ADDING VALUE, DELIVERING GROWTH

FINAL REPORT OF THE PUBLIC FIRST/BVCA INVESTMENT COMMISSION

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Invested in a better future

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INTRODUCTION:

BRITAIN: A GREAT PLACE TO INVEST

Growth is the new Government's central mission. And rightly so: it is the mission on which everything else depends. Without a growing economy, Britain will not see the higher living standards, the good jobs, the prosperous communities and the improving public services that everyone wants. As the Chancellor, Rachel Reeves, has said: "Growth is the challenge. Investment is the solution".

Much of that investment will come from private capital. The UK's private equity and venture capital industry, standing as it does at the unique intersection of deploying capital, investing for the long term and helping to shape the strategy of portfolio companies, already invests heavily in the UK.

£20.1bn

invested by private capital into UK businesses in 2023

12,000

UK companies backed by private capital

2.2m

people in the UK employed by private capital-backed companies

55%

of UK businesses backed by private capital are outside London

90%

of UK businesses backed by private capital are SMEs

£137bn

contributed by UK private equity and venture capital backed businesses in 2023 – that's 6% of GDP

What do private equity and venture capital investors do to support and grow UK businesses, improve their productivity and get a return on their investment? What are the most important barriers - in terms of regulation, state capacity, skills, policy stability, potential return on investment and more - that face those seeking to invest in the UK, and what are the measures that would most significantly boost investment? How can government and the private sector work together to achieve aims everyone agrees on: boosting economic growth, reducing inequalities between the UK's nations and regions, delivering Net Zero? How do we secure the private capital investment we need in the businesses that will create the jobs of the future?

These are some of the questions that the BVCA Investment Commission, in conjunction with Public First, was convened to answer. Our starting point was that boosting rates of private investment in the UK is a prerequisite for economic growth. With the right policies in place, the UK's private equity and venture capital industry is perfectly placed to support that.

We brought together a range of experts - people who represent investors, portfolio companies, academics, think tanks and business groups - to help us to understand the most important barriers that face both those seeking to invest in the UK, and those seeking to attract investment.

We conducted two surveys of BVCA members,[1] held one-to-one interviews with senior investment professionals, and convened expert roundtable discussions on three specific themes: green transition and clean energy, the UK tech sector, and investment in the nations and regions of the UK. We found that many of our most important conclusions cut across all three of these themes. All roundtables were conducted under the Chatham House Rule. This report includes quotations from roundtable participants, as well as from our interviews, but none are attributed to specific individuals.

Our research has led us to make policy recommendations which could help to overcome these barriers, which are implementable – representing a broad consensus between investors and policymakers – and which reflect the key public policy challenges that stand in the way of boosting investment, not just the specific demands of a particular industry.

A healthy starting point

The nature of a project like this, which focuses on how investment in the UK could be increased and what barriers to investment currently exist, is that it concentrates on things that need to change. And so it is important to say at the outset that we found a huge amount of positive sentiment towards the UK as a place to invest – as you would expect from talking to a wide range of people who currently invest in the UK and who want to keep doing so.

After all, the UK remains a key hub for global financial services and markets. Financial services are a key driver of the UK economy, with exports from UK financial services firms amounted to £97.2bn in 2022, generating £75.6bn of trade surplus, accounting for half of the UK's entire trade surplus. Our fintech sector is world-leading, we have a key role in international financial services as well as professional and legal services. Our respect for the rule of law, stable regulatory environment, strong economy, robust legal system and the dominance of the English language make the UK a home for global financial services firms.

[1] BVCA and Public First carried out an online survey of senior investment professionals within the BVCA membership between 15th-22nd January 2024, focused on barriers to investment in the UK receiving responses from over 60 senior decision makers in over 50 investment firms. And we carried out a second online survey of senior investment professionals within the BVCA membership in July-August 2024, receiving responses from senior decision makers in 36 different investment firms. The survey respondents' businesses invest in over 2,500 portfolio companies and have a collective £1.7 trillion assets under management.

That helps to explain why the UK is a centre for private capital. At the same time, evidence suggests that private equity ownership has a long-term positive impact on business productivity, compared to non-private equity backed businesses, and that private equity-backed firms' productivity is more resilient during economic downturns.[2] The UK is one of the best places in the world to invest, but investors in businesses here still face challenges: this report is aimed at making it even better. In our BVCA member survey:

3%	35%	11%	24%
say it is harder to execute investments in the UK than in other countries they invest in	say it is easier to execute investments in the UK than in other countries they invest in	say it is harder to find investable propositions in the UK than in other countries they invest in	say it is easier to find investable propositions in the UK than in other countries they invest in[3]

It is striking, but not surprising, that UK based investors would be so positive about investing in the UK relative to elsewhere. We know that for PE and VC funds based in the UK around 50% of their investments go to the UK. This emphasises the value to the UK of this unrivalled European hub of private capital expertise.

Respondents who said it was easier to find investable propositions and execute investments in the UK cited strengths including the scale of fintech, climate and life sciences in the UK, the existence of a broad range of innovative growing businesses in the UK mid-market which can be scaled internationally, a bigger pool of talent compared to other individual European countries, and the simple fact that the UK is a large, developed and open economy with an already well-developed private equity ecosystem, a clear legal framework, an entrepreneurial culture and an established VC sector. All of these are long-standing and hard-won UK advantages that go a long way to explaining why this country is already such a great place to invest – but it could be even greater.

> *There is a global race for capital and in the UK we've been a bit laid back in competing in that race.*

Part two of this report looks in detail at some of the most important barriers to investment across the board, but it is worth noting at the start that these barriers are particularly high when it comes to businesses outside London and the South East -

[2] P. Lavery, J. Tsoukalas, N. Wilson (2024) *Private equity financing & firm productivity*, Working Paper No. 041, The Productivity Institute

[3] The rest either said there was no difference or that they do not invest outside the UK.

where skills shortages are higher, infrastructure is poorer and investors, especially those from overseas, are somewhat less likely to be prepared to invest. As one investor put it at our nations and regions roundtable:

> *We find that companies in London and the South East are actually more likely to fail. But those outside of that region are a lot less likely to scale.*

While it would be wrong to say that investors and businesses *do not want* tax cuts or subsidies, it is equally important to note that this was, by a long way, not the main demand that came through from our roundtables. The structural barriers to investment - lack of infrastructure, skills shortages, planning delays, lack of regulatory agility and more, as set out in part two of this report - were the main things our participants told us about.

The barriers they face in finding investments and deploying capital are in large part the barriers the UK itself faces in achieving sustained economic growth. This is a message policymakers should take heart from: while there are policy tweaks for investors specifically that would make a big difference, and while this paper sets out some of these, the policy changes that bring the biggest wins for investors will help across the board. Making the UK more investable means making the UK a better place for *everyone*, not just for investors.

PART ONE:

THE POSITIVE IMPACT OF PRIVATE EQUITY AND VENTURE CAPITAL ON BUSINESS PRODUCTIVITY

At the most basic level, Private Equity and Venture Capital firms invest in businesses with the aim of achieving a return on their investment. That means adding value: ensuring that the business is worth more at exit than at the time the initial investment was made. In order to achieve this, investors want to improve productivity, profitability and growth - in brief, making businesses better.

All of that is obvious. But it leads to two questions: does it work, and if so *how* and *why* does it work? Is it just about money, or is there more to it than that? We already have evidence to answer the first question: private equity ownership does have a positive impact on business productivity. Recent analysis finds that private equity ownership has a long-term positive impact on business productivity, compared to non-private equity backed businesses, and that private equity-backed firms' productivity is more resilient during economic downturns such as the global financial crisis and the Covid-19 pandemic.[4] Other surveys have found a lasting positive impact of private equity ownership on target firm productivity which persisted even after PE exit,[5] and that mid-market firms in the North of England with private equity investment outperformed benchmarks in productivity growth against a control group by as much as 9% - and again, that those businesses were particularly resilient during the recession of the late 2000s.[6]

A similar picture can be seen worldwide: an international literature review found that PE buyouts in the US and Europe tend to have positive impacts on productivity and job growth at target firms, and indeed that they have positive externalities on the industries in which those firms operate, generating productivity and job growth among competitors too.[7]

This is important because a lack of productivity is a major problem for the UK economy. UK aggregate productivity is around a fifth lower than Germany, France and the US, and productivity in SMEs is significantly lower than in larger firms, with a "long tail" of low

[4] Paul Lavery, John Tsoukoulas and Nick Wilson, Private equity financing & firm productivity (2024)
[5] Paul Lavery and Nick Wilson, Private Equity Buyouts and Portfolio Company Performance Post-exit (2022)
[6] Nick Wilson and Mike Wright, Engines of growth: private equity and productivity potential in the North (2016)
[7] John Gulliver and Wei Jiang, The Impact of Private Equity Buyouts on Productivity and Jobs (2020)

performing firms. There is both lower absolute productivity and lower productivity growth, which is mostly seen in SMEs.[8]

So our research for this part of the report focused on some key questions: what do PE and VC investors actually *do* to improve the productivity of their portfolio companies? What value do they add, and how? Are there particular strategies they have in common? Are some tools more effective than others? And what is the evidence that PE and VC investment makes a positive difference to portfolio company performance: that it is good for the investor, good for the company being invested in and its management and staff, and – given that a strong economy depends on well-performing, productive, profitable businesses – good for the UK as a whole?

This part of the Investment Commission report takes insights from a survey and interviews with senior representatives of BVCA member firms, large and small and with a range of different investment strategies and specialisms, to set out ten of the techniques and tools that PE and VC investors put in place to improve portfolio company performance. These include setting proper strategic plans, investing in – and providing expertise in – new technology, identifying opportunities for expansion, giving access to the networks and contacts that enable that to happen, and much more.

As one of our interviewees put it, “It’s a lot more for us than purely just providing the cash”.

[8] Enterprise Research Centre, The State of Small Business Britain 2021, Enabling the Triple Transition (2022)

1) Strategic plans

Almost all of the BVCA member firms we surveyed said that developing a 2-5-year strategic plan was one of the techniques they employed to improve portfolio company productivity. In simple terms, a strategic plan is a document outlining a business's main goals and ambitions over the course of a given period, and the actions it will take to achieve them.

> *It's very easy at times to get sidetracked on specific areas and it's always trying to bring that management back to focusing on the revenue drivers and the margin drivers of the business. We tend to do that by what we call our strategic growth plan. That focuses the business on where are the key generators that we need to be focusing on to achieve that capital growth and also looking at the enablers alongside that within a business.*

> *Pre-deal and then in the very early stages of post-completion I spend a lot of time with the management team figuring out how we translate their really exciting vision, market opportunity, into a deliverable plan that is really easy to communicate and articulate, so that it can be well understood by everybody in the business.*

Most simply, putting a strategic plan in place makes sure that management and key staff have a clear understanding of what they are trying to achieve, and that they are aligned with their investors and fully focused on building a more successful business for the long term.

> *We're trying to get them to understand that what they're trying to grow is a business, not a product.*

> *The strategic growth plan of the business is one of the key strategies we use in terms of how we take the business from where we are now to five years hence for exit.*

This clearer understanding helps businesses to think better about how to allocate resources, where to invest and what to invest in: not just what they think they need now, but how those decisions align with a vision of where they want the business to be over a given period of time. Delivering a strategy effectively can mean taking actions that harm growth and productivity in the short term but make a business better placed to grow and add value in the longer term.

By providing businesses with a clear understanding of their objectives, strategic plans act as a benchmark against which they can develop performance metrics.

So when you're in the business early, you're looking to agree with the top management what your strategy for the business is and also how the operational value creation piece goes in a lot of granular detail, and then also how you measure it, in terms of financial and non-financial KPIs.

2) Management and leadership support

Investing into our management teams and helping them develop their leadership skills is one of the most important things we do.

Business management is the process by which companies organise their resources to achieve certain outcomes. Throughout the course of this project, improvement in management teams' business and leadership capabilities has been cited time and again as one of the most important contributors to business productivity.

We bring governance expertise as well. We've got all these years of experience around how to effectively set boards up and run firms more effectively. And particularly with businesses that have grown fast, have been founder-owned, and then have been through smaller private capital firms, that's often quite a big step change for them.

There is ample evidence to support this view. Better performance in terms of growth, productivity, and business survival increases as management practices get better.[9] Indeed, the difference between good and bad management may be a significant explanatory factor behind international productivity differences.[10]

There are several reasons better management has been linked to better productivity. For example, good management could mean the difference between companies spotting (and acting on) opportunities for innovation or growth, or letting these opportunities pass them by.[11]

The vast majority of the firms we surveyed invested in management and leadership training to improve the productivity of their portfolio companies. In contrast, one 2024 report found that only 33% of SME leaders took action to improve their management and leadership skills in the past 12 months.[12]

Management is a hugely important aspect of value creation within companies of all sizes.

Once we buy the businesses we spend a lot of time with the management team, supporting them in designing and then executing the value creation plan.

One interviewee told us that the receptiveness of the management team was one of the most important parts in their decision to invest in a company.

[9] Nicholas Bloom and John Van Reenen, Why Do Management Practices Differ across Firms and Countries? (2010)
[10] Nicholas Bloom, Raffaella Sadun and John Van Reenen, Does Management Really Work? (2012)
[11] Be the Business, Raising UK competitiveness: Inside the mindsets of leaders of firms (2019)
[12] Be the Business, Productive Business Index: Edition 7 (2024)

We don't want to come in and micromanage the team. We work with the team and we supplement by finding new people in our network that might be good additions. We want them to be receptive, and we want to have the same strategy, but it's more 'Are they the right people to take this business from A to B over the next five years?'

3) Measuring productivity

It is difficult to improve productivity – and more or less impossible to *know* whether you are improving productivity – without measuring it. Private equity and venture capital investors need to know how their portfolio companies are performing. And this in turn means that the management of portfolio companies have a responsibility to measure their productivity, identify where improvements can be made and change their systems and behaviour accordingly.

This monitoring and analysis supports performance improvement, with small improvements in management practices being associated with increases in a business's productivity.[13] Monitoring plays a vital role in not only creating value, but also demonstrating it – such as through showing adherence to regulatory standards.[14]

The overwhelming majority of the PE and VC companies who responded to our survey said that they routinely put systems in place at the businesses they invest in to monitor productivity and identify areas for improvement.

> *When businesses bring in partners, they have to think: 'I'm in an environment where there's a bit more accountability because I've got external shareholders. What is my plan to deliver that? What actions am I going to take? How am I going to measure it?'*

For many businesses, particularly SMEs which have not worked with external partners before, PE or VC investment can be the first time their management has had to be accountable to anyone else, which incentivises the proper collection and analysis of data.

> *We really, really do encourage businesses to be making a lot more of the data and utilising data warehouses, so you've got a lot better focus on the key KPIs in the business. I think a lot of businesses can be quite inefficient in that way.*

> *In terms of how we really measure productivity, there'll be between five, maybe 10 key KPIs that you are monitoring monthly, weekly, where you are looking at what is really influencing the performance in that business and monitoring them, and seeing what you can do to improve that performance. That's how we focus on productivity.*

We spoke to investment professionals who pointed out that it can be difficult for some businesses, especially founder-managed SMEs, to look beyond the initial measures of performance that they have always been focused on. In some cases, SMEs are not even collecting or measuring the data that could enable them to make better decisions, and

[13] HM Government, Business Productivity Review (2019)
[14] Shireen Tyagi, Why ESG is a strategic priority for Private Equity (2021)

this is another area where active ownership by private equity or venture capital can make a difference.

> *I was talking to a business recently. They were spending an awful lot of money on getting sales in through the door and they were succeeding. But after a few months they were leaving, and I said, well, there's no point spending all this money up front if you've got people leaving at the other end. So in terms of productivity, it's making sure that you've got the right balance there. So it's all about understanding the data, the KPIs, the metrics, the data that you've got within the business. So that's very much something that we will be focusing on as well.*

> *Oftentimes, we'll look at revenue per full-time employee as a measure of productivity. And because a lot of these companies that we're talking about are project led, you're kind of thinking about what's your margin by project, where can we improve, what's the service offering, how can we project manage things better?*

That external accountability from active owners who are focused on growing the business and making a return on their investment over a defined period of time, brings an imperative to measure things. This in turn identifies where underperformance may exist and drives change within the business, increasing productivity.

4) Access to specialist networks

Seeking external advice is important for any business. Whether this comes in the form of informal networks, customer engagement, business fora, mentors, or formal advisory boards, seeking advice can have several material benefits for companies.

It can help companies understand their current and future markets, find support, identify best practices and potential technologies. It will also reveal efficient ways of working, help to discover information about the performance of their business, and build the confidence to change and innovate. As such, using business advice can enable companies to achieve productivity growth of over 10%.[15]

> *What the management team are looking for is, yes, some capital to maybe exit founding shareholders, maybe de-risk a little, maybe provide investment into the platform, whether that's people or systems or processes or whatever to grow the business. Sometimes all management want is cash. If they don't want somebody that will have a view or want to contribute to the strategy or how the business is run, we would very happily say to that management team, there will be better partners for you than us.*

It is unsurprising, therefore, that PE and VC firms invest in helping their portfolio companies access specialist advice networks. Of those we surveyed, more than half put in place advisory boards to improve business productivity, including three quarters of the VC firms who responded. Developing relationships with external innovators was less common, though still significant. A third of PE firms in our survey used this technique to boost productivity. Again, this rose to around half of VC firms who responded.

> *There's this network effect... we have a very broad network across Europe and the US where we cannot only open doors for them from a customer perspective, but from meeting potential advisors, having new people join the board, all that kind of stuff. And I just don't think management teams have the bandwidth to do a lot of that themselves. Particularly when it comes to entering new markets, that's often something that the companies we see just aren't comfortable doing themselves and haven't done before. So having a partner who can support them I think goes a really long way.*

> *We invite all of our founders to various forums throughout the year, talking about exits, talking about and board construction, talking about your marketing, talking about styles, strategies.*

The advisory benefit of private equity and venture capital to their portfolio companies may not simply be the result of the access they provide to external networks. Private equity firms may themselves "be a source of distinctive skills and tacit knowledge", so

[15] Enterprise Research Centre, [What Kind of Business Advice Improves Small Business Productivity?](#) (2024)

that “having PE investors active on the board can help portfolio companies to realise previously untapped productivity and growth opportunities”.[16]

I think a lot of businesses can be quite inefficient in that way and not joined-up. You try and remove that silo basis that certain businesses will have with finance and sales talking to each other and ops talking to each other... I do think private equity helps significantly with that, particularly at board level.

This may be more fundamental for smaller companies, for whom the process of scaling up can be a particularly daunting experience.

It's not rocket science, but the amount of people that I've met who have got very entrepreneurial, really compelling ideas, but don't pause and go: 'OK, now I'm in an environment where there's a bit more accountability because I've got external shareholders; What is my plan to deliver that? What actions am I going to take? How am I going to measure it? How am I going to resource it? So it's really helping people understand, how do you deliver transformation and change, which for entrepreneurs can be a real journey for them to go on.

We will look to bring particularly a chair candidate in who's potentially got experience in the sector and importantly will act as a mentor for the CEO and the team of what the strategic growth plan of the business is, which is one of the key strategies we use in terms of how we take the business from where we are now to five years hence for exit.

[16] Paul Lavery, John Tsoukalas and Nick Wilson, Private equity financing & firm productivity - The Productivity Institute (2024)

5) Expansion through strategic M&A

Several of the investors we spoke to said that strategic mergers and acquisitions (M&A) by their portfolio companies were a crucial part of adding value and productivity to their investments. The "buy and build" model, whereby investors acquire a "platform" company and then "bolt on" additional related businesses to make a larger and more productive whole, is common in private equity. Bolt-ons may include businesses that form part of the platform company's supply chain or a manufacturer of a key component, or businesses that provide another key part of the supply chain of the customer base, or direct competitors. Done well, M&A can add value through efficiencies and synergies, with combined resources and an expanded customer base, making the merged companies more productive than the sum of the original companies.

One of our interviewees said that over 80% of his firm's businesses have done some elements of M&A, and another told us that while his company did about 12 deals a year, they did between 50 and 100 bolt-ons to the portfolio - so M&A is a critical part of the activity of the whole business, and crucial to its value-creation strategy.

While many SMEs could benefit in principle from strategic M&A, this can be a daunting and difficult thing to manage without support. Owner-managed SMEs may find it harder to understand how to approach acquisitions and do deals. They may have a less clear picture of what the opportunities are and where their business sits in a wider network of businesses that might benefit from consolidation, alongside being too busy with the day-to-day running of the business to be able to consider M&A properly. This is an area where active ownership can really add value, with the expertise and experience that comes from having done M&A deals before and, in many cases, having dedicated teams focused on finding and executing strategic acquisitions.

> *If we've got a business that's looking at M&A, we've probably done over 200 add-on acquisitions for the portfolio.*

Sometimes that is already part of the plan at the point of PE investment in a business, and the portfolio company's own management team is less involved in the process.

> *At the larger end of the market, a lot of the time they'll want to do an M&A roll up: 'I'm going to buy that business and that's going to be my platform business'. At that point you don't need a management team to have a plan, because the private equity house have done the thinking on what the strategy is.*

M&A is often not straightforward, because by definition it involves bringing together two different businesses with different functions, working practices and company cultures, and almost inevitably with certain overlaps and consequent tensions. This is another area where the experience that PE brings can add value. This may be particularly true around management, which needs to be effective enough to manage the strains (and costs) of integration.[17] One investor with significant experience of M&A told us that a huge amount of attention needs to be paid to post-merger integration.

> *The biggest failure in most businesses where you are doing M&A is the integration doesn't work, and that's both just from a structural perspective, but equally importantly from the people and cultural perspective.*

[17] Deloitte, M&A Value Creation and Synergies

6) Internationalisation

The Enterprise Research Centre has found strong relationships between growth and exporting, which could be a key part in closing the UK's productivity gap.[18]

Internationalisation can take several forms. Penetrating foreign markets can be a key way to find new customers and drive sales growth.

One big help we do is internationalisation. We buy very often national players, whether directly, i.e. we are opening up an office, or we sell in another country. [One of our portfolio companies] was really the UK, a tiny bit in the US, a bit in Europe and that's it. Today, 30% of the sales are in China, Hong Kong and Japan.

Secondly, internationalisation can enable companies to source talent, capitalising on any comparative skills advantages in different countries.

I will always take a European over any other country [on manufacturing], just very good quality. And so when we buy manufacturing for the companies in the US, I want them to think about bringing the expertise to produce stuff from Europe. When it comes to go-to-market, the other way around. I think the Americans are great at selling and so when we buy European companies, we try to say 'how can we leverage the US way of selling so that our portfolio companies can sell better?'

Finally, it is important, where possible, to bring knowledge from international business practice to bear.

Particularly when it comes to entering new markets, that's often something that the companies we see just aren't comfortable doing themselves and haven't done it before. So having a partner who can support them I think goes a really long way.

Private equity and venture capital investors are well placed to help companies take advantage of these benefits.

[18] Enterprise Research Centre, The State of Small Business Britain 2023 A manifesto for small business growth and productivity - Enterprise Research Centre (2024)

7) Tech enhancement

Technological enablement involves the integration and effective use of technologies within business operations, which can help to reduce administrative and production costs and allow for more efficient ways of working, driving productivity gains.

For example, the Enterprise Research Centre has found increases in sales per employee as a result of adoption of web-based accounting software and cloud-based computing[19]

Technological enhancement is a major focus of PE and VC firms, with the vast majority of respondents to our survey citing investment in productivity-enhancing technology as an important part of what they do.

> *If I think about the application of technology, that's a big part of what we do. We take firms which either don't have the imagination, management, or cash to invest in technology and help them do so.*

Firms we spoke to testified to the importance of their digital technology teams, and the effect this has on growth and productivity.

> *I don't think holding down salaries or increasing prices are a good way of achieving growth because eventually you become too expensive for the service you provide or your people are not getting paid enough for the service they provide. So what we do is tech enablement. We are a massive investor in technology to support our services for portfolio companies.*

> *We upgraded internal systems as well, CRM systems and marketing systems were quite important there, which certainly improved the underlying productivity of the business as a result.*

Recent research from Public First and Microsoft has found that with the right enablers in place, AI has the potential to increase the size of the UK's GDP by £550 billion by 2035 - the equivalent of raising annual growth rates by 2% per year.[20] PE and VC firms are well placed to enable companies to make sustainable and realistic decisions regarding artificial intelligence.

[19] Enterprise Research Centre, The State of Small Business Britain 2021, Enabling the Triple Transition (2022)
[20] Microsoft and Public First, Unlocking the UK's AI Potential: Harnessing AI for Economic Growth (2024)

It would be remiss of any board at the moment not to be all over AI, but it's not quite as straightforward as 'fill your lungs with the heady excitement'… you still have to be making sensible, hard-headed business decisions. We all understand that in various forms automation and tech evolution are going to radically change most business models, but not straight away, in many cases.

8) Financial investment

Setting up new offices, acquiring businesses and physical assets, expanding operations, hiring talent, advertising, investing in research and development, or purchasing new software all hold the potential to hugely increase business productivity. None of these things are possible without money, and the investment PE and VC firms make in their portfolio companies is critical to enabling them, as well as in helping companies weather economic storms.

Difficulty accessing finance or capital is one of the most frequently cited barriers SMEs face as they seek to improve.[21] For smaller firms in particular, accumulating financial capital can be problematic, with a negative effect on growth, sales, and job creation.[22] By providing capital investment, PE and VC firms can help companies overcome major obstacles to their productivity.

> *We tend to over-equitize our companies so there is more cash in the balance sheet for investment.*

> *We very rarely do a dividend recap… if there is cash in the balance sheet of the business, we tend to want to reinvest in the business so it can grow even faster.*

> *PE groups very rarely take money out throughout the course of their investment, because we're a growth investor, and you need capital in the business.*

Private equity firms may be able to dedicate significant resources to navigating capital markets.

> *Clearly we bring access to capital, not just through our own funds, but we have a specialist in-house capital markets team whose role is entirely built around that, whether that's debt capital, third-party equity from somewhere else or anything else, including how to run an effective IPO.*

[21] Be the Business, Raising UK competitiveness: Inside the mindsets of leaders of firms (2019)
[22] Enterprise Research Centre, The State of Small Business Britain 2023 A manifesto for small business growth and productivity - Enterprise Research Centre (2024)

9) Commercial support and expertise

Private equity and venture capital investors often have commercial experience and expertise that many companies lack. Indeed, that is part of the reason many businesses seek PE or VC investment in the first place. Almost all of the respondents to our survey said that they provided their portfolio companies with support with advertising, marketing and branding. Some provided specific details, saying that they provide "support with PR, brand identity and stories to make it more appealing to customers, prospective employees and follow-on investors".

> *We have what we call a commercial go-to-market team who look at how the proposition to the marketplaces should be refined in the context of the competitive environment.*

This can include thinking about how to win new customers and expand into new markets, as well as taking a step back to understand who business' target customers are and how best to target them.

> *A lot of the time improvement revolves around the commercial efforts. How are businesses thinking about winning and keeping their customers? How do we grow the backlog and pipeline? How do we help them expand into new markets? So it's more tactical than just thinking about how you support the business.*

One particular issue mentioned by several of our interviewees was pricing: something that can be difficult to get right but is critical to achieving the correct balance of sales volume and profitability.

> *We back management teams to run the businesses, but we make damn sure that if somebody says 'I don't know how to do pricing very well', I will go and spend time with them, talking to them about what I've done, my experience, where I would start, what data I would look at, how I would report it.*

Interestingly, we heard that improved pricing strategies can grate against the instincts of portfolio companies. In this case, private equity and venture capital can help companies achieve a mindset shift.

It's amazing how many businesses haven't really looked historically at increasing prices. You had a number of years where there was no inflation and you've got to bear in mind that a number of the management teams, particularly younger ones, never lived with inflation, never lived with high interest rates. It has really been a step change for a number of teams over the last couple of years, just getting the thought process correct more than anything else.

Other investment professionals mentioned specific expertise that they were able to bring to a pricing conversation, such as the ability to make pricing more dynamic.

10) ESG

All businesses need to comply with regulatory requirements, and this can pose challenges as they scale - but our interviewees were keen to emphasise that getting this right can be an important part of value creation. One of the benefits to a company of becoming part of a PE or VC portfolio is that investors can bring significant expertise and understanding of what can be complicated and time-intensive processes. It is unsurprising that venture capital and private equity companies invest significant time and effort into improving their portfolio companies' performance in this respect, particularly regarding Environmental, Social and Governance (ESG) performance.

> *A fifth of our value creation team are focused on ESG, and for me it's not something that we do in addition, it's something that is core to value creation. Not just because it's good for the environment, or it's good for governance, but also because it delivers real value to our portfolio companies.*

> *Some people put ESG within legal and compliance; we put it within value enhancement. We just think that it's an essential part of building value, building equity value.*

Investors we spoke to described ESG compliance as an important part of building and demonstrating value to potential new investors who want to take a business to the next level.

> *You have to be able to demonstrate what the story is for the next owner. I'm not sure actually there was ever really a time when that wasn't true, but it's particularly true now. So take public markets. The level of ESG disclosure required for a publicly listed company now is very big, but actually that's really just the same if you're selling a business to somebody else. So not only are you therefore investing over your period, but you're also showing the next owner several years' worth of upside after that.*

Indeed, in the context of ESG and responsible investment in particular, this was cited as a particularly strong feature of private equity.

> *We end up interviewing a lot of fund managers around what their ESG practices are and the seriousness with which we and others take ESG and RI [Responsible Investment], there's just no comparison between private equity and either corporates or the public markets.*

Summing up

The UK's well-documented productivity problems have been given a range of explanations.[23] But the problems which have hampered productivity in the UK as a whole, are not felt to nearly the same degree by PE- and VC-backed companies, precisely because active ownership provides a focus on adding value and increasing productivity.

Capital investment is a key part of the solution – technological transformation can have big upfront costs while disrupting business activities – but expertise and support is at least as important. Much of it is dependent on having an effective and experienced management team, and leadership that's prepared to listen and take advice. Recruiting for scale can grate against the instincts of founders heading small businesses at the start of their growth journey, but is essential to growing a company.

> *A lot of the time when we invest in companies they're run very lean because they're run by a founder. So a lot of the time we're saying 'You need more people in your business because you aren't going to scale, you aren't going to grow'. You aren't going to get away with running a business with two people in the senior leadership team and nobody taking responsibility for people and nobody taking responsibility for tech.*

> *On average, a company leaving the portfolio, from when it enters, has twice as many employees.*

By identifying businesses which have the potential to grow and add value, and then giving them the tools to do so, PE and VC investors are doing their part to solve Britain's productivity problem. The next part of this report focuses on some of the barriers they face, and some of the things the Government could do to remove them.

[23] Andy Haldane, The UK's Productivity Problem: Hub No Spokes (2018)

PART TWO:

BARRIERS TO INVESTING IN THE UK

Cross-cutting themes

Investors in UK businesses face a number of challenges: the kinds of challenges that face all investors in all businesses everywhere, but which manifest themselves in the UK in particular ways. In our roundtables, we found some of the same issues coming up again and again. These are not *barriers* to investment - later we will set out some of the barriers we identified, and some suggested policies to mitigate them - but things all investors have to think about.

Scaling

We heard that securing growth capital is much more difficult than securing early stage funding: there is a significant gap between early-stage funding finishing and where larger, more traditional later-stage funds might step in. This is often where foreign investors need to come in because domestic options are lacking: roundtable participants told us that the terms on which the British Business Bank invest are often unattractive to companies at growth stage.

Finding customers

All businesses need a customer base, and investors need to be confident that any business they invest in is in a position to find a market for the products or services it is selling. One concern that came through strongly in our roundtables was that this can be harder in the UK than elsewhere: we were told that UK-based corporations tend to be less willing than US ones to adopt new technologies early on, quite apart from the fact that by virtue of its size the US has more potential customers than the UK. More could be done by policymakers to encourage UK corporations to act as better early adopter customers, which would help strengthen regional technology markets and make the UK a more attractive place for companies to grow.

> *If I talked to most of the CEOs of my portfolio companies, they would say, on why they are putting so much focus on going to the US, depending on the sector, as opposed to sticking in the UK, well, the almost universal response that comes back is because US corporates are far more willing to take a risk than the UK corporates, and they're just better early adopter customers.*

Investment in the nations and regions

A recent working paper found that if the UK's cities outside London had the same growth as their European counterparts, the UK's GDP would be £55 billion higher, bringing in around £13 billion per year of additional tax revenue.[24] Roundtable participants told us that while deal opportunities exist outside of London and the south-east, originating those deals requires dedicated resources that smaller regional funds may struggle to allocate.

Proven investors specialising in particular nations or regions may be better positioned than London-based funds to deploy capital quickly to support regional growth, but it can be difficult for regional funds to raise capital from international investors, who often prefer investing through London-based funds. Constraints around maximum fund size exposures, target returns, and deal ticket sizes can make it difficult for regional funds to access the capital of large institutional investors like pension funds. Facilities or vehicles that could aggregate capital across multiple regional funds may help address this challenge.

Regional devolution

The most important political leadership, in terms of setting strategic direction and making policy, is at a national level. But at the same time, in the context of regional investment in particular, we heard that having significant political figureheads such as metro mayors makes a big difference – both as champions of the area they represent and as a focal point for engagement. While the exact powers and responsibilities of metro mayors differ from mayoralty to mayoralty, and may be changed in future, the benefit of having a single central figure for potential investors to engage with is invaluable - perhaps more than through specific policies at mayoral level.

> *People often talk about devolution as 'What are the particular powers or resources and things that are moving from Westminster?' The thing that I think we'd underestimated was just the convening power and profile of the mayor. Now, you could probably do that without the formal devolution bit, in that it obviously helps to have more funding decisions locally or more powers, but actually, a lot of that is about having the figurehead and the point of contact to engage with.*

[24] N. Weinberg, D. Turner, E. Elsden, E. Balls, A. Stansbury (2024), *A Growth Policy to Close Britain's Regional Divides: What Needs to be Done*, Mossavar-Rahmani Centre for Business and Government Associate Working Paper Series, No. 225

Barrier 1: Policy uncertainty

Political uncertainty and frequent unpredictable changes of policy damage the confidence of investors and create problems for the UK businesses they invest in. Capital is mobile. Government needs to think about the messages it is sending not just to voters but also to people who are considering making large, long-term investments in the UK, and who could make those large, long-term investments in businesses based elsewhere instead. In our BVCA member survey:

71%	31%	33%
say UK businesses they invest in have experienced problems because of political or policy uncertainty	have decided not to invest in a UK business because of political or policy uncertainty	say a clearer net zero and policy roadmap would make it easier for them to invest in a UK business

Many of the people we spoke to made the point that a clear direction of travel from Government makes a huge difference to investors' willingness to invest. Some uncertainty is inevitable – nobody ever knows for sure what the future will hold. But when politicians indicate that they may not be as committed as they once were to particular policies, for whatever reason, it increases uncertainty. And even relatively small changes, if they are briefed as being significant, can look significant enough to affect investment decisions.

None of this means that policy should never change. Policies do sometimes have to change, for a range of reasons including external shocks. And many existing policies can be improved. A call for policy consistency is not a call for stasis or stagnation. New governments are sometimes elected with a promise to shift policy decisively - and that gives them a democratic mandate to change things, so long as they have been clear about the changes they want to make.

But unexpected major shifts in policy, such as the 2022 mini-budget, much of which was quickly reversed, or the cancellation of long-running major public infrastructure projects, or the retreat from long-term public investment commitments, do damage investor confidence and make it more difficult for them to invest in the UK. And Government can make it easier for investors to plan with confidence by giving clear signals about their priorities and direction of travel. Roadmaps, strategies and clear statements of principle can all help avoid the unpredictability that inhibits investment, especially long-term investment. BVCA members do not want the Government to pick winners, but they would welcome a single source of strategy that makes clear the broad direction of travel over the next few years.

In the green investment space, for example, this is less about the exact level of spending, and more about the message that is sent – especially to people who are considering making large long-term investments in the UK, and who could make those large long-term investments elsewhere – when uncertainty is introduced.

> *The high level signals on the direction of travel on green investment in the UK is critically important, particularly when you're seeing the different geographies move forward with the same sort of aspirations and companies and investors needing to choose between their jurisdictions.*

> *That fundraising side is when ambition and stability in the market and sentiment becomes even more important, because we're looking to try and get overseas investors to invest in our funds, to then invest in UK SMEs. Now, when it's within the UK, people are close enough to the market to see through just short term headlines. But externally that ambition, or lack of ambition, really hurts us because when we're going out to try and fundraise as an impact fund to say 'Come into the UK, we're an ambitious market in any transition', that's what challenges me. That's where that directly impacts me going out to US investors, when they just see one or two headlines.*

The desire to understand how committed politicians are to a particular policy direction is especially the case for longer-term investments, which will take a long time to develop and an even longer time to deliver returns but which are vulnerable to short-term policy fluctuations.

> *If you want people to invest in the UK, they have to understand what the long term intention of the UK Government is, or what long term policies are, and I just don't feel that our politicians and governments currently think in that 20, 30, 50, 100-year time plan, it's much more short term than that. And that's challenging for us if we're having to invest in 50, 60, 70 year assets, or assets where just to get them constructed and permitted could take 5-10 years, and if policy changes within that timeframe, then we're on the wrong end of that.*

On the topic of certainty and confidence, one thing that came through strongly in our survey of BVCA members was that a major attraction of the UK, for those who said that it is easier to execute deals in the UK than in other countries they invest in, is the UK's established legal framework and strong rule of law, as well as its well-established and well-understood market for private equity investment. These may not be discussed as often as potential changes in tax, regulation and public investment, but they are huge national assets which should not be overlooked, and which put the UK at a competitive advantage in relation to some other markets.

RECOMMENDATIONS

A clear direction of travel across strategically important sectors makes it easier to plan. **A single source document, such as an "Industrial Strategy" or another, similar, approach, which sets out overarching sectoral policy frameworks and relevant timeframes** is key for investor confidence.

There should be fewer Budgets and fiscal events. The Government should commit to holding just one budget per year with an exception for crisis situations (independently defined by the OBR).

Government should develop a much more concrete Net Zero Blueprint, setting out clear commitments and actions on public investment and policy including for sectors with clear planning and fiscal arrangements in key areas, so that investors in SMEs can be confident that the long-term investments they make are going to help those SMEs grow in line with future regulation.

Taxes should change as little as possible. But the headline rate of corporation tax has changed, in both directions, seven times since 2008 – making it harder for businesses and investors to plan. **As a signal of tax stability intent, the Government should commit to keeping corporation tax stable and low**.

Barrier 2: Complexity around regulation and incentives

Investors told us that complex regulation and uncertainty over incentives can make other nations a more appealing destination for investment. A simple message about predictability of return on investment and Government support, along with clarity about who to engage with, really matters. In our BVCA member survey:

70%

say UK businesses they invest in have experienced problems because of regulatory uncertainty

42%

have decided not to invest in a UK business because of regulatory uncertainty

50%

say reform of the British Business Bank to support larger-scale investments or invest more flexibly would make it easier for them to invest in UK businesses

One survey respondent who invests both in the UK and overseas said, “I do not believe the other countries provide better support except they are better at consistency. The UK tinkers too much”. Another investor we spoke to pointed out that “once a business has spent money to comply with regulations, removing those regulations is an additional cost. Stability is more important”.

Investors told us that a simple message about predictability of return on investment and government support, along with clarity about who to engage with, is more attractive than a potentially generous but complex and inaccessible system of incentives.

> *How do you crowd in investment? The first job is you've got to get people's attention. And then they're not spending that time elsewhere.*

Both the Inflation Reduction Act (IRA) in the USA and the very differently-structured EU Green Deal were mentioned as initiatives that potential investors could navigate relatively easily, compared to opportunities for UK government support for investment. The precise level of particular taxes is not investors' only consideration: where tax rates in a particular country have been highly stable over decades, investors can build that predictability into their assumptions when assessing likely returns, meaning that tax stability provides a comparative advantage in itself.

> *Simplicity tends to trump complexity and the system in the US is remarkably simple.*

If you look at the Inflation Reduction Act in the US, you can literally on Google find out the offer in various states. It will probably take you a little bit longer, but through Google, you can just about work out what the deal on offer in the EU is. And you just don't know what the deal is in the UK. So it's not about the quantity of subsidy. It's about just knowing what it is in the first place. And who do you engage with in government, if you want to build a battery factory in the UK. And at the minute those questions just aren't answered.

It's not the quantum that matters, it's the structuring. You could factor in the impact of the IRA [the US Inflation Reduction Act] to your financial model, 24 hours after it was published. And that as a business and as an investment proposition is so incredibly powerful to say. I mean, you think about hydrogen, why would you invest in hydrogen anywhere in the world but the United States, when that was first published? Again, there might be issues around deliverability. But because what you got was a tax credit, that was accessible to all players on a level playing field, it crowds people into that space thinking we'll do what we do best, which is try and build a world leading business or winning business model.

It's not necessarily about the scale of government funding. It's not necessarily about being the best or the worst, or anything else. It's just about being really clear, very consistent, and easily understood, whether that's for larger businesses having access to policy agreements that clearly give them an idea of what incentives they can access, right through to just consumers understanding 'Well, probably it's time to buy an electric car'. People will probably do it. It's just a question of when.

In the UK, it is an extraordinarily bureaucratic, long-dated, insider heavy process, where you come to the table and say, 'Oh, we'd like to invest some capital, we've got billions to play with'; 'Sorry, no, and you should have been involved in the conversation eight years ago, when we began track one, track two, track nineteen', you know, lots of different things like that. With people with a global interest, and not enough time, that interest quickly dissipates and goes to another country.

RECOMMENDATIONS

Government should look carefully at the recommendations from the Pensions & Private Capital Expert Panel and **work with the venture capital industry to help drive pension investment into venture capital and growth equity**.

Government should **expand support for the British Business Bank**, with new vehicles for pension investment and more funding for programmes that support emerging managers, growth deals and growth funds, as well as expanding its remit to invest in growth equity funds.

The government corporate venturing model, which has successfully been deployed by the National Security Strategic Investment Fund (NSSIF), should be expanded to other strategic sectors such as healthcare. This will help increase collaboration between Government, VCs and innovative companies, to improve procurement processes and access to the latest technologies.

Government should **clarify the future of grant and match-funding schemes** like the Future Fund Breakthrough, and consider further extension and expansion.

R&D tax credits support companies to invest in their future growth, and the regime must remain internationally competitive. **Government should develop a comprehensive R&D strategy, including R&D tax relief**, that incentivises genuine innovation in the UK.

New Government-backed vehicles for investment pooling or co-investment in strategically important sectors will be an important part of building an ecosystem. These should support minority and majority stake investment in growing businesses across the business life cycle, and have a conscious goal of building fund scale and expertise in the UK. Rather than picking winners, these should back the breadth of strong performing funds to grow their scale.

Barrier 3: Planning delays

A major uncertainty facing investors, and the businesses they invest in, is the length of time it can take to get planning permission for facilities they are ready and willing to pay for, such as factories and labs, but cannot build without approval. In many cases, their plans are also vulnerable to planning delays affecting other necessary infrastructure, both public and private, from the grid to transport to housing. For example, a lack of housing in certain areas has a direct impact on workforce capacity, which again impacts the viability of investments.

Roundtable participants told us that in addition to the need for planning reform to remove blockages and delays to necessary infrastructure, there is a basic problem of capacity within the system, with both additional resources for planning departments and additional planning staff required to meet demand. In our BVCA member survey:

35%

say businesses they invest in have experienced problems because of planning delays

9%

say planning delays have made them decide not to invest in a UK business

33%

Say planning reform would make it easier for them to invest in UK businesses

RECOMMENDATIONS

Planning laws need to be changed to make it significantly quicker and easier to build both the facilities and the supporting infrastructure that enable investment and job creation in the UK.

Greenfield status should not be a block on building new facilities and supporting infrastructure. Forthcoming changes to Green Belt designation should not be restricted to housing development but must ensure that job-creating sites can be built where they are needed where there is insufficient suitable brownfield land.

A lack of basic planning capacity is a crucial constraint on approvals: Government should invest in training planning officers, and **deliver and go beyond its pledge to recruit 300 additional planning officers**.

Barrier 4: Poor public infrastructure

Some of the most important factors that affect whether an investment will deliver a return are beyond the control of either investors or the businesses they invest in, but *are* either in the direct control of government or subject to long-term government decisions: grid connections that affect whether a new manufacturing facility can operate; transport links that affect where the workforce can be drawn from. This is separate from the question of whether public investment can "crowd in" private investment in related sectors; it is about public infrastructure that creates overall national capacity and, in the case of transport infrastructure, especially regional capacity for businesses to attract investors.

Currently, over half the UK businesses invested in by the private capital industry are based outside London and the South East. But investment in regional businesses, and therefore regional growth, could be even higher with improvements to transport and other infrastructure. Business investors are not investors in infrastructure, but they can only deliver high growth and strong returns if there is world-class infrastructure for their businesses to make use of. Without a solid infrastructure base, they will invest elsewhere: ensuring that it exists where it is needed is a big part of demonstrating that the UK is open for business. In our BVCA member survey:

42%

have decided not to invest in a UK business because of a lack of public infrastructure such as transport or grid connections

22%

say UK businesses they invest in have experienced problems as a result of a lack of public infrastructure

43%

say that significant public investment in green energy would make it easier for them to invest in UK businesses

34%

Say that significant public investment in transport infrastructure would make it easier for them to invest in UK businesses

Survey respondents cited a lack of investment in the regions and in transport and other infrastructure as major barriers to investing outside London and the South East, and this theme came through strongly in our roundtables as well.

> *Transport, of course, is all tied up with access to talent. How big is the talent pool that you're really able to draw from? How many opportunities are there for individuals within a given market? Where are people prepared to relocate to for a role? That all comes into it.*

When you can connect up larger regions, then you create much bigger pools in the first place.

Some of the people we spoke to talked not just about the importance of transport infrastructure to making regional businesses viable, but even to the basic question of getting investors, especially overseas investors, to come out of London at all.

When you talk about how easy is it to get an investor to visit somewhere outside of London, well, when you tell them that it's two hours on a train, and the chances are it won't turn up, or you won't get back afterwards, that becomes a huge problem. And that is a macro decision that was taken, which is public investment has been massively focused in London and the southeast.

Uncertainty about infrastructure investment paths created by shifts in policy, as well as the lack of infrastructure itself, is a barrier to investment: just as a new railway line may make an investment in an area served by that line more attractive, the cancellation of a new railway line, or even the threat of lack of commitment to it, can damage investability.

Policy stability, I would argue, is the elephant in the room. When people commit to huge programs of investment, and that gets taken away with no real grounding in evidence. And when people have invested a lot of time and money into those projects, when it's now having to start laying people off, that does make you think twice before you start to be receptive to other investment opportunities again. How on earth do we expect people to come on board to raise those kind of levels of investment if you're not convinced that the public sector has got the staying power to connect to that?

So the policy uncertainty we identified as Barrier 1, above, can translate in the real world into both a lack of the infrastructure needed to make investments viable, and a lack of confidence that that infrastructure will ever exist in the future, or at least on a timescale that makes any investment worthwhile.

RECOMMENDATIONS

Where a business commits to investing over a certain amount in physical assets in order to create over a certain number of jobs, **the Government should support the costs of building associated grid or public transport connections** in line with their timelines.

The Government should give stronger powers to the National Infrastructure Commission to ensure a **clear roadmap around nationally significant projects**.

Barrier 5: Domestic workforce skills shortages

Skills shortages in the recruitment of their domestic workforce were identified by investors in our survey as the single biggest issue for UK businesses they invest in, and a major factor in deciding not to invest in particular UK businesses. It was mentioned by several respondents as a particular barrier to investing outside London and the South East. In our BVCA member survey:

79%

say UK businesses they invest in have experienced problems as a result of skills shortages in the recruitment of their domestic workforce

25%

have decided not to invest in a UK business as a result of skills shortages in the recruitment of their domestic workforce

These shortages will vary from sector to sector, but the people we spoke to were particularly concerned about difficulty in recruiting people with certain technical skills, from heat pump installation to the ability to use particular kinds of software.

In some cases, they said they were in a position to attract people with the right skills from other sectors – for example, people who can move from real estate development to renewable energy development – but noted that those sectors were also nationally important and in need of the same skilled workers, pointing to a recruitment problem that goes beyond the needs of any specific business or investor or sector. Support for skills training programmes that focus on particular skills gaps would make it easier for businesses to be confident that they can recruit the workers they need, and for investors to back them.

> *When we come to invest in a fund, if they have a regional focus, part of our diligence analysis is thinking, is that region going to be able to support the types of companies that we're looking to develop, are there issues with this region which may constrain that? Access to skilled workforce is clearly one of the factors.*

Roundtable participants also emphasised that skills and talents are not just about the broad workforce that a business needs, but about specific leadership and business development skills. In the absence of domestic or local business leadership, this sometimes has to be brought in from overseas.

> *There's one type of talent that often gets forgotten in these kind of debates, which is the ability to lead a business and develop a business.*

We also heard that management teams often lack some of the specific skills and expertise they need, especially in SMEs with limited resources, to deal with the newer challenges they are being asked to meet.

> *These smaller companies simply do not have the time or wherewithal, particularly within the economic context that we're in today, to think seriously about how they become more environmentally friendly. That's not to say that they don't want to, just the realities of running these businesses means that they do not always have the time to think about becoming a common accounting expert, or really thinking seriously about diversity inclusion, or the risks of artificial intelligence, whatever it may be: they need to be able to access bite-sized, practical, immediate support to help them to upskill themselves as managers or perhaps their team to move them forward on that journey.*

RECOMMENDATIONS

Government needs to **ensure that the UK has the skills to fulfil the demands of global investors**. The UK is a leader in tech, life sciences and financial services innovation, but all of these industries need **a strong pool of people with specific STEM skills**. It's vital that the UK workforce is equipped for this and that our education and training systems are set up to provide the relevant training.

The flexibility proposed by the introduction of a new Growth and Skills Levy should be used to fund specific, high quality non-apprenticeship training programmes, such as skills bootcamps, in areas where specific skills shortages constrain economic growth and where there is demonstrable business need, so that employers can contribute more to wider skills development.

Barrier 6: Recruiting global talent

For investors, there are two different dimensions to the access to talent question. One is about the skills of the broad workforce across the population, both nationally and regionally, which is largely about ensuring that our education and training system is well set up to meet the needs of employers - while recognising that employers have a role in training their workforces too. The other is about the recruitment of individuals in roles that are either very senior or highly technical, with very specific skills which are in high demand, who may come from anywhere in the world.

These issues are not entirely independent – a bigger domestic talent pool reduces the need to recruit internationally – but it was clear from our conversations that they are distinct. Part of the problem here is about immigration and visa requirements, and part is about the broader question of whether people want to come to the UK or, in the case of talented individuals who are already here, whether they want to come to particular parts of the country. While the UK's overall immigration numbers have been high in recent years, this masks specific problems in the system that prevent certain highly-skilled individuals entering the country.

The UK is not the only country seeking to attract investment. New visa schemes elsewhere in Europe are making it easier for talent in the tech sector in particular to settle in other countries for longer periods at a lower cost. Small teams at venture capital and some growth equity firms, start-ups and SMEs often lack in-house expertise in international recruitment and immigration rules, and are forced to rely on expensive external advice: streamlining the visa application process for these firms would make it much easier to attract and retain talent in the UK. In our BVCA member survey:

68%

say a less restrictive immigration regime for global talent would make it easier for them to invest in UK businesses

56%

say UK businesses they invest in have experienced problems as a result of barriers to access to global talent

11%

have decided not to invest in a UK business because of barriers to access to global talent

The UK, we heard, is an attractive place for highly talented individuals to come to and build and lead a business - but they will not do this without immigration rules which allow them to come to the country in the first place.

> *If I look at the top performing companies in our portfolio, only one of them is led by somebody who's born in the UK, they're all people that have come to the UK, because they think it's a good place to start a business and they think they can get access to the talent to build that business.*

This talent recruitment problem is partly about visas, where people we spoke to were frustrated about specific restrictions which make it difficult for the UK to attract highly talented individuals.

> *I think first of all, fix low hanging fruit. So where you've got the visa system that's not quite working, like the High Potential Individual visa, which is: we said, 'The top universities in the world, you can come here, work for our startups, found a startup, whatever you want to do, come here'. And then by the time the Home Office was done with it, we have a visa that only has, like, 20 universities on it, and none of them are from India.*

Talent recruitment was cited several times as a particular issue in securing investment in the nations and regions of the UK, both in our survey and in our roundtable conversations, because of a perceived unwillingness among talented individuals, both from the UK and overseas, to settle outside the main population centres.

> *We're based in Leeds, we have people travelling in from London and Edinburgh. So people are willing to travel for the right role. What is the challenge, actually, is you're constantly aware that those people, if a similar role comes up in London or Edinburgh, then they're going to give up that four hour commute or the constant cost of hotels, to allow them to work in Leeds, and they're going to move back to those other major centres of population. So I think that's one of the key challenges, part of the reason that you can scale a business much more quickly in the southeast is that you can bring in the talent that at various stages is required, much more easily.*

RECOMMENDATIONS

Visa schemes for top global talent should be simplified so that investors and the companies they invest in can access the talent required to grow.

There should be clear criteria for recruiting talent into portfolio companies, that recognise the role of venture capital and growth equity: securing a defined level of funding over a defined period should be sufficient to demonstrate that a company is looking to scale and should be able to recruit skilled overseas talent in order to grow the business.

Government should recognise that **one of the reasons to invest in infrastructure and reform the planning system to build more housing is to make it easier for talented individuals to travel to and live in the places they are needed**, and therefore easier to invest in and grow businesses there.

Barrier 7: Lack of regulatory agility in innovative sectors

Many tech startups in particular are working with innovative technologies – from AI to medical devices to quantum technology to driverless cars to novel foods – which are rightly subject to regulation but where their regulatory status is unclear, because regulations have not kept pace with what is now technologically possible. This makes it much more difficult for investors to understand what their return on investment is likely to be, whether a product has a path to market and how quickly it will get there, and indeed whether a business is viable at all.

We were told that this has much more to do with regulator capacity and resource, and the speed with which legal frameworks adapt to new technology, than with any deliberate attempt to prevent innovation – but the impact is real. In our BVCA member survey:

91%

say a faster and more agile regulatory system would make it easier for them to invest in UK businesses

The recent Harrington Review of Foreign Direct Investment noted "business perceptions that UK regulators are under-resourced, and often suffer from asymmetric expertise compared to the companies they are regulating due to the higher wages paid by those companies".[25] This issue was also highlighted by the House of Lords Industry and Regulators Committee report earlier this year on the performance, independence and accountability of UK regulators.[26]

In our tech roundtable, regulators were discussed both as potential enablers and inhibitors of growth, with participants concerned that regulators end up taking a protectionist approach by default due to their mandates, squeezing out space for enabling activities. The cost of "foregone innovation" that results from this stance is not captured well.

Where regulations are ambiguous, we were told, lawyers advising startups are incentivised to take overly conservative approaches, discouraging risk-taking and innovation. Simpler, clearer rules are preferable.

> *I also think it's making it so that when the startup employs a lawyer to read the regulations that the lawyer doesn't then go, 'Well, it's a bit unclear. So just*

[25] *Harrington Review of Foreign Direct Investment* (2023), para 192, p. 85
[26] House of Lords Industry and Regulators Committee, *Who watches the watchdogs? Improving the performance, independence and accountability of UK regulators* (2024), p. 4

go in a really conservative manner, and don't do anything, because you know, then you're safe'.

This small-c conservatism in how businesses interpret regulations reflects a broader problem of how ambiguous regulations are interpreted across the board, with ministers similarly wary of the risk of decisions they make being subject to judicial review, not because of any deliberate attempt to flout regulations but because of the impossibility of knowing for sure what flouting them consists of.

There are understandable reasons for regulators to be risk-averse, but participants were clear that regulators need clearer priorities, sufficient resources and the expertise to properly understand the new technologies they regulate, and to adapt and interpret the rules in an enabling way.

> *If we took a proactive enabling approach and said, right, here's the frame. These are the five key areas, this is what we need to do to enable growth in these areas to make it more attractive, make it the place that people want to come and invest in AI, or in quantum or whatever it may be. If we took that proactive approach, there's enough expertise in this country to be able to get ahead and make the regulation that will enable the next step.*

> *Post Brexit, there's lots more domestic responsibility on regulators without a commensurate increase in funding, there has been some increase, but not proportionate. And you have an explosion of frontier technologies, but the learning curve for regulators has got much, much steeper. And when these two things happen at the same time, it creates enormous pressure on the regulators and their resource. And then there's areas where we just should change the rules that regulators are responding to. Legislation in the UK that would allow companies to run autonomous vehicles in the UK has taken forever, there was a transport bill and then it got pulled, now there is an autonomous vehicles bill going through parliament, I've spoken to people who say this has changed the nature of the investment conversations that we can have: the thing that we keep saying needs to happen, and that our investors keep saying to us needs to happen, is actually happening. So you've got resource, rules and risk appetite as three challenges for the regulators.*

RECOMMENDATIONS

Government should build on the launch of the Regulatory Innovation Office and conduct a cross-cutting review of regulation of

innovative technologies, focused on areas where regulatory capacity is holding back innovation and growth, and where legislation has not kept up with technological possibilities.

Resources should be increased for regulators which face particular challenges keeping up with technological change.

SUMMARY OF RECOMMENDATIONS

1. A clear direction of travel across strategically important sectors makes it easier to plan. **A single source document, such as an "Industrial Strategy" or another, similar, approach, which sets out overarching sectoral policy frameworks and relevant timeframes** is key for investor confidence.

2. **There should be fewer Budgets and fiscal events.** The Government should commit to holding just one budget per year with an exception for crisis situations (independently defined by the OBR).

3. **Government should develop a much more concrete Net Zero Blueprint**, setting out clear commitments and actions on public investment and policy including for sectors with clear planning and fiscal arrangements in key areas, so that investors in SMEs can be confident that the long-term investments they make are going to help those SMEs grow in line with future regulation.

4. Taxes should change as little as possible. But the headline rate of corporation tax has changed, in both directions, seven times since 2008 – making it harder for businesses and investors to plan. **As a signal of tax stability intent, the Government should commit to keeping corporation tax stable and low**.

5. Government should look carefully at the forthcoming recommendations from the Pensions & Private Capital Expert Panel and **work with the venture capital industry to help drive pension investment into venture capital and growth equity**.

6. Government should **expand support for the British Business Bank**, with new vehicles for pension investment and more funding for programmes that support emerging managers, growth deals and growth funds, as well as expanding its remit to invest in growth equity funds.

7. **The government corporate venturing model, which has successfully been deployed by the National Security Strategic Investment Fund (NSSIF), should be expanded to other strategic sectors such as healthcare.** This will help increase collaboration between Government, VCs and innovative companies, to improve procurement processes and access to the latest technologies.

8. Government should **clarify the future of grant and match-funding schemes** like the Future Fund Breakthrough, and consider further extension and expansion.

9. R&D tax credits support companies to invest in their future growth, and the regime must remain internationally competitive. **Government should develop a comprehensive R&D strategy, including R&D tax relief**, that incentivises genuine innovation in the UK.

10. **New Government-backed vehicles for investment pooling or co-investment in strategically important sectors** will be an important part of building an ecosystem. These should support minority and majority stake investment in growing businesses across the business life cycle, and have a conscious goal of building fund scale and expertise in the UK. Rather than picking winners, these should back the breadth of strong performing funds to grow their scale.

11. **Planning laws need to be changed** to make it significantly quicker and easier to build both the facilities and the supporting infrastructure that enable investment and job creation in the UK.

12. **Greenfield status should not be a block on building new facilities and supporting infrastructure.** Forthcoming changes to Green Belt designation should not be restricted to housing development but must ensure that job-creating sites can be built where they are needed where there is insufficient suitable brownfield land.

13. A lack of basic planning capacity is a crucial constraint on approvals: Government should invest in training planning officers,

and **deliver and go beyond its pledge to recruit 300 additional planning officers**.

14. Where a business commits to investing over a certain amount in physical assets in order to create over a certain number of jobs, **the Government should support the costs of building associated grid or public transport connections** in line with their timelines.

15. The Government should give stronger powers to the National Infrastructure Commission to ensure a **clear roadmap around nationally significant projects**.

16. Government needs to **ensure that the UK has the skills to fulfil the demands of global investors**. The UK is a leader in tech, life sciences and financial services innovation, but all of these industries need **a strong pool of people with specific STEM skills**. It's vital that the UK workforce is equipped for this and that our education and training systems are set up to provide the relevant training.

17. **The flexibility proposed by the introduction of a new Growth and Skills Levy should be used to fund specific, high quality non-apprenticeship training programmes**, such as skills bootcamps, in areas where specific skills shortages constrain economic growth and where there is demonstrable business need, so that employers can contribute more to wider skills development.

18. **Visa schemes for top global talent should be simplified** so that investors and the companies they invest in can access the talent required to grow.

19. **There should be clear criteria for recruiting talent into portfolio companies, that recognise the role of venture capital and growth equity**: securing a defined level of funding over a defined period should be sufficient to demonstrate that a company is looking to scale and should be able to recruit skilled overseas talent in order to grow the business.

20. Government should recognise that **one of the reasons to invest in infrastructure and reform the planning system to build more housing is to make it easier for talented individuals to**

travel to and live in the places they are needed, and therefore easier to invest in and grow businesses there.

21. **Government should build on the launch of the Regulatory Innovation Office and conduct a cross-cutting review of regulation of innovative technologies**, focused on areas where regulatory capacity is holding back innovation and growth, and where legislation has not kept up with technological possibilities.

22. **Resources should be increased for regulators which face particular challenges** keeping up with technological change.