The Rt Hon. Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury,
1 Horse Guards Road,
London,
SW1A 2HQ

24th January 2024

Dear Jeremy,

BVCA Budget representations: Supporting economic growth, job creation and entrepreneurship

Ahead of the Government's budget on 6 March, I am pleased to share with you the British Private Equity and Venture Capital Association (BVCA)'s recommendations. The proposals support the Government in achieving its ambitions for economic growth, job creation and supporting British businesses.

We welcomed several announcements in the Autumn Statement regarding consolidation and other reforms of the UK pension sector, the extension of the EIS and VCT tax relief schemes and the LIFTS programme, all of which will facilitate further investment into businesses across the UK. I believe our proposals outlined below will complement such existing measures to ensure that the UK maintains its position as a global hub of private capital and remains one of the best places to scale and grow a business.

UK private capital investment is a key driver of the economy, having supported 12,000 businesses across the UK in 2022, accounting for 2.2m jobs and 6% of GDP, and covering almost every sector of the economy. The economic footprint of UK-based private equity and venture capital firms themselves, including the wider professional and financial services ecosystem that they support, contributes £18bn of GDP and supports 140,000 jobs. The role that private capital plays in supporting national and regional economies has become more important in a challenging economic climate, and the industry is a crucial driver of prosperity in areas outside London and the South East, creating jobs and scaling up businesses.

We have previously shared the BVCA's Competitiveness Scorecard with the Chancellor, which provides a full assessment of the UK's position in relation to other financial markets, and sets out key policy and regulatory changes that we believe would help the UK retain this position and better enable private capital to contribute to sustainable, economic prosperity in the UK. This includes the importance of competitive tax treatment on the gain arising from investments at risk. Our recommendations in this Budget submission follow the themes in that assessment, and encourage Government policy to focus on accessing and unlocking capital, incentivising innovation and entrepreneurship, attracting and retaining talent, and facilitating capital flows through effective frameworks.

Access to capital to harness and develop productive assets in the UK

The BVCA welcomed the Mansion House reforms and we remain very encouraged by and grateful for the Government's support for the Investment Compact for Venture Capital and Growth Equity (the Investment Compact), which aims to support Mansion House Compact signatories' efforts to allocate £75bn to unlisted equities by 2030. The Chancellor's broader commitment to facilitating UK pensions investment in productive assets is extremely important, and we look forward to continuing to work with the Government to ensure the effective implementation of these reforms.

Given the uncertain economic climate we face, increasing UK pension schemes' access to private capital remains vital for boosting economic growth and the retirement prospects of UK savers. Regulatory action and sustained Government support is needed to ensure that more domestic capital, particularly from UK pension funds, can be invested in growing UK businesses through UK private capital funds. Currently, the vast majority of pension capital invested through UK private capital funds comes from overseas, meaning UK pension savers continue to miss out on the industry's strong returns. As well as enhancing retirement prospects for UK workers, increasing UK pensions' investment choices will also result in more funding for UK businesses. The BVCA hopes to work further with the Government on these important priorities.

To increase access to capital for UK businesses across the country, driving economic growth and boosting retirement savings, the BVCA recommends:

- **Fostering a regulatory environment that affords more flexibility in pension scheme investment,** consider the proposals outlined by the BVCA in our Competitiveness Scorecard, and remain engaged with the Pensions & Private Capital Expert Panel that the BVCA has established, with Government support, under the Investment Compact. This will help to ensure the UK continues to be a leading destination for investment and that our economy remains competitive on the international stage.

- **Encouraging consolidation of the pensions sector into fewer, larger schemes** to facilitate an increase in pension schemes' ability to deploy capital into UK businesses through UK private capital funds:
    - Legislative and policy changes, including further consolidation of DB, LGPS and DC pension schemes.
    - Protect and increase the ability of UK pensions, LGPS especially, to allocate capital to smaller, regional private capital funds.
    - Revise Solvency II capital requirements and unit linked investment rules to better reflect the diversification private capital funds achieve, thereby unlocking capital for long-term investment in UK growth companies.

- Seizing opportunities to **help increase pension scheme trustees' knowledge and understanding of private capital**. This will help them recognise where private capital offers opportunities to increase their savers' retirement pots, and give them the confidence to invest.

- **Facilitating access to UK private capital funds for retail investors.** Entrepreneurs and family offices are currently often investing in EU or US rather than UK structures. The UK can make legislative and regulatory improvements to help ensure this type of wealthy or sophisticated investor invests more in UK private capital funds. This will mean these investors can benefit from growth and returns generated by UK private companies whilst those companies access the investment capital they need. This can be achieved by:
    - Targeted changes to the UK regulatory regime for sophisticated retail investors, including improvements to the MiFID professional investor definition/opt-up criteria, so they can invest more easily in the UK.
    - Minimising unnecessary friction from law and regulations designed for UK retail investors on sophisticated and professional private capital investment.
    - While we welcome the Government's decision to revoke the PRIIPs regulation in the UK, the UK's future disclosure framework must facilitate more useful disclosures for private capital funds.

- **Implementing the LIFTS process** to ensure money is unlocked for UK VCs to invest in the most innovative and fastest growing UK science and technology companies.

- **Continuing support, and increases in funding, for the British Business Bank** and its current programmes, the Enterprise Capital Funds, and British Patient Capital.

- **Expanding the remit of the British Business Bank** to cover the full continuum of start-up funding needs, including for funds which take majority stakes, particularly in the latter stages of a company's growth journey.

Supporting innovation and entrepreneurship to harness brilliant ideas and fuel business growth in the UK

Fostering innovation and backing entrepreneurs is essential to economic growth and generating employment opportunities. The growth of businesses across the UK not only broadens investment prospects but also strengthens the domestic pipeline of promising businesses. This in turns makes the UK an attractive destination for private capital firms to expand their teams and investment activities. To foster an attractive business environment the BVCA recommends:

- **Increasing the amount of research and development (R&D) tax relief** given to R&D intensive small and medium sized enterprises (SMEs). The announcements at the Autumn Statement 2023 were welcome but the tax relief for R&D is still less generous than it was prior to April 2023. The Government will need to go further in the amount of support provided if the UK is not to lose out to competitor jurisdictions. This includes generous rates, but also requires HMRC to be adequately resourced to avoid costly delays in processing R&D claims.

- **Increasing the scope of the Enterprise Capital Fund Programme (ECF).** The ECF has been successful in backing first time and emerging VCs; however, it has been limited to backing 1 - 2 funds a year. It should be expanded further so that more managers can be supported, particularly those from diverse backgrounds.

Attracting talent to ensure the best people can drive the growth of UK private companies

The cornerstone of the UK's competitiveness as a business and investment destination lies in its talent pool; creating and supporting jobs across the regions and nations of the UK. Skilled talent is crucial to the growth of both funds and their portfolio companies, and lack of access to such entrepreneurs and innovators remains an obstacle for companies seeking to scale their business.

Small teams within venture capital firms, start-ups and SMEs typically lack internal recruitment expertise, requiring them to depend on expensive external advice. Alongside this, the new visa schemes have facilitated the relocation of science and tech talent, and their families, to other European countries for longer periods of time at a lower cost; thereby exacerbating competition for talent across Europe. Given that 9 out of 10 private capital investments are directed towards SMEs, these factors have become a particular burden for the industry's capacity for scaling and driving innovation. Therefore, the BVCA recommends:

- **Streamlining the process for recruiting overseas talent** by simplifying the visa schemes to reduce costs and increase the speed of overseas recruitment so fund managers, and the companies they invest in, can easily access the talent they need to grow companies.

- **Making overseas workday relief more generous.** This scheme is significantly less attractive than the equivalent rules offered by competitor jurisdictions. It should be available for a longer period and on less restrictive terms.

- **Making share incentive schemes, such as EMI and CSOPs, available to PE-backed companies.** The intention of these schemes is to allow SMEs to compete with larger firms to recruit high-skilled employees and retain key members of staff. SMEs do not become large firms with greater recruitment resources simply as a result of coming within PE ownership, but remain precisely the type of business these schemes were designed to assist.

Effective tax, legal and regulatory frameworks to facilitate capital flows

To continue to attract private capital to the UK, the tax, legal and regulatory frameworks for private capital fund management must be considered. Private capital needs to accommodate different types of investors from around the world and the industry will only remain attracted to the UK if the country's frameworks are flexible enough to allow capital to flow efficiently through UK structures. By reducing regulatory burdens, further private investment will flow into UK businesses, keeping people employed. The BVCA recommends:

- **Taking PE-backed SMEs outside the scope of corporation tax quarterly instalment payments** (QIPs). The QIPs regime is for large companies, but many PE-backed SMEs have been caught by changes that came into effect in April 2023, despite being genuine SMEs. This creates significant additional compliance expenses and causes cashflow issues, which can have a material impact on funding costs, particularly at a time of high interest rates.

- **Reviewing the VAT treatment of fund management services.** We were disappointed that the consultation on this topic, announced in 2020, concluded last month without taking the opportunity to consider wider reforms. VAT costs incentivise funds to set up outside the UK, and we would encourage the Government to consider options that would attract funds to this country.

- **Reforming 'teething issues' regarding the implementation of the National Investment and Security Act**, as set out in our recent submission to the Deputy Prime Minister. We believe that the regime is not as effective as it could be. For example, communication from the ISU should be increased to limit confusion and delays to business investment; and the scope should be narrowed and more targeted. Without these clarifications and improvements, it is our view that the difficulties faced by private capital investors will continue and lead to the UK becoming a less competitive location for attracting investment, impacting negatively on innovation and growth.

In closing, I would like to reiterate the BVCA's gratitude to the Chancellor and Treasury team for their continued support of the industry. The Government's commitment to fostering growth, innovation and collaboration has been instrumental in incentivising investment into UK businesses. As we move forward, we anticipate continuing our role as partners for growth in achieving these shared objectives. Alongside this, we remain committed to supporting the Chancellor's goal of unlocking higher returns for pensioners through investing in private capital funds. Through the Investment Compact, the industry is dedicated to fostering a constructive working relationship with UK pension investors to highlight the exciting opportunities for savers. I look forward to continued collaboration and as ever, please do not hesitate to reach out should the Treasury team require our support.

Yours sincerely,

Michael

Michael Moore
Chief Executive, BVCA