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ARTICLE

Will Labour’s policy prescription create a stronger UK life sciences sector?

READ TIME

13 mins

PUBLISHED DATE

Mar 25 2025

The UK government plans to turbocharge the life sciences sector using policy levers to enhance research and development, innovation hubs, and private fundraising.

In this piece, Michael Bloch explores how refinements to industrial strategy, equity capital markets, pension savings, and university spin-outs can support innovative scale-up businesses.

SUMMARY

- The UK life sciences sector has significant potential due to its leading research clusters, major domestic businesses, and valuable patient data from the NHS. There are steps policymakers, universities and financiers can take to improve the investment ecosystem, enabling earlier-stage innovators to scale and eventually list.
- Seed, A and B rounds comprises over 85% of total UK venture capital funding, leaving start-ups less able to raise scale-up money in the crucial GBP100 million-plus category. The equity capital markets must become more attractive to high-growth businesses, as well as investors ranging from individuals to pension funds.
- The Labour administration under Prime Minister Sir Keir Starmer has placed life sciences at the heart of its industrial strategy, with proposals to plug the funding gap using public money and policy incentives to stimulate private investment. If it is to create maximum growth, productivity and jobs, it must be even bolder: deploying tax breaks and incentives to retain talent, and broadening the sources of financing available to promising companies.

Will Labour's policy prescription create a stronger UK life sciences sector?

The UK has all the building blocks for a world-leading life sciences sector.

It is home to research clusters around top universities in Cambridge, Oxford and London; industry leaders including GSK and AstraZeneca; and the National Health Service, which holds large stores of patient data.

But the investment ecosystem industry does not currently enable enough businesses to make the leap from early-stage innovators to global giants. As a result, many choose to take their inventions and talent overseas to achieve their growth ambitions – or instead opt to sell up before they mature.

More than half of venture capital (VC) investment in the UK in 2023 came from sources outside Europe with just 40% raised domestically, according to figures from Dealroom. The data provider also found that in UK funding rounds of USD100m or more that year, less than half the money came from domestic investors, the first time this has happened since 2017.

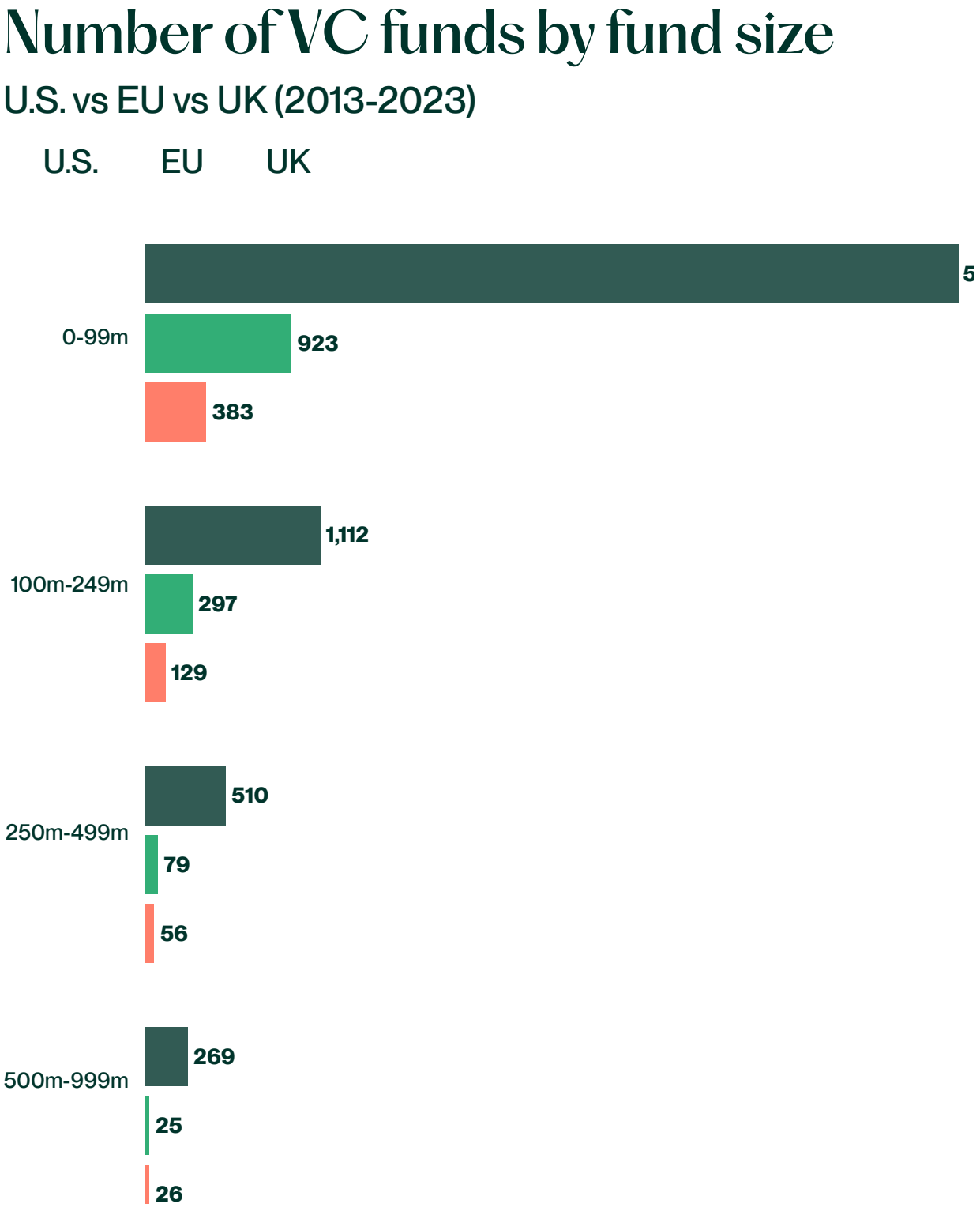
The average UK seed investment round raises less than GBP1 million, followed by incrementally larger fundraisings at Series A (GBP2m to GBP18m), Series B (GBP5m to GBP33.9m) and Series C (GBP100m to GBP120m).

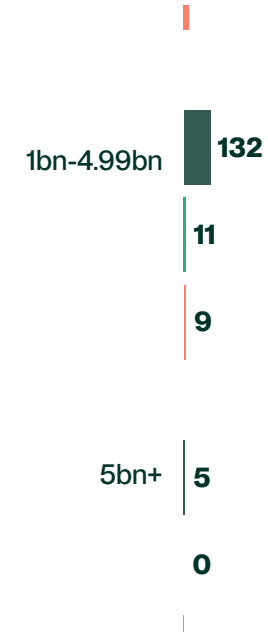
Despite being Europe's leading national market for VC investment, the UK has not built sufficient capacity in funding rounds of C and above, which are critical to scaling operations.

According to the British Venture Capital Association (BVCA), early-stage investments (Seed, Series A and Series B) comprised around 85% of all UK VC financings in recent years. Furthermore, UK companies tend to list at a later stage than U.S. counterparts pursuing a position on the NASDAQ index.

This piece explores which refinements to industrial strategy, pensions and university spin-outs would help UK-based entrepreneurs scale up innovative life sciences businesses.

Government initiatives to develop the sector will translate into growth, productivity and jobs. We argue that even bolder policies - such as tax breaks, incentives and broader sources of financing – will help keep talent in the UK.





Source: Pitchbook

Labour's focus on life sciences sector

The Labour administration under Prime Minister Sir Keir Starmer has placed the life sciences sector at the heart of its industrial strategy. Since taking office in July 2024, the government has announced proposals to plug the funding gap using public money and policy incentives to stimulate private investment.

The UK economy grew 0.9% in 2024 – a rise from just 0.3% in 2023 – according to Office of National Statistics (ONS) figures. Meanwhile, the Bank of England has reduced its 2025 predictions from 1.5% to 0.75%. This dynamic could make it challenging to fund meaningful investments using public finances, even in priority sectors.

To reverse the slowdown, Starmer has called for “a decade of national renewal.” His government has launched a National Wealth Fund designed to unlock billions of pounds in private investment in green and growth industries, and announced plans to encourage pension funds to channel investment into UK industry.

On the regulatory side, planning restrictions are set to be relaxed, potentially making it easier to build new laboratories, while a Regulatory Innovation

Office has been established to cut red tape by creating a more efficient framework of rules across sectors.

This approach mirrors Mario Draghi's recent report into improving European competitiveness, which proposes an industrial strategy spanning "investment, taxation, education, access to finance, regulation, trade and foreign policy."

A positive start: industrial strategy, pensions and university spin-outs

In our view, Labour and the previous Conservative government have set the stage for a stronger life sciences sector. Of particular note are a budding industrial strategy, more clarity on pensions reforms, and plans to finesse university spin-out conditions.

Detailed industrial strategy for life sciences

Pointing out that this is the tenth industrial strategy or growth plan since 2011, Starmer's government launched its own in October 2024. It identified eight growth-driving sectors, one of which is life sciences.

In line with this, Chancellor Rachel Reeves' October Budget committed up to GBP520m to the Life Sciences Innovative Manufacturing Fund (LSIMF) to boost economic growth and strengthen the NHS. It will provide capital grants for investments in the manufacture of medicines, medical diagnostics, medtech, and medical devices.

A second stage of the policy will set out the most promising sub-segments within each of the eight sectors based on their ability to develop the potential of cities, regions and clusters. Further details on the industrial strategy are expected as part of the Spring Spending Review in June.

Highlighting recent breakthroughs such as the development of promising new vaccines targeting cancer, the government predicts that the sector will

drive economic growth and productivity while improving health outcomes and making the UK more resilient to future epidemics.

Reforming pension investments for growth

Pension funds have traditionally invested in low-risk assets such as infrastructure that produce stable long-term revenue streams to support workers in retirement.

The Mansion House Reforms were announced in November 2023 by the Conservative government under Prime Minister Rishi Sunak. They provided a framework for a voluntary scheme to encourage the largest asset managers to invest at least 5% of their funds in riskier unlisted assets such as private equity and early-stage companies.

The aim of the reforms was to increase long-term returns for pension savers while unlocking an additional GBP75bn of financing for domestic growth businesses.

UK pension funds currently hold just 4.4% of their portfolios in UK listed and unlisted equities, significantly less than the average 10.1% that overseas funds hold in their own respective markets, according to research by New Financial.

In the run-up to the October Budget, reports suggested that the government was considering mandating pension funds to invest in domestic equities. However, industry figures argued against this approach, with the Universities Superannuation Scheme, which manages GBP78bn of assets, describing it as "wholly inconsistent" with trustees' fiduciary duty to invest for the best interests of their members.

Reeves responded by removing the requirement from her speech, although former Pensions Minister Emma Reynolds subsequently warned that the idea could be revisited if the industry fails to allocate more money to UK assets.

Reynolds had herself launched a pensions review in September in which industry participants were asked for their views on how to boost investment,

increase saver returns, and tackle waste across defined contribution and local government pension schemes. Torsten Bell, who took over as Pensions Minister in January 2025, has indicated that he does not see a conflict between fiduciary duty and domestic investment.

What did remain in the Budget were plans to merge 86 local government pension schemes (LGPS), currently worth a combined GBP360bn, into eight megafunds. Reeves also unveiled plans to set minimum sizes for multi-employer defined contribution (DC) schemes, which are forecast to manage GBP800bn in cumulative assets by 2030.

Together, the government hopes these measures could unlock around GBP80bn to invest in domestic start-ups and infrastructure projects.

University spin-outs

Cambridge, Imperial College and Oxford are renowned research innovation hubs with a tradition of spinning out innovative businesses. They rank a respective third, fourth and fifth (behind MIT and Stanford) in terms of spin-out volumes between 2013 and 2017.

The nutrition testing and recommendations business Zoe Health, which spun out of King's College London, is a good example of academic innovation. Founded in 2017, it has so far raised USD118m from a mix of transatlantic investors and is now focused on expanding its reach in the US market.

Investment in UK university spin-outs rose fivefold between 2014 and 2021, from GBP960m annually to GBP5bn. And government figures show there are more spin-outs in life sciences than any other sector, with 309 founded between 2011 and 2023.

> *Where UK spin-outs have been less successful is in making the leap to commercially viable*

businesses and finding investors to support the various stages of their development.

According to the Russell Group of universities, nearly 60% of UK university spin-outs are at the seed stage, where investments are typically less than GBP1m. The report identifies "deep tech" businesses – whose technologies are "revolutionary and disruptive" – as being particularly in need of financial support.

But VC and industry partners are often reluctant to invest because their innovations take a long time to reach the market.

The group is asking the government to plug the funding gap via a "Spark Fund", which could be supported by the National Wealth Fund and/or the British Business Bank. The Budget committed over GBP250m in 2025-26 to small business loan programmes via the British Business Bank.

From the government's perspective, however, the challenge will not simply be fixed by making more capital available. Labour would like universities to reduce the stakes they hold in spin-out businesses to 10% or less (the current average is between 10% and 25%).

Such a move would give founders a greater stake in their companies' success and potentially creating a higher volume of spin-outs. This could be especially impactful in life sciences, where analysis from Beauhurst Research reveals that UK universities hold an average stake of 24.1%.

This is considerably higher than the 3% to 10% stakes in businesses spun off by US institutions such as MIT and Stanford, according to an independent review published in November 2023.

An exception is Imperial, where academic founders can retain up to 95% of founding equity with favourable terms such as low fixed royalty rates and simplified IP development planning through the university's Founder's Choice programme.

Extending finance beyond Series A and B

Scale-ups across sectors comprise just 0.5% of UK businesses, but contribute 58% of SME output, equivalent to GBP1.3 trillion in revenues annually, according to the ScaleUp Institute.

> *Despite the relative ease of securing funding at earlier stages, the UK lacks the later-stage scale-up capital that supports more significant growth.*

In 2023, at least two-thirds of the funding raised in the UK was at seed (GBP181m) or Series A (GBP553m) stage, according to the UK BioIndustry Association. The mean UK financing round for biotech companies in 2023 was GBP18.2m, considerably less than in Europe (GBP31.2m) and the U.S. (GBP53.5m).

Some GBP434m (around 35%) went to Series B+, while the largest UK life sciences venture deal of that year was Cambridge-based Apollo Therapeutics' GBP260m Series C round.

There are exceptions, with a select few UK start-ups striking mega-deals in earlier rounds. In January 2025, GLP-1 developer Verdiva Bio raised USD411m in Series A financing. And six months earlier, ophthalmic gene therapy company Beacon Therapeutics raised USD170m in Series B funding.

Reforming UK capital markets

Of the 23 UK biotech initial public offerings (IPOs) between 2018 and 2022 (which raised a combined USD2.8bn), 14 chose to list on the Nasdaq. These

include Exscientia (USD358m), Centessa Pharmaceuticals (USD320m), Immunocore (USD258m), Achilles Therapeutics (USD172m), and Vaccitech (now known as Barinthus Biotherapeutics, USD108m).

In July, the Financial Conduct Authority (FCA) announced new listing rules that would enable management teams to make more decisions without the need for shareholder votes. These also provide founders greater flexibility to adopt dual-class share structures that would give them (and potentially institutional shareholders) greater control over their businesses.

> *The aim is to make the London markets more attractive to high-growth start-ups that might otherwise opt for a listing overseas by allowing investors to take riskier bets on innovative companies.*

Growth companies could be more tempted to list if offered a less rigid disclosure-based regime, more engagement between listed companies and their investors, and greater stewardship rights.

In the six months to June 2024 there were eight life sciences listings in London, such as three US businesses including wound care specialist AOTI, which raised GBP35.1m. In January 2025, Heart failure treatment business Cardiogeni listed on Aquis Stock Exchange (AQSE) with a market cap of GBP6.4m.

In March 2025, Wellnex Life Limited, a distributor of consumer health and wellness products, joined AIM raising GBP5.2m to achieve a market capitalisation of GBP21m. The same month, One Health Group, which subcontracts consultants to the NHS, raised GBP8m and moved from AQSE to AIM.

It is possible that the City of London could benefit from political uncertainty in the US and Europe, suggested the Capital Markets Industry Taskforce

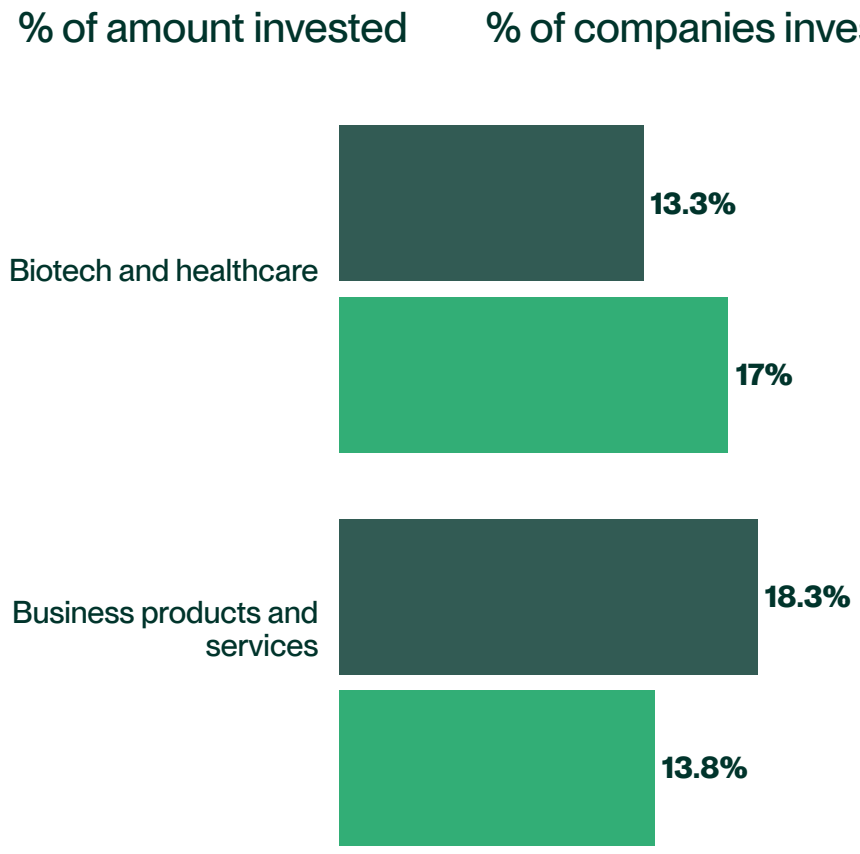
(CMIT) in a December memo. Indeed, turbulence in the US markets since the inauguration of President Donald Trump could propel investors towards a comparatively more stable UK and Europe.

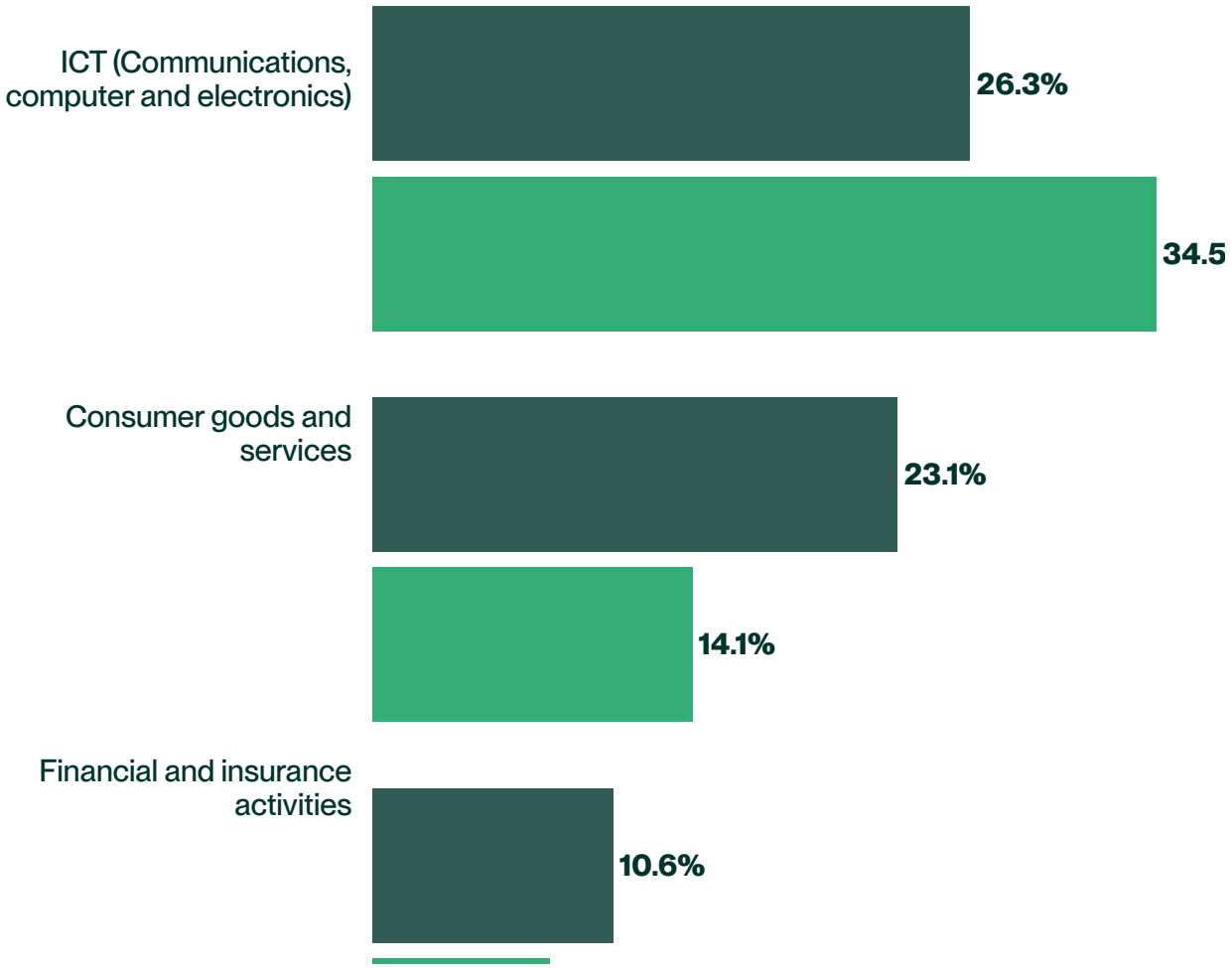
CMIT says that reforms to listing rules, corporate governance and stewardship requirements, as well as pensions frameworks will help create a level playing field with overseas exchanges. Furthermore, private equity is set to enter a cycle in which it will need to exit large assets, which will add liquidity to the public market.

There are three main ways companies can benefit from capital markets reform: more streamlined and effective access, a balance between governance and stewardship, and higher rewards for retail investors such as opportunities to participate in IPOs and secondary capital raisings, as well as share buybacks.

Top sectors for PE and VC investments

UK, 2023





Source: British Venture Capital Association (BVCA)

Tax Breaks: current status and future prospects

Sir John Bell, an Oxford professor and founder of the Wellcome Trust for Human Genetics, had a warning for policymakers in April 2024.

"London public markets are just too light on investment capital … we need bold governmental intervention in the form of tax breaks for entrepreneurs and pension funds investing in UK companies, which will in turn lead to greater sophistication in the markets."

The October Budget offered some, but not much, hope on this front.

The Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes will be extended until April 2035. VCTs allow individuals to invest in early-stage businesses, and offer income tax relief of up to 30% as well as tax-free dividends and capital gains. Savers had put GBP250.1m into VCTs

between 1 April and mid-November, a 26.6% rise on the previous year according to figures from Wealth Club, an investment service.

The Chancellor raised capital gains tax from 10% to 18% at the lower rate and from 20% to 24% for higher earners. She also announced that pensions would become subject to inheritance tax. Furthermore, inheritance tax (IHT) relief on investment in eligible AIM shares has been reduced from 100% to 50%, amid industry fears that it would be scrapped entirely. The new IHT regime for AIM shares begins on 6 April 2026.

One programme that will be axed is former Chancellor Jeremy Hunt's planned British ISA, a specialist stocks and shares scheme that would have allowed savers to invest an extra GBP5,000 tax-free annually in UK equities, on top of the GBP20,000 ISA allowance.

And finally, shares will continue to incur a stamp duty reserve tax (SDRT).

Last year, UK-focused equity funds suffered GBP9.5bn in outflows, though this was less than the GBP12bn figure from 2023. This compared to net inflows into equity funds globally of GBP27.2bn in 2024.

Boosting research and development in life sciences

For its part, Labour's plan for the life sciences sector includes setting ten-year budgets for funding bodies such as UK Research and Innovation and the National Institute for Health Research, alongside research institutions such as the Francis Crick Institute.

The Chancellor increased the Department for Science, Innovation and Technology's R&D budget to GBP13.9bn. She will also make GBP70m in grants available through the LSIMF, which could eventually unlock up to GBP1.8bn in private financing by funding between 10% and 20% of project costs.

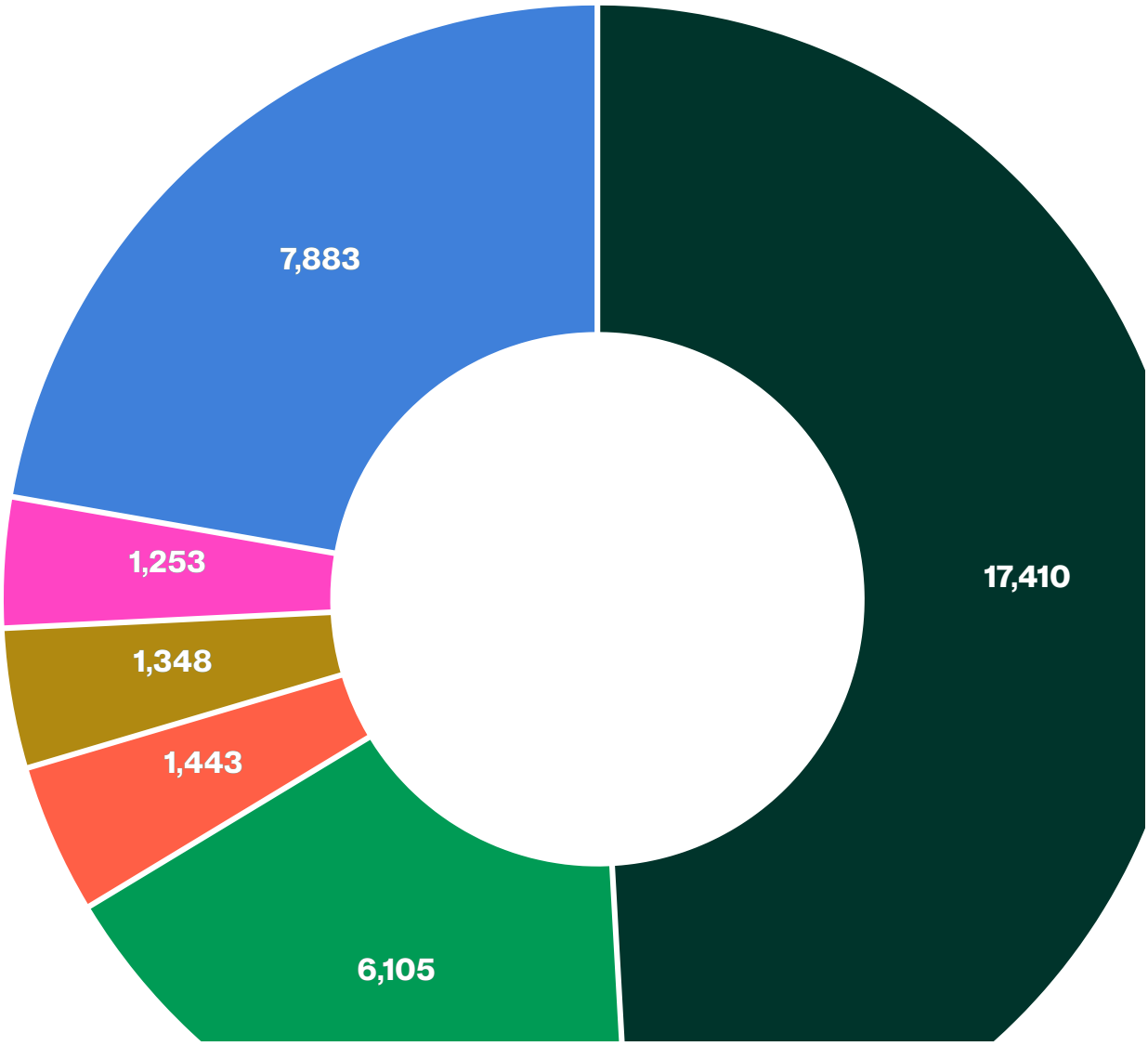
IfM Engage, a consultancy at Cambridge, has warned that "despite the UK being a global leader in academic scientific research, the private sector is not as R&D-intensive."

That said, more than half of all R&D investment by top UK companies is now in the health sector.

UK industrial research and development investment

EUR million

Pharmacueticals & biotechnology
Banks
Oil & Gas producers
Software and computer services
Aerospace and defense
Others*



Source: European Commission
*Others include: Food producers, Support services, Personal goods, Healthcare equipment and services, Fixed line telecommunications, Automobiles and parts and Media

In January, Secretary of State for Science, Innovation and Technology Peter Kyle announced plans to double the economic output of the 'Oxford-Cambridge Arc', with a view to "unleashing" research and development and creating tens of thousands of jobs. The project would include a rail project connecting the two cities via Milton Keynes, a manufacturing and logistics hub, and revive previous significant new housing targets.

Realising the value of UK healthcare data

Additionally, the government-commissioned Sudlow Review has recommended a series of measures intended to realise the value of the UK's healthcare data.

Chief among them is the introduction of a federated data model via which regional and national health organisations could securely share data, giving researchers and policymakers faster access to information and leading to better-informed healthcare decisions. Whether this data could also be monetised is another pending question.

Ambitious plans for the future of life sciences

While Labour's plans to bolster the UK life sciences ecosystem represent a positive step, it must do more to encourage sector businesses to take risks.

It is true that market conditions are improving somewhat, and that the Government's policy reforms should prompt an uptick in sector innovation, investment and scale-up capital. There are three ways that policymakers and the industry itself could demonstrate greater ambition.

First and foremost, tax breaks would make listing in the UK more attractive. Policymakers should consider reversing the much-criticised decision to reduce inheritance tax relief on AIM shareholdings from 100% to 50%.

They could also exempt certain high-growth strategic sectors such as life sciences from the stamp duty reserve tax (SDRT) on shares. This would motivate investors to buy UK shares, and add much-needed liquidity to the London markets.

Secondly, it must ramp up incentives to keep talented people in the UK by investing in education and start-ups, making university spin-outs more profitable for founders, and ensuring that regulations work in harmony with other Western markets.

And finally, advisers can help broaden the industry's sources of financing. These could include looking beyond pure equity, and targeting cash-rich investors in markets such as the Middle East.

Alternative structures could include convertible instruments, asset-backed loans, and working capital loans. In recognition that they are likely to remain private for longer, life sciences companies can prepare by exploring a wide range of financing at an earlier stage. In this way, those with viable commercial propositions can use private capital as a stepping-stone to eventual public ownership.

Private equity funds are increasingly joining venture capital investors in pursuing preference equity structures, which can replace traditional debt or common equity funding. These offer flexibility and security, with commercial terms and structures to balance risk and reward among preferred equity investors, common equity investors, and sponsors.

As a leading firm in the life sciences and healthcare sector, A&O Shearman is committed to supporting high-growth companies through their early- and mid-term funding stages to IPO, as well as on a range of M&A, licensing,

collaborations, and high stakes patent litigation work. We work across the industry, including with biotech, pharma, consumer healthcare, data and MedTech companies.

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