Invested in a better future

BVCA response to Policy Renewal Programme: Effective Government

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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Devolution including effects and effectiveness, financial stability

The UK has historically faced regional economic disparities, with wealth and opportunities disproportionately concentrated in London and the South-East. Place-based investment aims to address these imbalances by channelling capital into underinvested regions. By doing so, it fosters local economic development, creates jobs and stimulates growth in areas that have traditionally been overlooked. This approach aligns with the "levelling up" agenda, which seeks to ensure that all parts of the country benefit from economic prosperity.

The BVCA engages with private capital practitioners who are either active investors across the UK's nations and regions, or investors looking to explore more regional opportunities, as well as academics and representatives from local authorities. Over half of the 13,000 UK businesses invested in by the private capital industry are based outside London. Increasing this investment will require a range of barriers to be overcome, from improving infrastructure, to increasing support for government-supported programmes, pensions investment reform and regional decision-making.

Localised decision-making

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. 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.

By transferring powers and funding from national to local governments, devolution ensures decisions are made closer to the people, communities, and businesses they impact. Localised decision-making fosters tailored solutions, empowers regional leaders and addresses regional inequalities, unlocking unique local potential and driving inclusive governance.

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.

Regional political leadership

In the context of regional investment, regional political leadership such as metro mayors is significant and makes a big difference – both as champions of the area they represent and as a focal point for engagement.

Metro mayors and devolved powers are crucial in developing resources and policies that boost economic growth in the regions. Initiatives such as the West Midlands Digital Skills Consortium is an example where mayors can improve the investment climate and leverage strengths in their regions to develop key sectors such as manufacturing and digital technology.

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.

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) has a track record of supporting the UK's innovative growth companies by investing in private capital funds managed by firms based around the nations and regions, thereby enhancing nationwide economic development.

However, more could be done to ensure that the plans do not inadvertently exclude small private capital fund managers from investment. In contrast to investing in infrastructure projects or large funds with global mandates, investing in private capital funds that support the growth of these companies will require the pools to make relatively small individual investments of £10-50m into funds. It will also require pools that are able to take a flexible approach to "local" investment or otherwise embed a focus on investing that drives UK SME growth.

Proportionality and effectiveness of environmental regulation and targets

Implement proportionate, interoperable and principles-based sustainability regulation

To ensure the UK leads on sustainable finance, whilst supporting domestic entrepreneurship and investment, we need sustainability regulation that supports private capital investment. Clearly communicated government policy and innovative public investment commitments, backed by action, will also create investor confidence and incentivise the flow of capital.

Whilst the transition to a net zero economy and increase in regulation is driving the increase in green investment, there is also increasing evidence that encompassing ESG (Environmental, Social and Governance) factors makes for a smart business strategy and drives value creation.

The BVCA is supportive of regulating business sustainability however, we support the easing of reporting requirements which may be considered overly burdensome, especially when it comes to tracking supply chains. For the UK to become a global leader in sustainable finance, it should be ensured that the interoperability and proportionality of sustainability regulation is front of mind at the point of development. Regulation, policies, frameworks and guidelines need to be scalable to ensure that SMEs can effectively participate in reducing their footprint without effecting reporting burdens which stifle operations and investment. It is vital that any required reporting creates valuable, decision-useful data for companies.

We further understand the data collection challenges faced by many companies (especially SMEs) around ESG data collection and reporting and the need for greater emphasis to be placed on materiality assessments for companies. Introducing materiality thresholds within sustainability regulation and disclosure legislation will reduce the burden on smaller businesses and prioritise areas that will have the greatest impact. Even regulation designed for larger companies can disproportionately impact SMEs by filtering through the supply chain.

The BVCA is calling for the implementation of proportionate and principles-based sustainability regulation, working in tandem with industry to avoid unnecessary burdens constraining investment, particularly for firms subject to overlapping requirements in different jurisdictions:

- Maintain principles-based, proportionate and interoperable approach to developing any further regulation around incentives, governance and capacity, ensuring strategic goal alignment across geographies including the ability to reference equivalent reporting, where appropriate.
- New regulations should be phased in to enable alignment and timely assessment of impact as well as to allow for appropriate resources planning and the ability to scale resourcing with regulatory requirements. Long-termism is synonymous with sustainability and reporting requirements must be set with this in mind to ensure more seamless compliance for under-resourced companies.
- Introduce sustainability regulation that sets the required guard rails to best practice and minimum requirements without creating "tick-boxing" and catalyses an environment for impactful change.
- Where new sustainability policy is introduced, ensure that no unnecessary burden is placed on smaller companies. Regulations should scale based on the size of a business (and the sector that the business is part of), placing more focus on companies with the largest sustainability impact. This can be done through the establishment of thresholds (e.g. revenue basis or headcount basis) for requiring data capture and disclosure. It should also be considered what knock-on effects policy implementation for larger companies may have on smaller companies.

Driving standardisation and alignment by galvanising private capital industry best practice will remove confusion and burden, further seeking to improve data quality, transparency and availability whilst considering resource constraints of SMEs.

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