ABPI Submission

October 2025

ABPI Submission: Budget 2025

Executive Summary

The UK has historically been home to one of the world's leading life sciences ecosystems, and the government has set out an ambition to increase the growth and investment in this sector. [i]

However, as the government recently recognised, over the last 10 years there has been a "*decrease in the investment and support*" for our industry, and government agrees that it now "*has to act*" to stop this trend.

Data from the ABPI and the government provide clear evidence of the decline in UK life sciences. Foreign direct investment in the UK's life sciences sector fell by 58 per cent from £1,897 million in 2021 to £795 million in 2023.[ii] Pharmaceutical industry investment in R&D also fell by nearly £100 million in 2023, and the UK has lagged global growth trends for several years.[iii]

The ABPI is determined to work with the government to identify what the right 'action' looks like. This submission sets out several targeted areas for policy intervention, where HM Treasury (HMT) could make a meaningful difference to boost the sector's growth and wider economic contribution to the UK. Of all ABPI's proposed interventions, the most pressing is for HMT to work with the Department of Health and Social Care (DHSC) to allow for increased investment in innovative medicines and improve the commercial environment.

As the Minister for Science, Innovation, Research and Nuclear recently set out, this is the "*real crunch issue…causing an environment that the industry is finding difficult and is leading to many of the [disinvestment decisions*]."[iv]

Tackling this issue is critical to unlocking investment for the UK. Companies estimate that the UK could recover £2.2-£3.4bn of R&D by 2028, if the UK became more competitive.[v] It could also deliver a more decisive benefit to UK labour force health and productivity.[vi]

As the Parliamentary Under Secretary of State in the Department of Health recently recognised, "*if we are going to get a left shift from sickness to prevention, medicines are a core component of that…. We now have to look at medicines in a different light …[and] calculate their economic and clinical benefit.*"[vii]

The ABPI stands ready to help support this work. As HMT considers this submission and weighs the value of intervention, we stand ready to work with HMT to explore how we can better capture the value of interventions within our sector. This could include looking at the economic and preventative value of clinical trials and medicines. The ABPI will also continue to try to understand the impact that the VPAG has had on companies including through a member survey, the results of which will be published in November. We would be keen to explore this in more detail with the Treasury.

This submission sets out five key recommendations for the budget, with supporting evidence:

1. **Return investment in innovative medicines in the UK to internationally competitive levels**
2. **Maintain existing investment incentives**
3. **Update the Green Book methodology to account for the full value of investment into medicines manufacturing**
4. **Restore the Trading Fund Status of the Medicines and Healthcare Regulatory Agency (MHRA)**
5. **Improve the Global Talent visa's competitiveness – Spread the cost of the Immigration Health Surcharge**

6. **Ensure that VAT is not applied to 'Free of Charge' (FoC) medicines provided to patients under early access arrangements, including the 'Early Access to Medicines Scheme' (EAMS).**

Beyond these recommendations, the ABPI would also like to work with HMT to ensure the delivery of existing commitments that have the real potential to drive UK attractiveness, such as those outlined in the Life Sciences Sector Plan (LSSP). Of these, the delivery of Health Data Research Service (HDRS) is perhaps one of the most important. Government has set aside £600 million for its delivery, and the HDRS has the real potential to drive greater investment into the UK, but we need to work together to make sure that it is designed in collaboration with industry to deliver the right operating model.

Another key pro-growth commitment which DHSC will need appropriate investment into to is the reduction in clinical trial set-up times to fewer than 150 days by March 2026. Industry clinical trials produce significant economic benefit, generating £7.4 billion of GVA and supporting a total of 65,000 jobs across the UK in 2022 alone[viii].

Recommendation 1: Return investment in innovative medicines in the UK to internationally competitive levels

Overview

The government well understands the challenges facing our sector. All sides recognise that the core issue holding the sector back in the UK is the long-standing trend of disinvestment in medicines and vaccines, which date back to policy decisions made in 2014. These issues are most clearly expressed by:

- The high, and internationally uncompetitive payment rate levied through both the Voluntary Scheme for Branded Medicines Pricing Access and Growth (VPAG) and the accompanying statutory scheme. This currently stands at 22.9 per cent of newer medicines sales under VPAG, more than three and a half times the EU4 average, and 31.3 per cent for newer medicines under the statutory scheme.
- NICE's long-term undervaluation of medicines, unchanged for nearly 25 years, despite the inflationary impact of 55 per cent loss in value. This has resulted in a decline in access to and availability of medicine for UK patients when compared to all EU4 nations except France, and an increase in company terminations of NICE evaluations and UK product launches.[ix]
- The disinvestment in medicines investment comparably. Over 2014-2025, the NHS budget increased by 43 per cent in real terms, whilst allowed growth in branded medicines declined by 10 per cent in real terms.

Despite good faith and best efforts on both sides, the industry and government are yet to find a resolution to these two challenges that will meaningfully deliver on our shared ambition for growth and investment into the sector.

We now urgently request that HMT work with the DHSC and industry to find a sustainable solution for all sides that will unlock the necessary investment in medicine that is needed to improve the UK's global competitiveness.

Supporting Evidence

- As the literature shows, when there are choices for the location of investment, and where supply-side factors are similar, pricing policy influences investment decisions.[x] This has been shown by reports from Charles River Associates (CRA) in 2022 and NERA Economic Consulting in 2007 (both of which are quoted by DHSC in Impact Assessments).[xi]
- For example, companies may not locate clinical trials in countries that they perceive as unsupportive of innovation, either because they do not expect that the country will be a core

market for the medicine in future or because the prevailing standard of care is not up to date enough to serve as a robust control.[xii]

- Had industry investment in pharmaceutical R&D in the UK grown in line with global investment from the world's top 50 pharmaceutical companies, the UK would have received £1.3 billion of extra R&D investment in 2023 alone.[xiii]
- At the same time, there would also be improvements in health and productivity. Modelling conducted for the ABPI in 2022 suggests that appropriate UK investment in medicines would deliver 40 per cent reduction in the burden of disease in the UK. [xiv] This is supported by work from the Tony Blair Institute (TBI), who estimate that a 20 per reduction in CVD and musculoskeletal disorders could be achieved using existing treatments, which could in turn lead to a 0.3 per cent boost in GDP after five years[xv].

Recommendation 2: Maintain existing investment incentives

Overview

The UK already has a relatively competitive package of incentives for investment from innovation-intensive firms, such as pharmaceutical companies. This includes: the 'Patent Box', which incentivises companies to commercialise their innovations within the UK; R&D tax credits; and full expensing of capital allowances, which encourages capital investments that expand the economy's productive capacity.

While these policies are insufficient to offset the negative impact that double-digit clawback rates, they do play a vital role in reducing the upfront costs and perceived risks of investing in pharmaceutical R&D and manufacturing, resulting in more investment than would occur in the absence of them.

Treasury's commitment to maintain these investment incentives and Corporation Tax in their current state is, therefore, a welcome and essential step to deliver the government's ambitions for sector growth.

However, given the constrained fiscal environment the ABPI wants to use this budget submission to reiterate the importance of these incentives and recommend HM Treasury maintain the structure and existing rates, including the Patent Box and R&D tax credits, and Corporation Tax.

Supporting Evidence

- This policy would be cost-neutral, as we are only recommending that HM Treasury maintains its existing position, which will also help to drive economic growth.
- The ABPI's Competitiveness Framework shows that the UK's investment incentive offer is moderately competitive, with its R&D tax credits system ranking 6th out of 12 leading life sciences markets.[xvi]
- Similarly, while the UK's Patent Box was one of the world's first and a unique selling point, Patent Boxes are now a standard part of developed countries' investor offer. As of mid-2024, 13 of 27 EU Member States and 19 of 37 OECD countries had a Patent Box.[xvii]
- Therefore, reducing the competitiveness of the UK's investment incentives would significantly reduce the UK's attractiveness as a destination for pharmaceutical companies to invest.
- The Competitiveness Framework's case studies evidence the potential of tax and incentives policy to accelerate economic growth, as France and Ireland have done to attract and retain over €10 billion of investment in pharmaceutical R&D and manufacturing.[xviii]

- An analysis produced by Flint Global found that the Patent Box supported £14.9 billion of economic activity in 2021/22.[xix] Of this economic activity, between £2.2 billion and £3.7 billion is additional, meaning the UK economy would be significantly smaller if it lacked the Patent Box. Compared with the cost of £1.36 billion of relief granted in 2021/22, this gives the Patent Box a cost-benefit ratio of between 1.6 and 2.7. Furthermore, Flint Global estimates that the additional economic activity attributable to the Patent Box generated between £0.77 billion and £1.28 billion of additional tax revenue, offsetting 55 to 95 per cent of the policy's cost.

Recommendation 3: Update the Green Book methodology to account for the full value of investment into medicines manufacturing

Overview

HM Treasury recently conducted a review of the Green Book. The ABPI welcomed this review's findings and recommendations, particularly its focus on assessing transformational change.

These findings align with a report commissioned by the ABPI, produced by Cambridge Economic Policy Associates (CEPA), examined how the design and application of the Green Book influences the delivery of the Life Sciences Innovative Manufacturing Fund (LSIMF).[xx] The LSIMF is a capital grants scheme that is vital to the UK's competitiveness and will play an essential role in achieving the government's goals for sector growth.

Like HM Treasury's review, the report found that key transformational benefits of public spending, such as the increased productivity and export competitiveness that result from attracting an investment in innovative life sciences manufacturing, are not fully captured using the Green Book. This occurs, in large part, because these benefits are challenging to quantify or systematically assess compared to readily monetisable benefits, such as job creation, that can be input into benefit-cost ratios (BCRs). A consequence of this over-reliance on BCRs is that transformational investments, such as a medicines manufacturing site that leverages automation to increase its productivity (to boost growth) and flexibility (to build resilience against health emergencies), can be undervalued compared with less transformative (but more easily monetisable) investments.

CEPA's report also found that the Green Book led to the LSIMF being unpredictable and onerous for both applicants and appraisers. In particular, the report identified an opaqueness in decision-making over the allocation and size of capital grants, partly caused by the reliance on BCRs, that resulted in some applicants experiencing a 'long road to no' or receiving grants that were a fraction of the expected value and thus below the value required to make the planned investment feasible.

The ABPI welcomes the Office for Life Sciences' (OLS's) work to address these challenges by refining the LSIMF's appraisal framework (for example, by systematically assessing a proposal's benefits to health resilience) and developing further guidance for applicants. We also welcome the OLS's proposals for a Life Sciences Large Investment Portfolio scheme that will complement the LSIMF while offering a more accelerated application process for proposed investments worth over £250 million. Lastly, we are encouraged to see productivity growth highlighted as a key goal of the newly announced Life Sciences Transformational R&D Investment Fund.

We recommend that HM Treasury incorporate the CEPA report's recommendations into the upcoming revised Green Book. In particular, HM Treasury should introduce a systematic scoring approach for assessing business cases reviewed using the Green Book methodology that covers a more comprehensive range of monetisable and non-monetisable benefits, clearly communicates its weighting of these benefits prior to business case submission, and requires a level of detail from business cases and their appraisers that is proportionate to size of public funds applied for.

Supporting Evidence

- The ABPI is keen to discuss the findings of the CEPA report in further detail with HMT.[xxi] One of its key findings is that life sciences capital grant schemes offer exceptionally good value for taxpayers' money, as the LSIMF's predecessor attracted over £850 million of private investment via £64 million of grants.[xxii]

Recommendation 4: MHRA Funding – Restore the MHRA's Trading Fund Status

Overview

In 2019 the Office for National Statistics (ONS) reviewed the sector classification of the MHRA and reclassified it from a trading fund to a market regulatory agency. This reclassification means that the MHRA is unable to retain and rely on cash reserves to manage areas of demand or invest in multi-year capability building, as it had successfully done previously.

Over the past five years, the potential implications of revoking the MHRA's trading fund status may have been significant, particularly in the wake of the external and internal shocks the agency experienced through the UK's exit from the European Union, COVID-19 response and significant re-structuring. Stakeholders raised concerns that the MHRA is not able to operate as a commercial entity despite providing revenue-generating services.

Not being able to retain a surplus reserve may have prevented the MHRA from undertaking more comprehensive, long-term financial and commercial planning, and informed decisions regarding statutory fee and salary changes.

Given the ongoing challenges facing the MHRA, and the desire to improve the UK's regulatory standing, the ABPI recommend that HMT explore restoring MHRA's Trading Fund Status or providing additional funding support.

Supporting Evidence

- In 2022, the MHRA conducted a review of its statutory fees, which found that the MHRA was under-recovering. In 2024, the MHRA published another consultation on its statutory fees as part of ongoing cost-recovery work. Many stakeholders have argued that raising the MHRA's fees must be considered in the context of reliable performance and the wider question of whether the MHRA's operating model enables it to retain a surplus from its trading income.

Recommendation 5: Improve the Global Talent visa's competitiveness – Spread the cost of the Immigration Health Surcharge

Overview

The government's Modern Industrial Strategy and Immigration White Paper recognise that global talent provides skills that are essential to its ambitions for economic growth. Both strategies feature commitments aimed at attracting more of the world's top talent to the UK, including by increasing usage of the Global Talent visa (GTV).

To inform the delivery of these commitments, the ABPI will soon publish a report that benchmarks the UK's GTV against similar visas offered by developed economies competing for the global life sciences talent. The GTV's accelerated route to permanent settlement gives the UK a comparative advantage when competing for this talent. However, the GTV's upfront costs, which include the Immigration Health Surcharge (IHS) and exceed the cost of all of the report's 14 comparators visas, undermine this strength and make the UK a less attractive destination for life sciences talent.

We recommend HM Treasury work with the Home Office to pilot an IHS payment plan for GTV holders that collects instalments on a quarterly or monthly basis, as this will enhance the competitiveness of the UK's global talent offer with the lowest-possible cost to taxpayers.

Supporting Evidence

- We can share an embargoed draft of the report on request, plus a forecast cost for the policy.

Recommendation 6: Ensure that VAT is not applied to 'Free of Charge' (FoC) medicines provided to patients under early access arrangements, including the 'Early Access to Medicines Scheme' (EAMS).

Overview

Early access arrangements, including the Early Access to Medicines Scheme (EAMS), allow patients to receive medicines at no charge, during the period following a positive scientific opinion from the MHRA and whilst NICE undertakes health technology assessments. This ensures patients who have participated in clinical trials, are able to continue accessing medicines which are awaiting reimbursement through the NHS. They provide the added benefit of enabling generation of real-world-data which provides valuable evidence to inform future healthcare decisions (whether to inform pricing and reimbursement discussions or system preparedness for broader rollout).

Current proposals would apply VAT to 'Free of Charge' (FoC) medicines provided to patients under early access schemes including EAMS. These measures would actively deter companies from engaging with EAMS programmes, and risk preventing interim access and delaying access to medicines for UK patients. This approach also reduces the attractiveness of the UK as a location for clinical trials, with companies exposed to an unnecessary VAT burden on free of charge goods.

The proposed VAT treatment relies on classifying FoC EAMS medicines as 'Deemed Supply' under The Value Added Tax Act 1994. However, applying this definition to FoC EAMS medicines would not be consistent with their actual purpose or use. Since EAMS operate on a named patient basis, hospitals do not have the 'right to dispose of the goods as owner' - a fundamental requirement for any supply (deemed or otherwise) of goods under VAT law.

The government should ensure that VAT is not applied to 'Free of Charge' (FoC) medicines provided to patients under early access arrangements including EAMS.

Beyond the budget: Work with industry to better assess the value of innovative medicines

Overview

The ABPI recognises that government is operating in a very challenging fiscal environment and will be weighing the real growth potential of interventions against the cost. Against this backdrop to help understand the value of investment into our sector, in particular medicines, the ABPI is keen to work with HMT to better model the economic benefits of investing in medicines, including their preventative value and knock-on effect in stimulating further R&D.

While the expenditure on medicines is clear and quantifiable, many of these benefits are not captured by existing methodologies.

Preventative Value

Medicines and vaccines can play a huge role in preventing sickness, which has a burden on the healthcare system, and reducing disease progression, which can lead to more costly interventions. However, as the Tony Blair Institute has identified, "preventative-health-care programmes currently struggle for funding because macroeconomic considerations play a limited role in the allocation of health expenditure." We think it would be valuable for ABPI and HMT to work together to try to better estimate the effects of improved health on employment, GDP and government spending.

Economic & Resource Optimisation Benefits

In addition to the preventative benefit, the existing evidence indicates that:

- Medicines and vaccines generate significant economic benefits through direct healthcare savings via the 'offsetting effect'. This includes reductions in non-healthcare costs such as informal care, substantial gains in productivity and by reducing mortality (preventing the premature death of individuals in their working years) and morbidity (reducing illness related work losses).
- Medicines and vaccines also generate benefits beyond direct clinical outcomes, including the potential to optimise health care resources, reduce for the need for other medical interventions and improve the productivity of the healthcare work force.
- Investment in medicines and vaccines can also stimulate further R&D investment, which have clear economic benefits.

Scientific Spillover

There may also be spillovers from the pharmaceutical sector into other industries. This could include capturing how R&D investment and clinical trial activity in the pharmaceutical sector stimulate innovation, employment, and value creation in related industries, such as biotechnology, medical devices, and data analytics. Capturing these cross-sectoral benefits is essential for assessing the industry's full contribution to a knowledge-based economy.

Supporting Evidence

- In the US (2007), each new drug introduction generated an average net saving in medical costs of $5.91 per person, totalling approximately 1.8 billion nationally.[xxiii]
- Analysis by Carnall Farrar (2025) suggests that, by fully implementing clinical guidelines across five chronic disease areas – namely CVD, CKD, diabetes, dementia and obesity – the NHS could save between £6.1billion and £9.2billion annually in acute care activity costs alone, on top of further economic benefits.[xxiv]
- A systematic review by Jacob et al. (2022) of CVD hospitalisation literature found a median ROI of 7.52x for tailored pharmacy-based interventions. [xxv] Carnall Farrar analysis identified 55% potential gross savings in acute activity for this intervention, with similar levels of savings estimated in diabetes care in Canada.[xxvi]
- A study by Bui (2010) in Germany estimated that each new medicine introduced between 1988 and 2004 reduced the number of working years lost due to early retirement and premature mortality by 200 years annually.[xxvii]
- Research by Lichtenberg (2014) in the U.S. concluded that the increased use of new medicines between 1997 and 2010 was responsible for a reduction of 36.9 million lost work days.[xxviii]
- Farmaindustria and Fundación Weber (2024) estimate that a 10 percentage point increase in treatment adherence for four major chronic diseases in Spain would save over **€500 million per year** in direct healthcare costs.[xxix]

About the Association of the British Pharmaceutical Industry

The ABPI exists to make the UK the best place in the world to research, develop and access medicines and vaccines to improve patient care.

We represent companies of all sizes which invest in making and discovering medicines and vaccines to enhance and save the lives of millions of people around the world.

In England, Scotland, Wales and Northern Ireland, we work in partnership with governments and the NHS so that patients can get new treatments faster and the NHS can plan how much it spends on medicines. Every day, our members partner with healthcare professionals, academics and patient organisations to find new solutions to unmet health needs. www.abpi.org.uk

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