Invested in a better future

BVCA response to Policy Renewal Programme: Security of Citizens, Country and Borders

About the BVCA

With a membership of over 600 firms, the BVCA represents UK-based private capital, as well as the wider ecosystem of professional advisers and investors.

Private capital consists of private equity and venture capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses.

The private capital industry backs 13,000 UK businesses, nine in 10 of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

UK-based private capital specialists have raised £190bn of funds, known as dry powder, expected to be invested over the next three to five years.

The industry invests for a better future by backing some of the UK's best loved businesses, developing the companies of the future and delivering solutions to global problems.

- **Backing the UK's best loved businesses:** Private capital has revived and reinvigorated much loved UK businesses like Hovis and Merlin Entertainment.
- **Developing the companies of the future:** The UK is the third largest venture capital hub in the world, while three in ten of the UK's 100 fastest growing companies were backed by private capital.
- **Delivering solutions to global problems:** Private capital investors are key to backing the innovative UK firms developing sustainable solutions to the challenge of net zero and climate change, with investment for the long-term in companies like biofuel tech company Nova Pangaea Technologies and aerospace business Orbex, which has developed a low-carbon launch vehicle for the small satellite industry.
- **Driving productivity throughout portfolios:** Analysis shows that private capital's active ownership model helps the businesses it backs become more productive. Private capital owners help to embed better management practices, provide accesses to technical expertise, business strategies and knowledge of supply chains.

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National security

Geopolitical instability, the war in Ukraine, and rising global threats have redefined the defence sector as a strategic investment priority. The UK Government has responded by increasing defence spending, targeting 5% annually on core defence requirements as well as defence-and security-related spending by 2035, and naming defence as one of eight growth-driving sectors in its Industrial Strategy.

The recent Strategic Defence review included welcome recognition of the role private equity and venture capital play in supporting the Nation's defence. The private capital industry's experience of investing in innovation and growth can support efforts to build up security capacity in the UK.

Private capital is already co-investing with public actors such as the National Security Strategic Investment Fund (NSSIF), and new structures like the UK Defence Innovation fund and NATO's DIANA accelerator signal greater alignment between government and capital markets.

Yet, despite this momentum, investors face barriers. Regulation, reputational and governance choices of firms, and a lack of clarity around exit opportunities - and regulatory obstacles that may endanger exits - have made many cautious. The perception - real or not - that responsible investment frameworks prohibit investment in defence slows down the allocation of capital, even though the FCA and UK ministers have clarified that such investment is not incompatible with ESG principles.

The case for increased private capital investment in defence and contributing to national security is strong. The sector needs funding for innovation, particularly among SMEs and start-ups that develop the kind of deeptech and frontier capabilities - cyber, AI, autonomous capabilities - that will underpin future national resilience. Private capital can also help consolidate fragmented supply chains and modernise manufacturing capacity. Crucially, it offers speed, flexibility, and expertise to support scaling in ways public finance alone cannot.

To unlock this potential, the BVCA recommends clear policy action on the following:

- **A regulatory framework and approach that gives private investors "permission to invest" in defence.**
    - The Government has announced that it will review the NSIA to clarify the sector definitions and make amendments to exempt some or all internal reorganisations and the appointment of liquidators, special administrators, and official receivers from mandatory notification requirements.
    - These proposals do not go far enough. The BVCA has consistently called for significant reform to the NSIA regime, with more targeted and proportional regulatory requirements, to drive economic growth and channel investment into defence and security.
    - The BVCA welcomed the changes which ensure that internal restructurings fall out of scope. However, the BVCA recommended policymakers remove the need for duplication of work, such as adding a way for repeat notifiers to pre-populate sections of the notification form.

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- There should be aa fast track, pre-approval process for investors from countries considered allies (outside the most sensitive transactions) and a specific carve-out for UK domestic investors.
- The BVCA view is that there should be some broader exemptions considered as well (again outside the most sensitive transactions) and the definition of defence and other key sectors should be radically reformed to narrow the scope and provide clarity to investors.

- **Industry involvement in the Defence Investors' Advisory Group and the Defence Investment Plan.**
  - This should seek to align private markets with Ministry of Defence (MoD) priorities and ensure the sector is empowered to shape funding models and policy levels for capital mobilisation.
- **Protection from overreach in allied regulatory regimes, including opposition to the US expanding outbound investment rules.**
- **Provision of industry guidance and Government-signalling to support investors to invest in defence responsibly.**
  - The Strategic Defence Review and the Defence Industrial Strategy already support dual-use innovation and crowd in capital through a clearer responsible investment narrative. This now needs to be reinforced by practical Government support and implementation.
  - The Government and the Financial Conduct Authority (FCA) should undertake further engagement with the defence industry, non-governmental organisations, financial institutions, the investment community and, where relevant, fellow regulators, to understand any barriers to investment, including the application of ESG regulations. HMG should undertake further engagement with the defence industry, NGOs, financial institutions, and the investment community on broader human rights due diligence obligations.
- **Procurement reform and access to government contracts, especially for mid-market and scale-up investors.**
  - This needs to involve clearer and much quicker routes to market, particularly for SMEs. Phased approaches based on pilots and trials ahead of full procurement awards would support this and give investors confidence in the opportunities available to smaller players in the market.
  - SDR recommendations should be implemented for a new segmented approach to procurement in a way that streamlines contracting practices for SMEs and mid-markets, including new entrants, and delivers benefit to wider supply chain, including (i) co-creating new commercial pathways underpinning segmented approach with SMEs and mid-markets, (ii) reviewing delegated authority thresholds, considering the risk and complexity of investments and the acquisition lifecycle, and implement proof-of-concept contracts to accelerate pace, (iii) engaging industry to understand which aspects of the financial services and investment ecosystem which are most relevant for each of the segments.
  - Ministry of Defence to ensure the review of Intellectual Property (IP) handling practices recommended in the SDR is aligned with the drive for increased defence and dual-use innovation and investment, without compromising national security objectives.

The private capital sector is increasingly engaged, raising new funds, assessing risks, and partnering with government. But greater coherence across policy, regulation, and messaging is needed to scale their impact. With the right conditions, private capital can play a pivotal role in strengthening the UK and Europe's defence capabilities, accelerating innovation, and supporting national security in an era of continued uncertainty.

Preparedness for modern warfare

Private equity and venture capital deal volumes relative to GDP in the UK defence sector have historically lagged behind those in the USA. Private sector investment is crucial for enabling companies to develop dual-use technologies and for fostering innovation among SMEs, start-ups and scale-ups, which often lack the financial security of long-term government contracts but are crucial to the defence supply chain.

As new technologies continue to reshape advanced defence capabilities and modern warfare, unlocking innovation through private sector investment is critical. Ensuring the UK remains a global hub for technological innovation and investment is essential to grow the defence sector, ensure UK defence-tech remains internationally competitive, and for providing homegrown advancements in critical industries such as defence and cybersecurity, and enable the UK economy to adapt to risks and evolving geopolitical circumstances.

The UK must ensure its regulatory framework keeps pace with technological advancements while its R&D regime and public finance institutions actively encourage private capital investment into technology and defence companies. This approach will help retain and expand UK innovation in the defence sector, safeguarding the nation's national security for the future.

Address lack of regulatory agility in innovative sectors

Regulation must also be able to keep up with the pace of technological change. Government funded regulators should have funding that is fit for purpose given changing economic, societal and technological demands, alongside a commitment to annual, inflation-linked budget increases.

Many technology startups 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.

In our BVCA member survey conducted under the Investment Commission with Public First, we found that 91% of respondents say a faster and more agile regulatory system would make it easier for them to invest in UK businesses.

The launch of the Regulatory Innovation Office should be further built upon and conduct a cross-cutting review of regulation of innovative technologies, focused on areas where regulatory capacity is holding back innovation and growth in the defence sector, and where legislation has not kept up with technological possibilities.

Technology adoption and diffusion through R&D

R&D (research and development) support plays an important role in the companies that are backed by private capital, particularly in businesses that are at the cutting edge of innovation, such as deeptech and life sciences. The support provided to R&D intensive companies is an efficient way of supporting companies to reinvest in their future growth and is particularly important for early-stage businesses in the period before they start to generate income.

To support fostering and diffusing innovation in the UK economy, private equity and venture capital firms must be able invest in and commercialise R&D for defence and dual-use technology so that they can deploy more investment into companies driving UK growth in the defence sector and building technologies which keep pace with modern warfare.

Feedback from BVCA members indicates that there are significant concerns both over the amount of the relief, which is significantly less generous than before the April 2023 changes, and the way in which it is administered by HMRC.

Government programmes and incentives should be expanded and simplified to provide early-stage capital for research-driven and knowledge-intensive companies (KICs) to advance towards commercialisation if the UK is to not lose out to competitor jurisdictions simultaneously innovating in the defence sector.

Leverage private capital through targeted offering from UK Public Financial Institutions
Public financial institutions play a critical role in mobilising private capital by signalling demand for key technologies, sharing risk to incentivise investment in operating companies, and bridging funding gaps for early-stage firms to accelerate their path to commercialisation and private financing. The BVCA echoes the recommendations of the CBI-convened UK Defence and Economic Growth Taskforce for "a more ambitious and targeted deployment of existing programmes to support the defence sector, underpinned by enhanced strategic coordination among public financial institutions."

The BVCA supports the CBI's recommendation for a cross-departmental review of current and proposed support from public financial entities—such as the NWF, BBB, UKEF, and UKDI. This effort should incorporate a detailed assessment of the broader UK public finance landscape to uncover gaps and opportunities that could enhance support for strengthening the UK's readiness for modern warfare. By mapping the full spectrum of financial instruments—from early-stage grants and innovation loans to scale-up finance, guarantee schemes, and infrastructure investments—the review can pinpoint where additional resources, better coordination, or new mechanisms are needed. Enhancing mobilisation of private capital and aligning financial tools such as grants, loans, and guarantees will maximise impact, reduce duplication, and accelerate investment into priority projects and enterprises at all stages of the defence supply chain.

Energy security

Over recent years, the UK has built strong momentum toward securing its energy future, alongside its sustainability and net zero goals, through enshrining a legally binding net zero target into law, and government commitments to becoming a clean energy superpower and leader in sustainable finance.

Private capital stands ready to help deliver a more secure, greener, and resilient energy system. With the right policies, the UK can lead the global energy transition—unlocking innovation, creating jobs, and driving growth.

It has been estimated that to deliver on the UK's net zero ambitions over the next 10 years, an approximate £50- £60bn additional capital investment will be required each year. There is a strong imperative for the public sector and the private capital industry to work together to mobilise capital that can drive positive environmental and social outcomes.

To unlock further capital at pace and accelerate progress, we recommend clear policy actions:

Setting out clear net zero sector strategies and roadmaps which include governance frameworks, investment support and policy clarity.

- This should include direction on innovative finance topics, harmonisation of reporting between fund managers and investors and tailored regulation for different sectors.
- For SMEs and early-stage ventures—the backbone of the green economy—this certainty is critical. A third (33%) of investors surveyed for the BVCA's Investment Commission said that a clear Net Zero policy roadmap would make it easier for them to invest in a UK business.

Encouraging innovative finance mechanisms to attract capital.

- Blended finance and co-investment structures help to unlock private capital investment through initial funding from public finance institutions. This acts to de risk investments that the private capital industry may not otherwise be able to consider. This can be particularly important for emerging green energy businesses that require longer investment horizons.
- Support R&D, infrastructure and early adoption of low-carbon technologies, with incentives for sustainable sourcing (selecting suppliers and materials based on environmental, social and economic criteria), clean manufacturing and consumer adoption.
- The National Wealth Fund and GB Energy should align with the BBB to support the broader supply chain, including innovative, high-growth businesses, typically backed by venture capital. These companies are often responsible for developing the next generation of clean technologies, materials and services that underpin major projects.

Infrastructure and manufacturing

- Clear pathways should be established and implemented with well-defined commitments and actions on public investment and policy in clean energy. This should include creating transparent planning and fiscal arrangements for key regions and energy technologies. Such measures are essential to provide investors with the confidence needed in the long-term financial viability of investments. Additionally, these steps will help direct funding toward the technologies most capable of driving the green transition effectively. This further includes developing dedicated financial instruments like green bonds, implementing risk mitigation tools and fostering public-private partnerships to co-finance large-scale projects.
- Upgrade and expand grid infrastructure to handle increased renewable energy input and decentralised generation.
- Support domestic manufacturing of clean energy components to reduce reliance on imports and boost energy security.

In a world facing deepening socio-economic inequalities and an escalating climate crisis, the public sector faces financial constraints in tackling challenges that hinder progress on energy security and sustainable growth. To address this, more innovative approaches and realign policy strategies are required to mobilise the capital needed to secure a resilient energy future and drive economic development.