1,602	2.23%
>£10m < £30m	264	24.02%	4,971	6.93%
>£30m < £50m	123	11.19%	4,754	6.62%
>£50m <£100m	127	11.56%	9,106	12.69%
>£100m <£500m	170	15.47%	33,556	46.77%
>£500m <£1,000m	17	1.55%	11,328	15.80%
>£1,000m	3	0.27%	6,426	8.96%
Total	**1099**	**100%**	**71,743**	**100%**

As can be seen from the above table, only 190 of the 1099 companies listed on the AIM market fall to be monitored by the FRC's AQR team and conversely 909 companies listed on AIM are not within their scope, yet still carry the cost and burden of being defined as listed entities in respect of audit Ethical Standards. In particular we share the FRC's concerns regarding the quality of financial reporting in this section of the market but consider that the Ethical Standards restrict corporates from efficiently obtaining the depth of support that their, very often resource and experience-limited, finance teams really need to drive improvement. For some of the smallest entities it needs to be borne in mind that these teams (maybe single individuals) can sometimes be required to prepare only a single set of UK statutory financial statements each year, so it is perhaps unsurprising that they struggle with the complexities of presentation and disclosure.

BDO fully expect that when the FRC complete their examination of corporate reporting amongst listed SMEs they will find a significant root cause of this inverse correlation between the drop in

quality of reporting standards and size of entity to be the restriction placed on their auditors being able to offer accounting assistance and those smaller entities not being in the financial position to embrace multiple suppliers of services. The Public Interest mandate for allowing more proportional application of Ethical Standards to these companies is clear – the majority pose no systemic risk, rarely have widely dispersed retail shareholders and in fact many of these companies have concentrated shareholding with the attributes of being 'closer' to being owner managed 'private' companies. Indeed the true public interest probably lies with ensuring high quality financial reporting and access to the best advice on a timely basis.

For these reasons we would ask that the FRC revisit the application of more stringent regulations on these entities and consider whether indeed the FRC needs to capture **all** such entities in their definition.

In a similar vein, there are an increasing number of companies, often private equity backed companies, which have overseas listed, but non-traded, financial instruments for structural purposes; these usually have no external ownership and again, we do not consider them to have the same public interest characteristics as a company that has quoted equity or debt that is freely traded. Private Equity firms and Venture Capitalists often invest in small companies capable of high growth and as such make a significant contribution to the UK economy, often bringing International funding into the UK economy. BDO urge the FRC to meet and discuss the implications of both the current definitions and their proposed ones with either ourselves or with the British Private Equity and Venture Capital Association (BVCA) who represent the interests of Private Equity firms and seek to understand the specific nature of these entities and their portfolio companies. The fact that the current Ethical Standards inhibit the auditor from proportional application of the principles to these organisations and instead assert all the prohibitions that would affect a FTSE100 company appears to be an unintended but real consequence of current standards; we consider this requires a remedy.

For the reasons set out in 4 (a) and (b) above, BDO would generally support the FRC's proposal as set out in paragraph 3.14 in which the FRC retain the more stringent regulations that have already been incorporated, these represent positive moves towards improved independence and objectivity, but at the same time we urge the FRC to consider the proportional application of them to smaller listed entities. The use of the existing FRC AQR scope definition (presumably set deliberately to catch entities which are genuinely of public interest) might achieve the objective we set out above without appearing "de-regulatory".

Question 5

Should some or all of the more stringent new requirements to be introduced to reflect the provisions of the Audit Regulation apply to some or all other Listed entities as currently defined by the FRC? If so, which of those requirements should apply to which types of other Listed entities**?**

BDO fully support the FRC and other regulators in overseeing corporate entities that pose a systematic risk to the market and in the monitoring of audit firms that supply services to those corporate entities defined as PIEs. However, BDO would caution against applying the more stringent

new requirements, which have been specifically developed for EU defined PIEs, to entities outside that definition.

Companies listed on the London Stock Exchange (LSE) to which the EU definition of PIE relates, i.e. those listed on the Main Market, accounts for approximately 52.60% of the number of companies listed on the LSE and approximately 97.92% of the total market value. BDO considers this is where the systematic risk to the market and market confidence lies and where the public interest rests. Entities listed on the remaining markets are not of a nature that can affect market confidence and do not, generally, have the management bandwidth, nor financial resource to accommodate the restrictions that would be placed on them by the additional stricter requirements to be applied to PIEs; such a move, in our opinion, risks affecting the attractiveness of these more junior capital markets in the UK, inhibits growth, constrains improvements in corporate reporting and in general is not in the Public Interest.

Question 6

Should some or all of the more stringent requirements in the FRC's audit and ethical standards and/or the Audit Regulation apply to other types of entity i.e. other than Listed entities as defined by the FRC, credit institutions and insurance undertakings)? If yes, which requirements should apply to which other types of entity?

No, please refer to responses to questions above.

Section 4 – Prohibited Non-audit services

Question 7

What approaches do you believe would best reduce perceptions of threats to the auditor's independence arising from the provision of non-audit services to a PIE (or other entity that may be deemed of sufficient public interest)? Do you have views on the effectiveness of (a) a 'black list' of prohibited non-audit services with other services allowed subject to evaluation of threats and safeguards by the auditor and/or audit committee, and (b) a 'white list' of allowed services with all others prohibited?

As set out in the FRC Consultation Paper, non-audit services are split between audit-related services and other non-audit services. Audit related services are often required to be provided by the auditor by law or regulation, or derive naturally from the work performed by the auditor, and pose insignificant, or no threat to auditor independence. In respect of other non-audit services, that do not derive directly from the audit work, these can pose a threat to independence and appropriate safeguards are needed. To date Regulations have specified that in respect of some non-audit services, no safeguards are sufficient to protect independence and these have been rightly excluded from services provided by auditors. In general terms BDO supports the restriction of non-audit services that impact independence could have a material effect on the financial statements, and against which no possible safeguards can be applied and BDO support the use of a Black List for these services.

However, BDO do not support the adoption of a white list approach, for the following reasons:

- One of the most important roles of the Regulator is to oversee an increase in the quality of corporate reporting, through improving standards of Audit Committees, one element of which is their assessment of the independence of the auditor. If a white list of permitted services is used there is a real and significant danger that over time Audit Committees will come to see the list, as a list of those services that are permissible and human nature being what it is, will cease to consider whether there are actually independence issues in relation to the provision of those services. This concern was reinforced by our attendance at the FRC event on 11 March 2015 where Audit Committee Chairs were asking for a white list of services to make it easier for themselves. BDO are strongly against a white list approach if the outcome is that Audit Committees consider them absolved from making decisions on the independence of auditors.
- Given the complexity of entities contained within the definition of PIE and their operations, it is unlikely that a white list approach would be sufficiently detailed to cover all eventualities and would stifle creativity and differentiation between audit firms, which is in direct contradiction to the objectives of the FRC as set out in their Green Paper in 2010. This creativity and differentiation was considered by the FRC as vital to distinguishing audit firms and necessary to create a real competitive market offering.
- Non-audit services that are a threat to objectivity and independence of an audit are well known and are easily identifiable, whereas to assess all services, both current and future, provided by audit firms and assess their impact on the financial statements and auditor's independence is likely to be time consuming, not cost effective and imperfect. The real cost of such imperfections is likely to be at the detriment of the capital market and its innovation.
- EU regulators have consulted extensively, with regulatory bodies in member countries, to develop a black list of non-audit services. Derogating from this list, for any Member State, would result in unnecessary inconsistencies in application across EU borders. As with any derogation from the Regulations, by individual Member States, which impacts on entities operations across borders, there should be an urgent and pressing need that is not addressed by taking a unified approach to setting standards.
- PIEs are accountable to their stakeholders by virtue of their position. Any perceived threats are disclosed in the reports to the financial statements and stakeholders have the opportunity to hold the Audit Committee to account for any perceived threats not adequately safeguarded against. Overriding this accountability with Regulation should not be encouraged without specific material concerns that the process of reporting and accountability is failing.

Question 8

If a 'white list' approach is deemed appropriate to consider further:

(a) do you believe that the illustrative list of allowed services set out in paragraph 4.13 would be appropriate or are there services in that list that should be excluded, or other services that should be added?

BDO consider the services as listed in paragraph 4.13 are appropriate to be provided by the auditor. Other services that could be included, amongst others, are sustainability reviews, PCI DSS compliance, information security audits or accounting software training.

(b) how might the risk that the auditor is inappropriately prevented from providing a service that is not on the white list be mitigated?

We do not believe the risk of inappropriately preventing auditors from providing a service that is needed by the entity and not a threat to independence or objectivity, or will not have a material effect on the Financial Statements, can be mitigated.

Question 9

Are there non-audit services in addition to those prohibited by the Audit Regulation that you believe should be specifically prohibited (whether or not a 'white list' approach is adopted)? If so, which additional services should be prohibited?

No

Derogations in respect of certain prohibited non-audit services

Question 10

Should the derogations that Member States may adopt under the Audit Regulation – to allow the provision of certain prohibited non-audit services if they have no direct or have immaterial effect on the audited financial statements, either separately or in the aggregate - be taken up?

Yes, this is in line with the current ethical standards and by definition if the services provided do not have a material effect on the audited financial statements they could not affect the independence of the auditor's opinion, or have a cross border effect should other Member States not adopt the derogations.

Question 11

If the derogations are taken up, is the condition that, where there is an effect on the financial statements, it must be 'immaterial' sufficient? If not, is there another condition that would be appropriate?

Yes, the condition that it be immaterial is sufficient, no further conditions are necessary. This is the current requirement and we are not aware of any current issues with implementation.

Audit Committee's role in connection with allowed non-audit services

Question 12

For an auditor to provide non-audit services that are not prohibited, is it sufficient to require the audit committee to approve such non-audit services, after it has properly assessed threats to independence and the safeguards applied, or should other conditions be established?

BDO considers it is sufficient to require prior approval by the Audit Committee, and that no further conditions are needed. This is in line with the position adopted by the FRC in their Green Paper in 2010, which supported the quality of the Audit Committees and their role in the management and oversight of the Auditors. Furthermore transparency of these decisions is already in place enabling the key stakeholders to hold the Audit Committee to account for the quality and objectivity of their decisions. BDO strongly support a culture that sees the auditors, Audit Committees and key stakeholders working together to improve and maintain independence and accountability and are concerned that over regulation in this area could inadvertently constrain this balance. Trust in the auditors and the Audit Committee should be the bed rock of the FRC's considerations when considering what regulations need to be imposed.

Would your answer be different depending on whether or not a white list approach was adopted?

Yes. If a white list approach is adopted, we consider there is a risk that Audit Committees will not undertake a detailed consideration of whether the provision of the non-audit services compromises the auditors independence and objectivity, as there is a risk that a white-list is viewed as the FRC pre-approving/sanctioning the provision of those non-audit services by auditors.

Geographical scope of the prohibitions of non-audit services, by the audit firm and all members of its network, to components of the audited entity based outside the EU

Question 13

When implementing the provisions of the Audit Regulation in the Ethical Standards, should the FRC require the group auditors of PIEs to ensure the principles of independence set out in the FRC's standards (including the provisions relating to the provision of non-audit services) are complied with by all members of the network whose work they decide to use in performing the audit of the group, with respect to all components of the group wherever based? If not, what other standards should apply in which other circumstances?

Question 14

When implementing the provisions of the Audit Regulation in the Ethical Standards, should the FRC require the group auditors of PIEs to ensure the principles of independence set out in the FRC's standards (including the provisions relating to the provision of non-audit services) are complied with by all other auditors whose work they decide to use in performing the audit of the group? If not, what other standards should apply in those circumstances?

Our response to Question 13 and 14 is the same. In respect of network or other firms operating outside the EU, The Code of Ethics for Professional Accountants issued by IESBA sets sufficient standards of ethical conduct that any derogation from UK/EU standards can be dealt with through transparency reporting.

Furthermore, BDO would caution the FRC against imposing restrictions on the auditor that cut across the independence considerations of a group's Audit Committee. It is for the group management and Audit Committee to determine what non-audit services can be supplied in other jurisdictions in view

of the independence requirements of the Regulators in those jurisdictions. Part of their decision making process could include the lack of quality audit/non-audit service providers in the area. These type of judgements should not be impacted by constraints placed unilaterally on the auditor and are best dealt with in consultation between the group auditor and the Audit Committee, overseen by key stakeholders.

Whatever approach is adopted it should be consistently applied to network and other firms, to avoid complexities, unintended consequences such as regulatory driven competitive advantages.

Section 5 – Audit and Non-audit Services Fees

Fees for non-audit services

Question 15

Is the 70% cap on fees for non-audit services required by the Audit Regulation sufficient, or should a lower cap be implemented for some or all types of permitted non-audit service, including the illustrative 'white list' services set out in Section 4?

In line with our stance that the market place is better served by good quality Audit Committees, engaged stakeholders and independent auditors we do not support the application of a cap in the first instance. Notwithstanding that we acknowledge that the 70% cap is mandatory; we would not support a reduction in the cap for the following reasons:

- The FRC's own research in respect of non-audit fees demonstrates that leaving the market place to manage itself in this regard has already seen a drop in non-audit fees. With the introduction of the cap, whether at 70% or lower, there is a danger that Audit Committees will be drawn to focusing on whether the cap has been, or is likely to be breached rather than whether the service affects the auditor's independence and objectivity.
- A restriction that will not significantly affect those larger cap companies who have both larger audit fees and a constant need to engage a range of advisers will in fact have a significant affect in respect to SME companies listed on a smaller non EU Regulated exchange such as AIM. In these companies audit fees themselves are comparatively low and additional services such as ad hoc reports, advice and IPOs etc. usually cost significantly more than the audit. It is difficult to see how any cap, averaged over three years, could be applied without significantly affecting these smaller companies' ability to obtain timely advice from advisers already familiar with their business. Again we recommend the FRC review the list of entities to which the stricter regulations apply and exclude AIM listed companies, and other smaller exchanges from application of the cap.
- A further reason not to apply the cap to entities listed on smaller exchanges, in light of the imbalance in fees between audit and non-audit services, is a danger that rather than opening up the market for audit services the competitive market will be created in the more lucrative area of non-audit services, actually restricting the choice of auditor to such entities.

Question 16

If the FRC is made the relevant competent authority, should it grant exemptions from the cap, on an exceptional basis, for a period not exceeding two years? If yes, what criteria should apply for an exemption to be granted?

If made the relevant competent authority the FRC should grant exemptions from the cap, where appropriate, on the request of the Audit Committee. Having set an expectation that exemption may be appropriate the FRC should have good reason not to grant the exemption when requested, not to do so could be seen as overriding the independence considerations of the Audit Committee, resulting in a drop in the confidence placed in the respective Audit Committee by the market and key stakeholders.

BDO do not consider there should be any set criteria, there are many potential services and reasons exemptions could be applied for and each one should be dealt with on a case by case basis by the FRC, in consultation with the Audit Committee.

Question 17

Is it appropriate that the cap should apply only to non-audit services provided by the auditor of the audited PIE as required by the Audit Regulation or should a modified cap be calculated, that also applies to non-audit services provided by network firms?

Question 18

If your answer to question 17 is yes, for a group audit where the parent company is a PIE, should the audit and non-audit fees for the group as a whole be taken into consideration in calculating a modified alternative cap? If so, should there be an exception for any non-audit services, including the illustrative 'white list' services set out in Section 4, be excluded when calculating the modified cap?

BDO consider that a modified cap should be used in certain circumstances eg in relation to group audits the modified cap should be used including all audit and non-audit fees of network firms. We also consider that auditor-related services should be excluded from the nominator when calculating the cap.

Question 19

Is the basis of calculating the cap by reference to three or more preceding consecutive years when audit and non-audit services have been provided by the auditor appropriate, given that it would not apply in certain circumstances?

Yes.

Total fees for audit and non-audit services

Question 20

Do you believe that the requirements in ES 4 should be maintained?

Although we do not support the unilateral extension of regulations, the requirements are now embedded in firm's systems. Furthermore we do not consider they are so onerous as to require reversal.

Question 21

When the standards are revised to implement the Audit Directive and Regulation, do you believe that these more restrictive requirements in ES 4 should apply with respect to all PIEs and should they apply to some or all other entities that may be deemed to be of sufficient public interest as discussed in Section 3? If yes, to which other entities should they apply?

BDO consider the requirements as set out in the Audit Directive and Regulation should only be applied to PIEs. These are the entities that pose a systematic risk to the market. We do not consider they should be applied to other entities and would caution against creating a patchwork approach to the application of regulations applied to different types of entities.

Question 22

Do you believe that an expectation that fees will exceed the specified percentages for at least three consecutive years should be considered to constitute an expectation of "regularly" exceeding those limits? If not, please explain what you think would constitute "regular".

Yes.

Section 6 – Record Keeping

Question 23

Should the FRC stipulate a minimum retention period for audit documentation, including that specified by the Audit Regulation, by auditors (e.g. by introducing it in ISQC (UK and Ireland) 1)? If yes, what should that period be?

BDO do not consider it is necessary for the FRC to stipulate a minimum retention period, document retention periods are adequately dealt with by existing legislation.

Section 7 – Audit Firm and Key Audit Partner Rotation

Question 24

Do you believe that the FRC's audit and/or ethical standards should establish a clear responsibility for auditors to ensure that they do not act as auditor when they are effectively time barred by law from doing so under the statutory requirements imposed on audited PIEs for rotation of audit firms?

Yes provided sanctions are proportionate bearing in mind the responsibility also lies with the Audit Committee.

Question 25

Do you believe that the requirements in ES 3 should be maintained?

These are now embedded in both systems and culture and BDO see no need to reverse their application.

Question 26

When the standards are revised to implement the Audit Directive and Regulation, do you believe that these more restrictive requirements in ES 3 should apply with respect to all PIEs and should they apply to other entities that may be deemed to be of sufficient public interest as discussed in Section 3? If yes, to which other entities should they apply?

BDO consider the more stringent requirements in ES3 should apply to PIEs, as defined by EU, only. This would be in line with the implementation of additional more stringent requirements to PIEs and application of standard independence requirements to non-PIEs.

Consultation Stage Impact Assessment

Question 27

Are there any other possible significant impacts that the FRC should take into consideration?

Covered in our responses above.

MAKING THE MOST OF THE MIDDLE

AN APPEAL FOR MID-MARKET GROWTH

A MID-MARKET MANIFESTO

BDO

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FOREWORD

Mid-market companies are an essential, and dynamic, element of the UK economy.

They turnover a combined £1 trillion every year and account for more than a quarter of all private sector employment. Innovative, ambitious and consistently developing new technologies, the UK's mid-market businesses are engines for growth – exploiting globalisation and employing millions of people.

But they can be undervalued and overlooked by government policy.

Whilst large companies grab headlines (and often for the wrong reasons) and the smallest businesses elicit much public sympathy, the mid-market companies that largely drive the UK economy remain unknown, and their issues and opportunities are not often aired. That is not to say that the UK government has ignored their needs – it most definitely hasn't - but it could still do more.

As we begin the run-in to a general election in the UK it is a good opportunity to reflect on the needs of this section of our economy, as all political parties consider what they can do to drive economic growth. In the following pages we examine a number of ideas that we would promote to politicians making difficult policy choices.

Government policy can rarely create the conditions for growth, but it can 'tilt' factors in the right direction to assist mid-market companies to thrive, to create employment and to drive value for UK PLC. In this manifesto we suggest ways in which this may be done.

As well as education, where we suggest a number of areas for consideration, we include initiatives for housebuilders, and manufacturers more generally, and propose some realignment of tax policies to stimulate exports, to create more certainty amongst stakeholders and to enable longer term thinking.

At the same time we suggest that a more enlightened approach to public spending procurement could create more value.

Not all these ideas will be taken up, but we would hope that a potential government would at least consider their merits – encouraging the mid-market – the unsung heroes of Britain's 'real' economy – to help drive the country's economic regeneration and recovery.

Business policy must evolve as quickly as mid-market businesses themselves. You can continue the debate about how best government can support business at www.midmarketmanifesto.com

SIMON MICHAELS
Managing Partner

UK MID-MARKET BUSINESSES

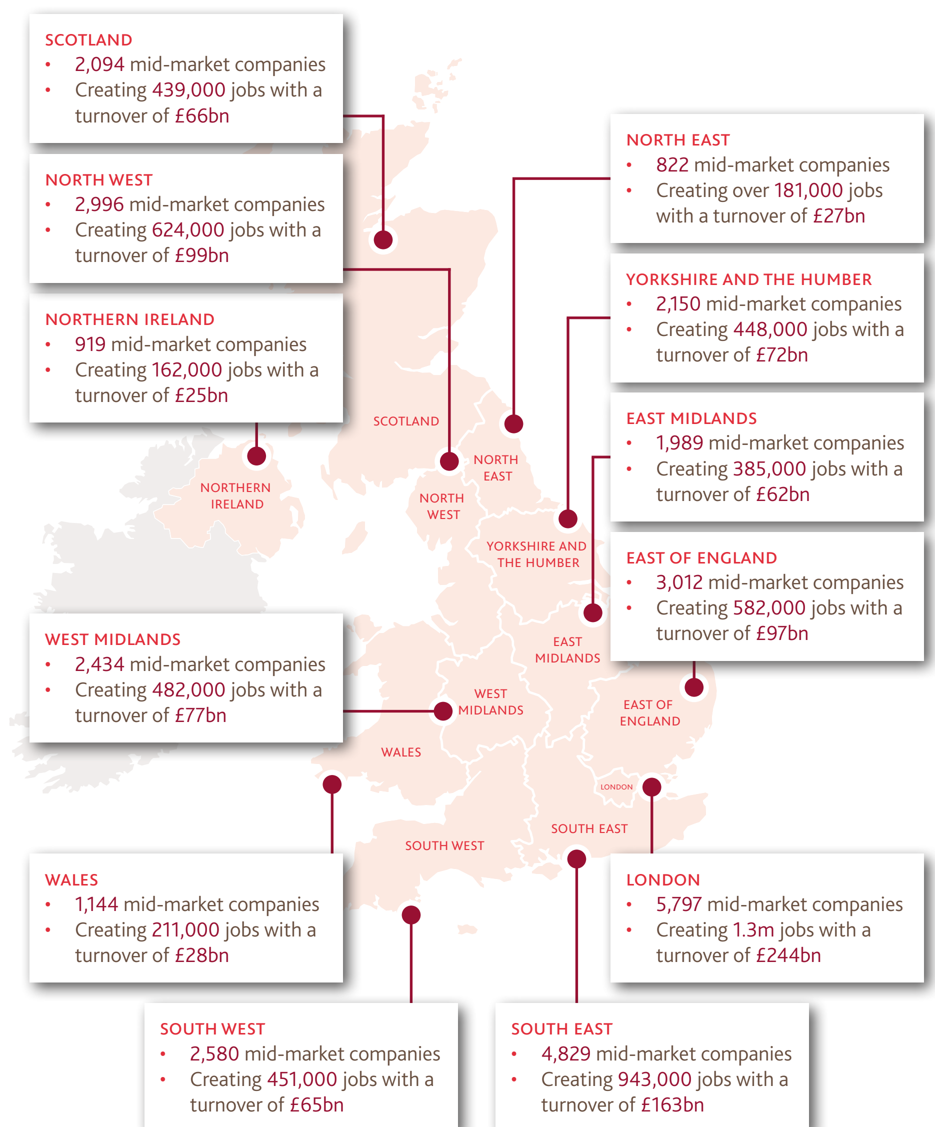
Mid-market businesses make a huge contribution to the UK economy. They each turn over between £10 million and £500 million, but our analysis has focused at the lower end of the range - £10 million to £300 million – firms that we believe face a particular challenge to grow.

The 31,000 firms in this bracket account for:

- Over a quarter of all private sector employment (over 6.2 million jobs)
- Nearly a third (31.3%) of all private sector turnover (£1 trillion each year, in total)
- Over a quarter (28.2%) of the UK's private sector GVA (£320 billion each year).

This success reaches every region in the UK and every sector in the economy. The mid-market provides 34% of all private sector jobs in London, accounting for over 1.3 million jobs; and over a quarter of private sector jobs in Northern Ireland, the East of England and the South East.

We believe that the mid-market has the potential to contribute even more. This manifesto sets out how government can encourage this.



The BDO Mid-Market Manifesto: Oxford Economics Data

1. TAXATION

The UK tax system should encourage mid-sized companies to grow the number of people they employ, increase the value of the goods and services they export, and support growth in the economy at large.

To do this, we need to reform the tax system so that it encourages long-term thinking and provides certainty and support to mid-sized businesses.

ENCOURAGING LONG-TERM THINKING

We must reform the tax system so that it encourages businesses to grow for the long-term. Currently, it encourages a short-term view and short-term gain when it ought to encourage businesses owners to retain their assets and grow them for benefit of themselves, and the economy.

POLICY 1a

VALUE CREATION FLAT TAX: *At the moment, the tax system encourages entrepreneurs to sell their businesses while they are still small, rather than building them up into leading companies. A single tax level on all the ways to release value from a business would end this anomaly.*

For example, an entrepreneur building a business from nothing might grow it to a value of £10 million. He can extract that value by selling it to a third party, or by distributing the value by dividend, or he can pay himself a salary. If he sells it, he can pay 10% in tax. If he issues dividends, he is taxed at c30%. If he takes a salary, he is taxed at c47%. But the reality is that he is being taxed different amounts on the same value extraction. The most tax efficient extraction of value is therefore to sell the business.

So, why not have a system which recognises the fact that the entrepreneur has created a mid-sized business at a value of £10 million? Combine all those rates, and tax at 20% across all three, creating a level playing field. This would not negatively affect business decisions, forcing owners to opt for the most tax efficient option, and may encourage them to take out the value in the business by a dividend, and retain the business.

THE TAX SYSTEM SHOULD PROVIDE CERTAINTY AND SUPPORT

The Inland Revenue should become a partner to businesses, helping them to manage their liabilities and dues, so that businesses have certainty about what they owe. The Revenue already gives this support to large businesses, which will already have significant experience in these matters, but largely ignores smaller businesses which would really value this support.

POLICY 1b

CUSTOMER RELATIONSHIP MANAGERS FOR MID-SIZED BUSINESSES: *The UK's largest 2,000 businesses all have a Customer Relationship Manager (CRM), a single point of contact with the Revenue. This must be extended to mid-sized businesses so that:*

- *Businesses have certainty about what they owe, allowing them to plan ahead*
- *Clear conversations between businesses and the Revenue take place, making it less likely that either side will make genuine mistakes*
- *Businesses are discouraged from considering egregious tax avoidance or planning, because the Revenue is involved in discussions about the level of tax to be paid at a far earlier stage.*

A typical mid-sized business, such as those which work with BDO, may have no connection with the Revenue for five to seven years, and then suddenly receive an aggressive communication.

One recent client example is of an £80 million business which nearly took the decision to fold when it was presented with an (incorrect) assessment for £1 million. That would have meant the loss of 300 jobs, with a very wide impact on an area's economy. This is a rigorous and reputable business, but through lack of engagement, thought and understanding, the Revenue nearly caused it to fold. Had it had a CRM, this would not have been an issue.

2. BUSINESS FINANCE

It is widely understood that some businesses are struggling to find the finance they need to fund their expansion.

Often, debate centres on the perceived difficulty of securing bank loans.

But mid-market businesses need to be encouraged to look beyond the banks to find new sources of finance – and these sources need to be attuned to the needs of ambitious businesses.

GOVERNMENT-BACKED GROWTH FUNDS

The government has recognised the importance of encouraging banks to back ambitious businesses.

The Regional Growth Fund (RGF) provides loans to companies based in areas of England which have traditionally relied on the public sector, to boost investment and employment. The Department for Business, Innovation and Skills (BIS) administers applications for RGF awards of over £1 million with other bodies (such as councils and Local Enterprise Partnerships, or LEPs) making smaller awards. Applications for awards have exceeded funding available in each RGF round, with BIS able to select projects bringing in the most private sector finance. New state aid rules make grant funding more difficult to obtain for larger firms.

LEPs have run loan funding schemes, notably the Growing Places Fund, which has sought to support economic growth through infrastructure development.

POLICY 2a

WIDER HELP FROM GOVERNMENT FUNDS: *The Regional Growth Fund (RGF) is a proven success. Government must extend this model by allowing more businesses to benefit from the funds.*

Finance from the RGF has been matched several times over by private funding. This indicates there is considerable appetite for more grant funding. The £1 million threshold for applications to the main RGF may prevent smaller mid-sized firms accessing funds as there may not be a local RGF scheme they could access and state aid rules may reduce the number of large firms applying for RGF support in the future. Reducing the application threshold (to £0.5 million or £0.75 million) would assist smaller mid-sized firms with attractive investments and ensure BIS has sufficient high quality projects to invest in.

Some local authority and LEP administered schemes have made RGF awards in whole or part as loans, which has added a degree of complexity to the RGF approval process and made funding less attractive to some firms. BIS should review the rationale for allowing loan awards to be made from a grant funding scheme.

LEPs are useful bodies that bring together local authorities to pool grant and loan resources, however, more could be done to encourage best practice to be developed. There is also scope for better information about bodies other than BIS that can make smaller RGF awards.

Such a policy could give a GDP boost of up to £197 million a year by the end of the next parliament, £59 million of this from the mid-market. (Oxford Economics Data)

FUNDING FOR LENDING

For almost two years, the Funding for Lending scheme (FLS) has encouraged banks and building societies to push money into the real economy. This has been a success, and mid-sized businesses are finding it easier to borrow money to fund their expansion.

But this should not take the pressure off FLS. As business confidence increases, so will demand for finance. Banks must be prepared to meet this demand if our economic recovery is to be entrenched.

POLICY 2b

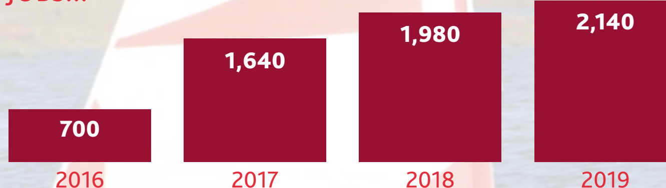
FUNDING FOR MID-MARKET BUSINESS LENDING: *We welcome the Bank of England's decision to focus FLS purely on businesses' finance – this is vital if the scheme is to help businesses employ more people and to grow the economy, rather than simply propping up house prices.*

But this should now go further, with most FLS money earmarked purely for mid-sized businesses. Banks should be able to access lower-cost financing only if they agree to target funding at mid-sized borrowers. As the engine of economic growth, this is where the scheme will be able to have the most impact.

IF THE GOVERNMENT EXTENDED ADDITIONAL FINANCIAL SUPPORT TO THE REGIONAL GROWTH FUND, THIS WOULD SUPPORT ADDITIONAL MID-MARKET REAL GDP OF…

UK REAL GDP OF…

JOBS…



The BDO Mid-Market Manifesto: Oxford Economics Data

3. A KICK-START TO EXPORTS

Sustaining the UK's economic growth relies in large part on how well we can take advantage of the international opportunities available.

Exporting is the life-blood of many mid-sized businesses, and this is key to renewing our role as a trading nation – businesses with the potential to export should be encouraged to take the first steps towards international sales, and those who already do so should be supported as they become global businesses.

However, many mid-sized businesses with the potential to export remain domestic-focused because they lack the knowledge and confidence to pursue opportunities abroad, or fear tax or regulatory complexities.

Tax is central to encouraging businesses to invest in their export ambitions. It can stimulate the investment in people and capital that is integral to the production of goods and services to be exported.

Furthermore, tax incentives, directed properly, can provide the short-term cashflows required to support investment in overseas markets. The government can, and should, make it easier for businesses to take the first step into new markets by reducing the red tape and cost associated with making the move beyond UK shores.

POLICY 3a

REDUCE THE OVERSEAS TAX BARRIERS FOR UK EXPORTERS OPENING A NEW BRANCH OR SUBSIDIARY OVERSEAS: *As and when bi-lateral tax agreements between the UK and other countries are re-negotiated, or a review of the OECD model double tax treaty is undertaken, the UK Government should take the opportunity to agree an exemption for UK businesses when opening a new branch or subsidiary from local taxes up to a de minimis level of economic activity, say £1 million, of total cumulative sales.*

This would allow a UK business to dip its toe in the water of a new territory without incurring a significant tax compliance cost while it evaluates the new market.

By the time the de minimis level has been reached, a UK business should have a better view on whether the economic activity in that new territory is worth further investment. Only at that point would local tax and compliance costs start to accrue.

The cost of this measure would be the cost to the Exchequer of reciprocating the de minimis allowance to overseas companies that enter the UK market for the first time. Given the uncertainty surrounding the issue of when an overseas business becomes liable to pay UK taxes that currently exists, we do not consider that the cost of this recommendation would be significant.

POLICY 3b

VAT ZERO RATING OF SUPPLIES TO COMPANIES THAT EXPORT: *The UK currently allows manufacturers to zero rate their exports. However, it is less generous with reliefs for domestic companies that supply to UK exporters.*

In contrast, Ireland has a more generous relief for regular exporters, where a qualifying exporter is able to inform its suppliers of its export authorisation and those suppliers can then zero rate their supplies to the qualifying exporter. Such a measure provides a VAT cash flow advantage to the exporter. We would recommend that the UK introduces a similar relief to that in operation in Ireland. This would require clear guidelines over qualifying products to take into account the complexity of UK exporters' supply chains. Except for a cash flow timing advantage given to the exporter, this measure would be Exchequer neutral.

POLICY 3c

BUILDING CONFIDENCE THROUGH UK TRADE & INVESTMENT (UKTI) AND UK EXPORT FINANCE (UKEF): *The support given by UKTI is greatly valued by the mid-sized businesses which use its services. Whether it is support for an existing mid-sized exporter to help diversify into new markets; or help to create culturally-appropriate websites, UKTI's support can be vital in helping a mid-sized business to reach the next level.*

Similarly, UKEF helps to take the risk out of taking up opportunities overseas by providing insurance to exporters and making it easier to access finance.

However, too few mid-sized businesses know that these services are on offer. UKTI and UKEF must use their regional offices to actively seek out mid-sized businesses that have the potential to export, and offer their support to get over the initial barriers.

POLICY 3d

REDUCING THE REGULATORY BURDEN: *New exporters often find that regulatory and legal barriers make it harder for them to grow into a new market. In a recent BDO survey, 38% of businesses cited increased regulation as the major barrier to expansion abroad.*

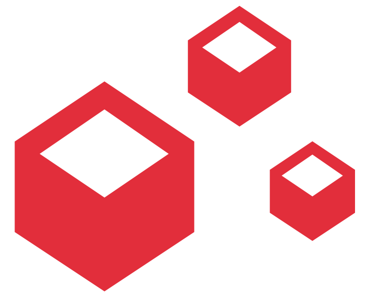
One consideration that grows exponentially when partnering and investing abroad is a business's exposure to bribery and corruption. The UK is rightly leading the charge against global corruption, which is morally wrong and distorts markets. However, the unintended consequences of the UK's Bribery Act can limit mid-sized businesses international expansion.

Practical challenges remain for businesses due to the mismatch between the provisions of the Act and local customs and practices. In its current form, the Bribery Act has created a perception that it is now more difficult to do business with UK firms, and that it is more complicated for UK companies to start exporting.

There is also a clear administrative burden created by the Act. For example, nearly half of the length of some UK Export Finance application forms arises from the Bribery Act.

To minimise this, the government should review the unintended consequences of the Bribery Act and develop a fresh set of guidelines and recommendations for businesses clarifying the purpose, intent and scope of the Act.

THE UK'S MEDIUM SIZED BUSINESSES...

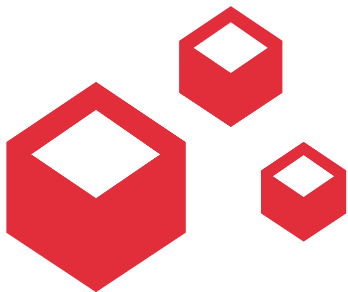


TURNOVER A COMBINED

4. EDUCATION AND SKILLS

Improving education and skills has a huge role to play in helping mid-market companies to thrive.

THE UK'S MEDIUM SIZED BUSINESSES...



CREATE ONE IN EVERY FOUR

PRIVATE SECTOR JOBS

At the grassroots level there is much that can be done. Encouraging the take-up of valuable STEM and language subjects at school and ensuring businesses partner with local schools are two obvious examples. In the arena of apprenticeships, there is more work required to enable mid-sized businesses to compete with European neighbours.

And there is also additional help and training that can be given to already successful business people to take the next step and grow their business.

There is an assumption that just because an entrepreneur has started a business, they will be good at maintaining and growing it. This is not always the case.

Some leaders of successful small businesses struggle to make the leap to leading an established mid-sized company.

Government has a role in making sure that entrepreneurs have access to the skills, training and expertise they need to make the leap from setting up a small business, to running an established company.

POLICY 4a

BUILD AN EDUCATION SYSTEM THAT SUPPORTS GROWTH AND EMPLOYMENT: *The education system should reflect and support the long-term strategic aims of the UK economy. Many of the industries that could be driving growth are currently struggling to attract the talented people they need to flourish.*

This can be because potential employees lack the necessary skills. This is particularly problematic in the engineering, technology and manufacturing sectors, and jobs which require language skills. In other cases, young people (especially school leavers) are not aware of the opportunities available in growing industries, or how they can get their foot in the door.

Solving this requires collaborative action from schools, industry and the government:

- *Businesses should develop links with their local schools, offering work experience placements, and information about the apprenticeships they offer*
- *Schools' careers services should provide up-to-date information on the jobs available, and advice on the skills and qualifications that will help to access them.*

This will feed through to a highly skilled workforce which can drive growth in the decades to come.

POLICY 4b

HARNESS THE POTENTIAL OF HIGH QUALITY APPRENTICESHIPS FOR BRIDGING THE SKILLS GAP, ESPECIALLY IN MANUFACTURING AND TECHNOLOGY SECTORS: *According to the think tank Demos, if England as a whole caught up with the number of apprentices that exist in comparable economies, an additional £4 billion annually would be contributed to UK GDP.*

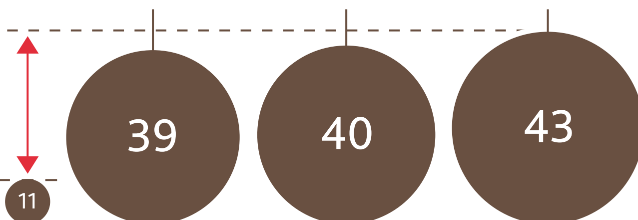
For every 1,000 employees in England there are just 11 apprentices, compared with 39 in Australia, 40 in Germany and 43 in Switzerland.

An increase in the number of high quality apprenticeships on the scale needed is unlikely to be wholly publicly funded but there are a number of simple steps that can be taken to improve the awareness of apprenticeship programmes:

- *Reform the Ofsted assessment system for schools to give some weight to the number and quality of apprenticeship places secured by schools for their pupils. There is evidence which suggests that schools fail to give adequate advice about apprenticeships - this would be an incentive for schools to improve.*
- *Focus incentives in areas where there are acknowledged skills gaps such as technology and apprenticeships.*
- *In return for incentives, businesses should pay apprentices properly to encourage take up of places. The number of apprentices paid below the correct minimum wage increased by 45% in 2012.*

APPRENTICESHIPS

If England as a whole caught up with the number of apprentices that exist in comparable economies, **an additional £4bn annually** would be contributed to UK GDP



POLICY 4c

THE BUSINESS FINANCE FORUM: *In the last year, businesses have begun to find it easier to access finance. But it is not always straightforward for a growing business to navigate its way through the options available, to understand the types of finance available and the implications of their choices.*

Currently, government information about the types of finance available is restricted to static information about sources of help. This should be extended to conversations with business mentors who can discuss the sources of finance available via a Business Finance Forum, to help managers choose the source that is right for them.

POLICY 4d

LOCAL ENTERPRISE PARTNERSHIPS AND BUSINESS MENTORS: *Leaders of mid-sized businesses in every region of the UK should be given the opportunity to meet, and learn from their peers. Local Enterprise Partnerships, working with business groups such as the Chambers of Commerce, are ideally placed to facilitate this.*

Each Local Enterprise Partnership should establish a network of mid-sized businesses in their areas, and arrange regular contact for the group members to keep in touch. As well as networking events, business leaders on the cusp of breaking into the mid-market should be given a mentor – an experienced business leader in their field who is able to guide them through the changes needed to take their business to the next stage.

5. MANUFACTURING

Manufacturing is a vital sector for the UK.

In its various guises, the manufacturing industry employs almost three million people, contributes to approximately half of the UK's exports, and three quarters of business research and development.

POLICY 5a

LONG-TERM THINKING: *The political cycle is shorter than the manufacturing investment cycle. This means that businesses may be deterred from investing if they fear that political change will disrupt their plans.*

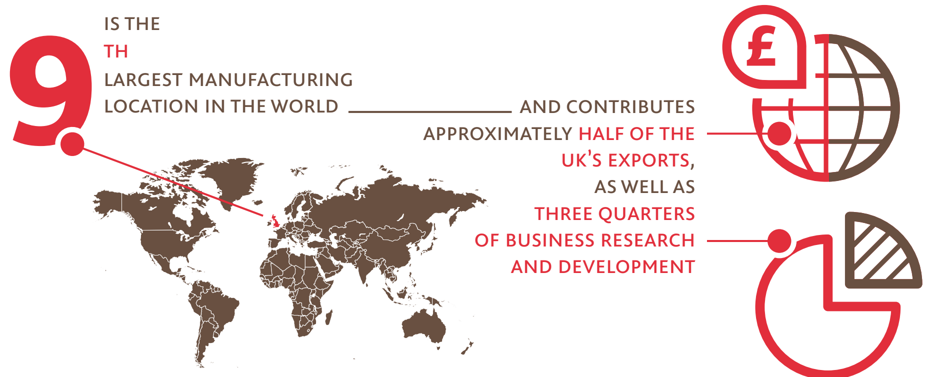
The next government should put in place a long-term manufacturing policy, looking 15-20 years ahead to avoid the disruptions of the political cycle, and be steered by a dedicated Manufacturing Minister.

This mechanism would borrow from the success of Infrastructure UK, which has been established by the Treasury to provide the long-term thinking, expertise and focus that infrastructure, like manufacturing, relies on.

Manufacturers are optimistic: a recent BDO survey of over 1,500 engineers and manufacturers found that most of them believe that manufacturing will account for a greater percentage of the UK's GDP over the next decade.

But the sector needs support if it is to continue to provide the growth we need, especially outside London. Manufacturing is a long-term game – most businesses in the sector rely on large capital investments which pay off over years or even decades. Businesses need stability and certainty in government policy if they are to commit to the investment that the country needs to grow.

UK MANUFACTURING



The BDO Mid-Market Manifesto: Oxford Economics Data

POLICY 5b

SET FORMAL TARGETS FOR MANUFACTURING GROWTH: *It is widely understood that a stronger manufacturing sector will contribute to a stronger economy. Yet without an official target, it is impossible to measure progress in this area.*

The government needs to set formal targets for manufacturing's share of GDP (or some other acceptable factor) over the next five, ten and 20 years to provide a supportive environment for a sustainable industrial policy. It is not too ambitious to suggest a target for the manufacturing industry to account for 20% of UK GDP and still be growing in ten years' time.

POLICY 5c

USE GOVERNMENT FUNDED PROJECTS TO SUPPORT UK MANUFACTURING: *An open economy is vital to stimulating domestic growth, and to encouraging overseas investment in the UK.*

The open way that business can be transacted in the UK has proved to be very successful in terms of foreign investment and should be continued.

But within this open framework, the government should award contracts on the basis of providing the best value to the UK economy, rather than simply looking for the cheapest price.

This would take into account the employment; training and support for the UK supply chain that would be generated by a contract-award.

The effects of this policy could be huge:

GOVERNMENT FUNDED PROJECTS SUPPORTING UK MANUFACTURING

A GDP BOOST OF UP TO £1 BILLION IN 2019

£285 MILLION OF THIS FROM THE MID-MARKET

AN EXTRA **34,000** JOB YEARS OVER THE NEXT PARLIAMENT, OVER 8,000 OF THEM FROM THE MID-MARKET

A REDUCTION IN GOVERNMENT DEBT OF £350 MILLION IN 2019

The BDO Mid-Market Manifesto: Oxford Economics Data

POLICY **5d**

A TEMPORARY REDUCTION IN EMPLOYERS' NATIONAL INSURANCE (NI) FOR THE MANUFACTURING INDUSTRY: *Employers' NI is a barrier to businesses taking on new workers. The government has sought to tinker with National Insurance reliefs in the last few years but the impact of these measures has so far proven negligible.*

To back up the government's rhetoric on targeting a doubling in exports, a bold step is required. A temporary reduction in Employers' NI for UK businesses that take on all new employees involved in manufacturing production processes would be a targeted relief aimed at those businesses that are most likely to be exporters or that supply exporters.

We estimate that the cost to the Exchequer would be c£2,600 per annum per worker based on an average wage (£26,500). If, as a result, unemployment fell from its current rate of c7% to 5% (co-incidentally the German rate) the cost in terms of lost employers NI is anticipated to be £1.9 billion per annum.

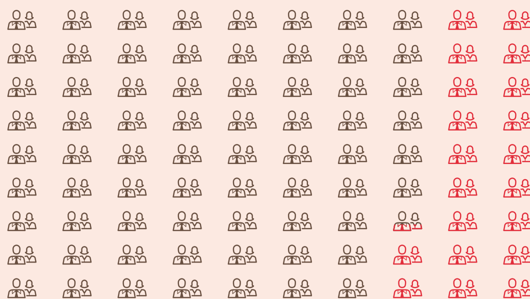
This cost would, however, be cancelled out by increased income tax and employees NI on the earnings created for the newly employed (£5,500 per employee) and as such would result in a net Exchequer benefit, allowing for the lost Employers NI, of £2.1 billion.

The impact of this policy would be significant:

A TEMPORARY REDUCTION IN EMPLOYERS' NATIONAL INSURANCE (NI) FOR THE MANUFACTURING INDUSTRY

A GDP BOOST OF OVER £3.5 BILLION IN 2019

£1 BILLION OF THIS FROM THE MID-MARKET



CREATION OF UP TO **90,000** JOBS A YEAR, OVER 20,000 OF THEM FROM THE MID-MARKET

The BDO Mid-Market Manifesto: Oxford Economics Data

POLICY **5e**

INCREASE THE ANNUAL INVESTMENT ALLOWANCE FOR EXPENDITURE ON PLANT AND MACHINERY TO £5 MILLION FOR FIVE YEARS: *With the progressive reduction in the rates of capital allowances down to currently 8%/18% many businesses are finding that the reward for investing in new capital assets, such as plant and machinery, is no longer a significant incentive.*

Although the Annual Investment Allowance (AIA) which currently provides a 100% first year deduction on new expenditure up to £250,000 is generous, it does not stimulate the significant capital investment that the economy needs and is only a temporary relief.

Increasing the AIA to £5 million would provide a significant incentive for mid-market businesses to invest in the capital assets that will drive future growth, and give businesses the confidence to plan ahead.

6. RETAIL

Seven retailers (between them worth £76 billion) are in the FTSE 100 but there are nearly 3,000 mid-market retailers, employing over half a million people and turning over £69 million each year. The nature of retail means that it is not a sector that requires – or would benefit from – large scale market interventions.

The future for the sector as a whole depends on the wider economic climate, and the preferences and confidence of consumers – for which there are no simple solutions. That said, there are some simple steps that the government should take to support UK retail.

Retail is hugely important to the economy, with an annual UK turnover of approximately £300 billion.

POLICY 6a

THE UK RETAIL STRATEGY: *The strength of the UK's retail sector, and the international reach of some of our brands, is respected around the world. Government should be supporting the sector's growth in this country and beyond.*

The retail sector is deeply complex, with retailers needing to co-ordinate fast-changing consumer expectations with intricate (usually international) supply chains, tough property negotiations, sometimes large employee bases and increasing reliance on technology for on- and off-line sales.

This means that retailers are affected by myriad policy streams, from employment law to indirect taxation and trade negotiations. These should be considered as a whole, though a UK Retail Strategy, co-ordinated by the Department for Business, Innovation and Skills, but with a remit to oversee all relevant (BIS) policy areas.

This would give the opportunity for consideration of the ways that the different policy areas affecting the retail sector interact, and make sure that the sector's needs are considered in the round.

POLICY 6b

A MORE EQUITABLE APPROACH TO THE CALCULATION OF BUSINESS RATES: *Although business rates impact all businesses they are most keenly felt on the high street and in particular in the retail sector.*

Business rates are a significant and unfair cost to UK businesses as they are not based on business performance. The result is that in difficult times, business rate bills can push a business into liquidation or stifle the business investment that is required to turn a business around. The recent announcements to extend the Small Business Rate Relief for another year until April 2015 and cap the increase in business rates at 2% from April 2014 are recognised as small steps in the right direction. However, much more is needed.

To address the inequity in the current system, we support the wholesale review of the business rates system being advocated by the British Retail Consortium and would like to see an element of the business rates calculation based on business performance to create a level playing field for all.

POLICY 6c

COMBATTING CYBERCRIME: *Most retailers have experienced cybercrime – and as commerce moves increasingly online, crimes such as hacking, denial of service and the theft of customer information are becoming increasing threats to retail businesses.*

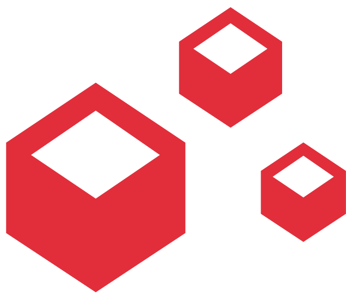
To combat this, the National Crime Agency should offer a single point of contact for retailers which have been affected by cybercrime. This would make sure that businesses know where to turn for help – this is particularly important for mid-sized retailers who may not have the resources for complex security systems.

It would also help to track emerging threats, and collate information that might help law enforcement.

7. HOUSE BUILDING

With the population growing and the number of people in each household shrinking (the number of people living under one roof) the pace of house building in Britain needs to double to about 240,000 homes a year.

THE UK'S MEDIUM SIZED BUSINESSES...



ACCOUNT FOR **6.2M JOBS** ACROSS THE UK

But despite a spate of initiatives, the pace of house building remains constrained, in part by government policies ranging from planning controls to finance for homebuyers.

POLICY 7a

STABILISING THE PLANNING SYSTEM: *The length of time and difficulty of obtaining planning consent is a massive brake on the construction of new homes. The house building sector needs stability and confidence in the planning system to make medium- and long-term decisions.*

While a full overhaul of the current planning system is likely to be counterproductive, tweaking existing policies such as introducing a minimum mandatory response time to planning applications would help the industry build more homes to meet government targets.

This is particularly important for mid-sized house builders, allowing them to dedicate time and resource to building homes, rather than negotiating the planning process.

POLICY 7b

LOCAL AUTHORITY PLANNING STRATEGIES: *Each local authority should be tasked with developing a bespoke housing plan which sets a target for the number of homes they build, a strategy for achieving the targets and locations for the development.*

To support this, central government should set incentives and/or penalties for local authorities, based on performance against their housing plans.

POLICY 7c

ENCOURAGE THE PRIVATE RENTAL SECTOR: *Britain needs more homes available to rent, aiding access to appropriate accommodation for those without deposits and improving workforce mobility.*

To complement government funding, policy should promote development of the private rental market, especially large-scale construction and ownership of properties to rent by not-for-profits and corporate residential landlords.

Central government can aid this by designating private rental schemes as a separate planning class. The government should also consider initiatives to aid private rental sector financing, such as improving the UK's tax-free regime for property Real Estate Investment Trusts (REITs) so that it is more suitable for institutional investment in private rented housing. This would involve clarifying the trading vs investment criteria for residential REITs.

8. TECHNOLOGY

The tech and information sector in London, South East and East England – including Oxford and Cambridge – is growing faster than that of California

London's tech sector alone is expected to create an additional £12 billion of economic activity and 46,000 new jobs in the capital over the next decade. The market telecoms sector is made up of over a thousand companies, employing 159,000 people.

The government is right to be ambitious for the UK's digital economy. The future of advanced economies such as the UK's lays in growing research-intensive, innovative and high value digital companies.

POLICY 8a

FINANCING TECH COMPANIES: *As stated in a report from Demos ("A Tale of Tech City", 2014), the UK government should develop a second digital-focused Enterprise Capital Fund and increase public investment into both funds to take the pot to £150 million each.*

will create £12bn additional economic activity and 46,000 new jobs in the capital OVER THE NEXT DECADE

POLICY 8b

FOCUSING AND IMPROVING THE CORPORATE TAX INCENTIVES COMMONLY ACCESSED BY THE TECHNOLOGY SECTOR: *Recent years have seen the introduction or improvement of corporate tax incentives for the innovation, development and ownership of intellectual property such as R&D tax credits, the Patent Box and creative sector reliefs.*

Whilst these reliefs are commonly accessed by the technology sector, they have not been designed with the sector in mind and the official published guidance does not approach their availability from a perspective that technology businesses will commonly understand without incurring significant professional fees.

We would propose that, given the importance of the technology sector to the economy, a specific innovation credit for technology businesses is introduced which would give an R&D type credit to a wider range of technological innovation than under current rules, together with targeted guidance to assist technology businesses to more easily access and take full advantage of the existing incentives.

POLICY 8c

ADDRESSING THE TECH SKILLS SHORTAGE: *Given the skills shortage in the tech industry, the government should reinstate the two year post-study work visas for post-graduates in STEM subjects.*

9. LOCAL GOVERNMENT

Local government is responsible for almost a quarter of all public sector spending.

Managed well, local authority procurement can be used to generate growth and jobs in their areas.

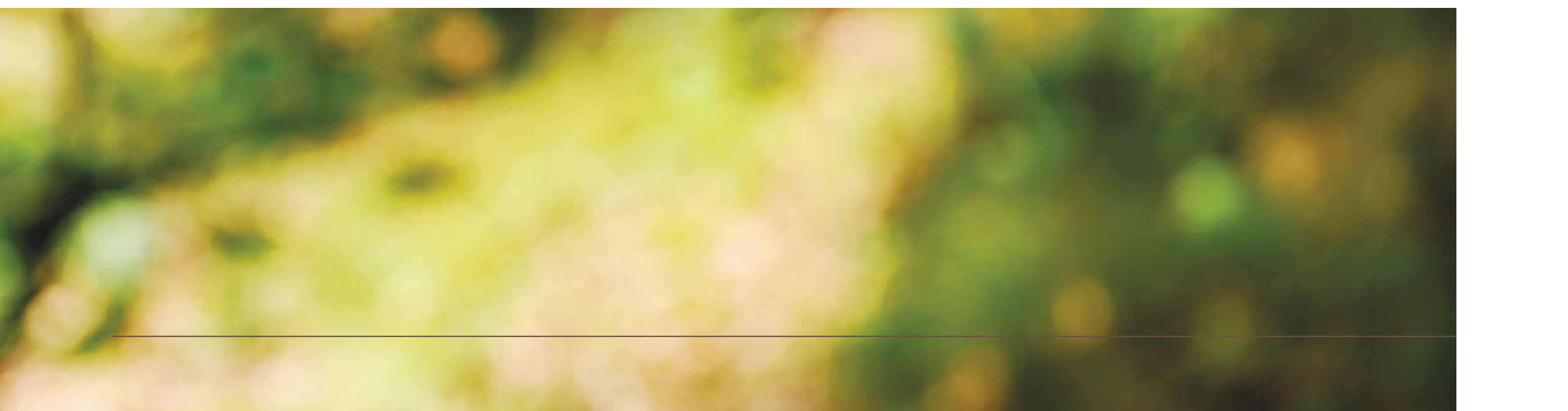
As local governments face further spending cuts, they will need to make sure that they continue to focus on building up their economies as well as protecting public services.

POLICY 9a

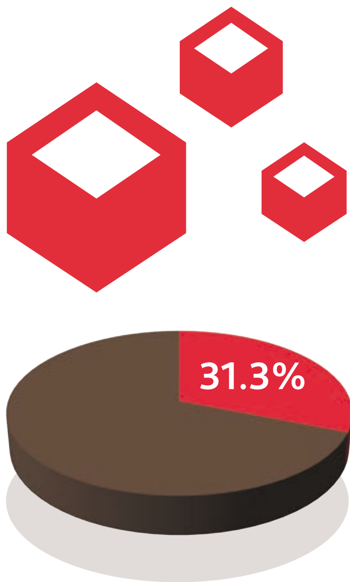
INTELLIGENT PROCUREMENT: *Local authorities will often go for the cheapest provider when procuring services from the private sector, rather than looking for the policy which will create the most value locally and add to economic growth.*

Contracts are often awarded to larger, national companies with economies of scale which can absorb losses elsewhere in the business and scale up their business to deliver a major contract. This means that mid-sized businesses, often based in the local authority they want to serve, miss out.

Breaking up larger local authority contracts in to smaller chunks, would give smaller businesses a better chance of winning this type of work, while helping to improve the local economy. Local authorities should also be encouraged to work with mid-sized businesses before contracts are put out to tender to make sure that they are designed with mid-sized businesses in mind.



THE UK'S MEDIUM SIZED BUSINESSES...



GENERATE **NEARLY A THIRD** OF ALL PRIVATE SECTOR TURNOVER

THE BDO MID-MARKET MANIFESTO IS SUPPORTED BY RESEARCH PREPARED ON BEHALF OF BDO LLP BY OXFORD ECONOMICS LTD, A LEADING INDEPENDENT ECONOMICS CONSULTANCY.

OXFORD ECONOMICS METHODOLOGICAL NOTES

The size of the mid-market has been calculated by analysing The Department for Business, Innovation & Skills (BIS) Analysis of Mid-sized Businesses, the ONS dataset 'UK Business: Activity, Size and Location', and FAME data on registered businesses to give the full number of firms with turnover between £10 million and £300 million, their total turnover, and their total employment. This analysis yielded an estimate of the size of the mid-market sector in 2010 and these values were adjusted to account for changes in the structure of UK businesses and their economic footprint between 2010 and 2013.

BIS Analysis of Mid-Sized Businesses and Business Population Estimates data were used to estimate sector and regional breakdowns.

Gross Value Added (GVA) was calculated by analysing the ONS Annual Business Survey, which provides a breakdown of private sector turnover and GVA by sector. The ratio applied to turnover to estimate GVA was assumed to be consistent across regions, facilitating an estimate of regional GVA.

POLICY ANALYSIS

To calculate the effects of extending the Regional Growth Fund (RGF), Oxford Economics assumed that the Government provides an additional £400 million of funding through two allocation rounds (January 2015 and July 2015) and that c80% of the budget would be spent by 2019. The 2014 Annual Investment Monitor reports that the £732 million of investment in RGF projects had already unlocked £2 billion of private sector support. OE therefore applied a ratio of just over 2.7 and also conservatively assumed that one quarter of the private sector matched funding provided additional investment.

To calculate the effects of using government funded projects to support UK businesses, Oxford Economics used figures from the Office for Government Commerce to estimate that 10.2% (£18.9 billion) of the value of procurement contracts is used to purchase imported goods and services in the first-round supply chain. The UK Input-Output table allowed Oxford Economics to analyse the breakdown of domestic intermediate purchases by government suppliers, from which they modelled the direct impact of an increase in domestic intermediate purchases of government suppliers on different sectors of the UK economy. This value was scaled further to focus on the share of this spending change that comes from mid-market firms.

To calculate the impact of a cut to employers' National Insurance (NI) in the manufacturing sector, Oxford Economics used manufacturers' share of total earnings (11.2%) from the Annual Survey of Hours and Earnings data (ASHE) to estimate the proportion of UK NI accounted for by manufacturing firms. Oxford Economics then calculated the implication of the policy for the effective tax rate and hence, through our macroeconomic model, the wider economy.

For more information please contact

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