BVCA Response to the Government's Spending Review 2025

Introduction

In advance of the Government's Spending Review in Spring 2025, we are pleased to share with you the British Private Equity and Venture Capital Association (BVCA)'s recommendations, which provide feedback on Government spending priorities and will support the Government in achieving its ambitions for driving economic growth built on stability, investment and reform, and forged through partnership with the private sector.

This Spending Review and its objectives can play a vital role in supporting private capital investment opportunities across the UK's nations and regions, helping to drive growth, support innovation and address gaps concerning access to finance in the UK.

The BVCA's response focuses on the following areas:

- **Expanding the remit and funding of the British Business Bank (BBB) and other existing programmes to deliver growth in line with the Government's objectives.**
- **Taking steps to ensure that newly consolidated UK pension funds are able to invest in smaller opportunities.**
- **Investment in infrastructure and planning strategies to deliver innovative clusters and growth across the UK's nations and regions.**
- **Funding support for the transition effort and emerging green sectors.**
- **Schemes and funding to address domestic skills shortages and secure talent in key sectors.**

The BVCA is the industry body and public policy advocate for the private equity, venture capital and private credit (together "private capital") industry in the UK. With a membership of over 600 firms, we represent the majority of UK-based private capital firms, as well as their professional advisers and investors.

The private capital industry is already an indispensable partner for UK economic growth, standing as it does at the unique intersection of deploying capital, investing for the long term and helping to shape the strategy of the British businesses it invests in. In 2023 alone, it directly supported 12,000 businesses, accounting for 2.2 million jobs and contributing 6% to GDP across all sectors.

UK- based private capital specialists have £178bn of funds to invest, which they expect to deploy in the next three to five years (this is known in the industry as 'dry powder'). Historically, around half of the funds managed in or advised from the UK are put to work here. To drive economic growth, the UK must utilise the domestic pool of capital and attract international investment, both by encouraging investors to put their capital in UK funds and by ensuring that investors have the confidence to invest in UK businesses.

The BVCA has welcomed the Government's ambitions thus far, including in Invest 2035: The UK's Modern Industrial Strategy, the Pensions Investment Review and the British Business

Bank's British Growth Partnership, the National Wealth Fund (NWF), and the drive to boost infrastructure and house building, all of which will facilitate further investment into businesses across the UK and contribute to UK economic growth.

The BVCA believes that the proposals outlined below will complement the Government's plans to ensure that the UK maintains its position as an attractive destination for investment and remains one of the best places to scale and grow a business.

Promoting innovation and opportunities for growth

The UK faces a significant gap in scale-up funding, resulting in many fast-growing businesses failing to grow. The UK has a strong funding ecosystem at the early stage, with data from over the last 10 years showing that the average size of investments in new spinouts has increased, with growth of 111% from 2014 to 2023, bringing the average investment to £400m.[1] However, as UK companies look to continue to grow from series B stage and beyond, investment is often found from the US and Europe (particularly through the European Investment Fund – EIF). This is a result of the significant investment gap in the UK, driven in large part by the lack of capital deployed into UK SMEs by UK domestic investors, particularly UK pension schemes – *see our comments on UK pensions investment below*.

The UK has missed out on £44bn of investment since the European Investment Bank largely stopped investing in the UK, including via the EIF, which was a major funder of the UK's venture and scale-up ecosystem. This exposes the lack of available scale-up investment in the UK, with insufficient funds of scale available to invest in venture deals over £20million. This is a far from ideal outcome, both for the companies and UK investors.

The BVCA recommends a series of proposals for the Government to consider as part of the Spending Review, to ensure the UK retains its innovative venture capital ecosystem and ensure businesses can scale-up in the UK:

- Expand the remit of the BBB to cover growth capital funds.
- Expand existing BBB programmes, including the Nations and Regions Funds and the Enterprise Capital Fund.
- Expand existing programmes to develop the ecosystem in line with the Government's growth mission.

Expand the BBB's remit and programmes to cover growth capital funds

The BBB's mandate and resources should be expanded as part of the 2025 Spending Review to match the EU's EIF, which invests in smaller growth capital funds (not only venture capital funds). These growth capital funds are smaller private capital funds that invest in smaller UK companies, providing a much-needed source of capital to businesses across the UK to fulfil their potential; creating jobs, increasing productivity and delivering economic growth.

Growth capital funds that invest in the UK's lower mid-market, provide support for more established UK companies than venture capital funds. These funds typically take majority

[1] Beauhurst Spotlight on Spinouts

ownership through equity injections, often without the use of debt to "buy out" existing shareholders. They are the archetype of the "active ownership" model of private capital investment and drive the growth of smaller UK businesses into local, regional and national champions. Overseas pensions and other institutional investors typically allocate a portion of their private capital investment programme to growth capital funds, alongside allocations to large global capital funds because they see this as key to delivering strong returns for savers and beneficiaries within a diversified private capital investment programme.

A growth capital fund's investment strategy is typically to identify local businesses that, with private capital investment and operational support, can become national and international businesses of strategic importance whilst remaining headquartered in the regions where they were conceived. These companies are fast-growing, innovative, and form a critical part of the UK's business growth and investment ecosystem, providing a pipeline of investment opportunities for larger investors and public markets.

The importance of this part of the market (where the amount one investor will typically commit to any one fund is £50m or below) is recognised by the EU, with the EIF providing multiple investments in smaller, EU-based growth capital funds on an annual basis (as it did in the UK prior to 2016. Since then, the BBB has not invested in this space).

Expanding the BBB's remit to cover this segment of the market would:

- Better facilitate the crowding-in of UK pensions investment into UK growth businesses. This is especially vital as they transition into larger pools of capital, and may not be well equipped to invest in smaller growth opportunities.
- Boost the development of the UK's SME growth ecosystem, for the benefit of local, regional and national economic growth and job creation.
- Deliver strong returns to the BBB which it can recycle to catalyse further business growth across the UK ecosystem.

The BVCA would be happy to share separately a sample of case studies relating to UK businesses that demonstrate the features and importance to the UK economy of small, growth companies backed by firms managing growth capital funds. We are also able to facilitate meetings and roundtable discussions with BVCA member firms and Government representatives.

Expand existing BBB programmes which have been successful in delivering investment across the UK

Deliver growth across the nations and regions by expanding the BBB's Nations and Regions Investment Funds

The BBB plays a significant role crowding in regional and growth funding in the venture capital and tech investment ecosystem, as it does in supporting the pensions and growth agenda. The BBB is, and will continue to be, an important source of capital for businesses looking to start and scale up. It helps drive innovation, support entrepreneurs and can help break down barriers to capital. The BBB's Nations and Regions Investment Funds (NRIF) should be expanded to continue its valuable support for innovative companies across the UK.

Support new and emerging managers by expanding the BBB's Enterprise Capital Fund

The Enterprise Capital Fund (ECF) programme has been highly successful in catalysing many of the successful UK venture capital funds for the last 20 years. However, new and emerging managers still find it challenging to raise capital from Limited Partners, such as family offices or pension funds, with the majority of investment from LPs going to funds managed by larger or more established venture capital firms. These firms typically pursue more pan-European, less UK-focused investment strategies.

Venture capital funds that do receive ECF backing face a challenge when the funds have reached the maximum amount of ECF investment, but are too small to receive investment from British Patient Capital (BPC). For these venture capital firms, this effectively means losing their cornerstone investment from ECF in the fund, requiring the venture capital firm to find a new cornerstone LP investor. In some cases, these venture capital funds have had to look abroad to secure an overseas LP, who requires them to switch their investment focus away from the UK.

It is very important for the UK private capital investment ecosystem that the ECF continues to play a positive and active role in supporting new and emerging fund managers. Expanding the size and number of investments it can make will help to build the pipeline of future venture capital firms that want to grow in size and ambition, thereby enhancing the financing ecosystem for innovative early-stage UK companies.

Expand existing programmes to deliver growth in line with the Government's growth missions

Defence

The Government's corporate venturing model, which has successfully been deployed by the National Security Strategic Investment Fund (NSSIF), should be expanded to other strategic sectors to align with the Industrial Strategy. This will help increase collaboration between Government, venture capital firms and innovative companies. This would also improve procurement processes and access to the latest technologies, which will be critical to achieving economic growth.

The NSSIF is now well established and has a strong track record of investing in funds and investing directly in companies. It is well respected by entrepreneurs and venture capital firms as it provides data and insights on emerging sectors as well as routes to procurement and commercial traction for startups.

Defence is one of the eight growth-driving sectors identified by the Government. To ensure NSSIF continues to grow and diversify, its remit should be expanded to ensure it is able to partner with funds beyond those accredited by the BBB (as "NSSIF Fund Managers"), in order to build partnerships with other UK companies and funds in NATO or allied countries. To achieve this, NSSIF should be formally established as a separate entity to the BBB and be able to ring fence its own capital and recycle returns into new investments. NSSIF currently receives £100m annually to invest across its programmes.

Spin-out ecosystem

The UK should be the best place to both start and scale a business. That means protecting our world class universities and the ability of businesses to spin out from them. For example, in the UK, the AI sector has grown significantly over the past five years with 184 AI spinouts; however, it is important to foster an environment which enables more of these spin outs to scale.

A further increase the proof-of-concept funding from the £40m announced in the Budget, as well as increased resources for translational research, would help innovations move from the lab to the market. It would increase the speed and number of spinout companies ready for venture capital investment, particularly in regional universities.

The Independent Review of the UK's University Spin-out Companies identified several barriers that limit the commercialisation of research from the UK university ecosystem. This includes the slow and often complex process many spin-outs face when seeking investors to commercialise. This is often the result of the limited experience investors have with working on spin-outs and the delays caused when industry-standard terms are challenged. This differs across sectors, but life science spin-outs often have complex IP and need to source external executives to work here. The spin-out process is also inhibited by internal university sign-off processes, which often do not involve commercial experts.

The Review found that the majority of spin-outs rely on equity investments to fund their development before they reach the commercialisation stage. This funding often comes from venture capital funds, who not only provide capital but also commercial expertise. While some universities have established university investment funds and draw in support from the BBB, the Review found that investment tended to be concentrated in London and the South-East, with those outside these regions particularly noting the challenges of obtaining investment. It is important that founders across all nations and regions of the UK have access to a strong pool of experienced investors to ensure research can commercialise and that, in turn, provides important economic opportunities in the local area.

The Review outlined eleven recommendations, including:

- Government should increase funding for proof-of-concept funds to develop confidence in concept prior to spinning-out from Government.
- Government should improve the provision of funds to enable movement or porosity between academia and industry.
- UK Research and Innovation (UKRI) should ensure all PhD students it funds have the option of attending high-quality entrepreneurship training and must increase opportunities for them to undertake internships in local spin-outs, venture capital firms or Tech Transfer Offices (TTOs).

The Government should implement the findings of the Independent Review in full.

Support for regulators

Regulation must 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.

For regulators financed at least in-part by the Government, the Treasury should permanently uplift funding to restore their 2021 budgets in real terms to recoup core, 'business as usual' capacity, and also commit to annual, inflation-linked budget increases to accelerate new efforts.

The BVCA recommends the Government should expand the Regulatory Pioneers Fund to £50m initially, in time rising to £100m+, to provide dedicated surge capacity for regulatory innovation projects on top of core funding increases.

The plans announced at the 2024 Mansion House speech, that would require DC pension schemes to reach a minimum AUM, will require significant consolidation within the DC market. Scheme integration will require The Pensions Regulator (TPR) approval and engagement. We understand that the current process is time-consuming, as a result of a lack of capacity within TPR. If consolidation is to happen at the pace the Government is seeking, then we believe there will need to be further consideration of whether TPR has the resources to undertake this role.

Supporting innovation through Research and Development

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. The UK economy needs these early-stage businesses to drive growth and employment for the future.

The BVCA has previously called for an increase in the amount of support available for R&D intensive companies, if the UK is to not lose out to competitor jurisdictions. It is important that the Government considers this as part of its Spending Review considerations.

Infrastructure and planning

BVCA members focus on active ownership of businesses rather than infrastructure, but they can only deliver high growth and strong returns if there is world-class infrastructure. This can drive the kinds of clusters of skills and talent pools that will allow for an ecosystem of fast-growing businesses to thrive. Ensuring a solid infrastructure base exists where it is needed is a big part of demonstrating that the UK is open for business.

Investing in infrastructure and reforming the planning system will be key to the success of the Industrial Strategy and will work to create more opportunities for small business growth and attract further private capital investment into the UK's nations and regions.

- Scale-ups rely on strong digital infrastructure to scale effectively. However, many regions of the UK still lack the broadband infrastructure and co-working spaces needed to foster innovation, particularly in rural and underserved areas. While cities like London, Manchester, and Bristol have developed strong ecosystems for scale-ups, regions like the East Midlands, parts of the South West and Wales continue to face infrastructure gaps that limit their ability to attract and retain high growth businesses. techUK and other organisations have repeatedly highlighted the need for improved digital infrastructure and better access to co-working facilities, particularly in rural areas.[2]

As private capital firms invest across the UK, it is important for economic strategies across the UK's nations to be coordinated, complementary, and collaborative. Nevertheless, Devolved Administrations have an important role to play in their local economies and in attracting investors. The BVCA welcomes the Government's intention to devolve more powers on infrastructure, employment, and housing policy to a wider range of local authorities and refresh the way central Government works with regional Mayors. Businesses backed by private capital are already major employers in areas across the country, and our industry will be a key partner for accelerating this nation- and region-led economic growth to ensure everyone can realise the benefits of economic recovery.

Venture capital investment is essential for driving economic growth across the UK, with certain regional hubs emerging as focal points for innovation. For example, Oxford and Cambridge have developed strong ecosystems that foster entrepreneurship, supported by local initiatives and a robust infrastructure. The BVCA welcomes, the Government's recently announced plans for the Oxford-Cambridge Growth Corridor highlight the action Government can take to support innovation, accelerate regional developments and drive delivery.

- A place-based approach to industrial policy is essential to address the long-standing gap in regional economic planning that has persisted since the previous Government abandoned the national industrial strategy in 2020, and arguably dating back to the abolition of Regional Development Agencies (RDAs) in 2010. This lack of strategic direction has left many areas without the full set of tools to leverage local strengths or attract targeted investment, exacerbating regional inequalities in funding, infrastructure and other conditions necessary for scale-ups to thrive.[3]

With the new Government's English devolution agenda requiring the production of statutory Local Growth Plans, there is now a unique opportunity to reset the balance for economic

[2] Rebuilding the nation 04: A mountain to scale, Page 26

[3] Rebuilding the nation 04: A mountain to scale, Page 10

development, empowering regions to align their industrial priorities with national goals and unlock their full economic potential.

The 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. The BVCA's Investment Commission makes a number of recommendations for how this can be achieved:

- 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.
- 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.

The length of time it can take to get planning permission for facilities such as factories and laboratories adds further uncertainty for those looking to invest across the UK's nations and regions. In many cases, their plans are also vulnerable to planning delays affecting other necessary infrastructure, from the grid to transport to housing.

Although over half the UK businesses invested in by the private capital industry are based outside London and the South East, investment in regional businesses could be even higher with improvements to infrastructure and planning decisions.

Investing pensions for growth to harness productive UK assets and bolster returns for pension savers across the UK

The BVCA welcomes the clear commitment from the Government to achieving increased investment from UK pension funds into private capital. Sixteen times more capital from pensions around the world goes into UK private capital than UK capital. UK pensions funds are investing less in private markets than comparable asset managers. This means that UK pension savers miss out on the returns generated by private capital in the UK, which pension savers in other countries currently benefit from.

The BVCA is encouraged by the direction of travel established under Phase 1 of the Pensions Investment Review, and is supportive of consolidation across Defined Contribution (DC) and Local Government Pension Scheme (LGPS) pensions. As the report of Phase 1 of the Pensions Investment Review set out, scale is generally considered necessary, to enable the resource and expertise to invest in private capital opportunities.

However, the BVCA is concerned that alone it might not be enough to ensure investment reaches lower and mid market managers, who often tend to be those based outside of London, and who are making smaller investments targeting regional growth. Smaller private capital funds (£100 million-£500 million) often need £10 million-£50 million investments to fuel the crucial next stage of growth - amounts typically only available from smaller venture and growth capital funds, which form a vital part of the ecosystem for building UK companies. The BVCA has set out a number of proposed solutions in its responses to the recent consultations on DC and LGPS consolidation, and remains in touch with the relevant departments.

For the purposes of the Spending Review, the Government should consider:

- **Cornerstone investments from the BBB in smaller growth capital funds**, which would be significant to help crowd in further investment from UK pensions. This will grow the investment ecosystem and access for companies to growth finance in this segment of the market. We therefore would be supportive of the BBB receiving further capital to invest, and (for the reasons set out above) for its remit to be extended to cover growth capital funds.
- **Develop a programme inspired by France's Tibi scheme**, which has pulled in around £20bn into private funds supporting the French tech ecosystem. There are a number of possible forms this could take, ranging from informal interventions to an established body overseeing a system of accreditation. We have submitted a separate paper setting out some different possibilities to the relevant departments.

Catalysing Private Capital for Net Zero

Over recent years, the UK has generated great momentum in the push to align its net zero goals to meet the UK's sustainability objectives, whilst creating economic growth. The transition to a sustainable future offers both a growth opportunity for the UK, as well as a chance to stimulate innovation, opportunities and competitiveness on a national and international scale.

Nine out of 10 businesses supported by BVCA members are SMEs and the BBB estimates that 76% of UK SMEs have yet to implement a decarbonisation strategy, making private capital well-placed to drive the transition towards Net Zero and to encourage regional economic development in areas of the economy that public markets cannot reach. 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 (Gov.uk, 2023).

There is a strong imperative for the Government and the private capital industry to work together to build an investment ecosystem that can support SMEs to transition to a sustainable future, as well as mobilise capital that can drive positive environmental and social outcomes. In a world of deepening socio-economic inequalities and a worsening climate crisis, the public sector is financially overstretched to address challenges that stifle opportunities to deliver on climate action and inclusive growth. However, the Government needs to look for ways to be more innovative, to reposition policy strategies that will catalyse the capital required to achieve a sustainable future and stimulate economic growth.

The BVCA makes the following recommendations as part of this Spending Review, to help the UK meet its sustainability goals:

The Government should look to increase its understanding, to align its financial mechanisms with impact investing approaches and help incentivise the flow of private capital to address domestic policy issues.

- Achieving the Government's sustainability goals requires not just capital, but deliberate strategies and innovative policies that prioritize the most meaningful impacts and outcomes. As detailed in our recent report, the UK has a unique opportunity to build on its strong foundations as a centre of excellence for impact investing. Impact investing is an approach that generates positive measurable social and environmental impact alongside a financial return, helping to tackle societal challenges that public policy seeks to change, such as education, healthcare, and the transition to net zero. The UK impact investing market size is approximately £70bn and has compounded significant annual growth over the last three years. However, impact investments account for under 1% of the whole UK investment management market.
- By working with the impact investment community and key stakeholders to increase understanding of the impact investing sector, and how it can build this approach into its financing mechanisms (such as the National Wealth Fund – The UK impact fund), the Government has an opportunity to deploy innovative polices that are not only impactful but are also aligned with the Government's missions, whilst incentivising the flow of private capital.

The Government should improve the co-ordination between Public Finance Institutions, increase their funding, and establish a Transition Finance Lab, to facilitate the successful deployment of targeted financial solutions to grow the transition market.

- Through enhanced guidance and streamlined grant accessibility, aligned with the Government's sustainability objectives, innovative founders and growing businesses will have better access to early-stage grants, which can assist in closing the funding gap. This will help businesses access the much-needed capital needed to scale and transition.
- Funding should be earmarked for the establishment of the Transition Finance Lab, as suggested in the Transition Finance Market Review, which brings together finance, policy and industry to develop innovative solutions and accelerate sector-specific transition. Establishing a Transition Finance Lab and increasing funding for the public financial institutions, such as the NWF and BBB, would enable the development and testing of specific targeted financial solutions, such as blended finance strategies, which can be effectively deployed through public financial institutions. This would help to de-risk green investments and unlock the capital required to support the growth of emerging transition activities. Examples of blended finance strategies which could be tested and implemented may include:

- Creative grants and lower costs of capital which would support the growth of nascent green technologies and early-stage companies, by de-risking investments and make the financing more affordable.
- Incentivisation of investments through sector-specific tax breaks.
- Attraction of institutional capital into climate-positive funds through first loss / junior equity.

Allocating more funding to the Net Zero Council to drive the decarbonisation of the economy, by performing actionable steps to deliver on improved investment and policy commitments.

- Having a dedicated Net Zero Council would increase investor confidence, helping to deliver on the granularity of sector-specific transition pathways, as well as improve collaboration with industry and greater coordination across the Government.
- The Net Zero Council should engage with and align efforts with the Transition Finance Lab to further improve sustainability policy and investment strategies which will help the long-term financial viability of investments and coalesce funding around green technologies that will drive the transition.
- The Government should have a specific focus on supporting SME growth, in line with the Government's net zero aims, as informed by the Net Zero Council.

A workforce for Growth: developing skills and attracting 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.

To address domestic skills shortages, the BVCA recommends:

- **The introduction of a new Growth and Skills Levy 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.
- **The Apprenticeship Levy should be expanded, to fund specific non-apprenticeship training programmes**, such as skills bootcamps. This would provide support for businesses to provide lifelong learning and training to employees and help combat the skills crisis.
- **The introduction of specialist visas to secure talent in key sectors that contribute to national security and align with the Government's Industrial Strategy.** This would ensure that the UK can attract and secure talent in critical areas as visa decisions are often too slow, resulting in the UK losing talent to other jurisdictions.

The BVCA welcomes the Government's recognition in Invest 2035 that skills and recruitment of international talent are critical for driving investment. Skills shortages in the recruitment of their domestic workforce were identified by investors in our Investment Commission 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.

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. 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.

The Government needs to ensure that the UK has the skills to meet the needs 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.