Social Investment Tax Relief review
Business and International Tax
1 Red
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

By email: SITRReview@hmtreasury.gov.uk

17 July 2019

Dear Sir / Madam,

RE: Social Investment Tax Relief: call for evidence

We are writing on behalf of the British Private Equity and Venture Capital Association ("BVCA"), which is the industry body and public policy advocate for the private equity and venture capital ("PE/VC") industry in the UK. With a membership of over 770 firms, the BVCA represents the vast majority of all UK based PE/VC firms, as well as their professional advisers. Our members have invested over £32 billion into nearly 2,500 UK companies over the last five years (2013-2017). Our members currently back around 3,380 companies, employing close to 1.4 million people on a fulltime equivalent basis ("FTEs") across the world. Of these, around 692,000 people are employed in the UK. Of the UK companies invested in during 2017, around 83% were SMEs. Between 2013 and 2017, BVCA members rescued 91 companies experiencing trading difficulties, helping safeguard over 37,000 jobs.

PE/VC is uniquely positioned to provide not only capital, but also strategic and operational expertise, to scale companies and enterprises with a positive social and/or environmental impact. Investors into PE/VC funds are also increasingly seeking investment opportunities that benefit broader stakeholders or contribute to social/environmental solutions, alongside financial returns. SITR was designed to support social enterprises that have difficulty accessing the financing that their commercial counterparts are able to access. The BVCA supports the scheme and hope it will further drive the development of socially impactful investing.

However, as reflected in your consultation document, take up has been substantially less than was anticipated when the scheme was introduced in 2014. Per the most recent numbers from the Office for National Statistics, since SITR was launched in 2014-15 until 2017-18, only 80 unique social enterprises have received investment through the scheme out of a potential pool of 30,000 organisations identified by Big Society Capital. From our perspective, take up of SITR has been poor due to the low lifetime investment limit of £1.5 million, an age limit for social enterprises of seven years, and restrictions on eligible activities, including short-term leasing. We believe addressing these areas would increase the take-up of SITR and increase the deployment of private capital into social enterprises.

We have limited our responses to those questions we believe are of particular relevance to our members.

5. Do you think social enterprises need private investment and for what purposes?

Private investment can play a key role in supporting social enterprises to scale and thus play a greater role in tackling the societal challenges faced in the UK. Investment by private equity and venture capital managers has the potential to not only provide capital, but also their strategic and operational expertise, to drive growth in social enterprises of every size and stage, across a very wide range of sectors and geographies.

8. Is the SITR limit of £1.5 million appropriate?

We believe the current SITR lifetime limit of £1.5 million is too low and is one of the reasons for the low uptake of SITR by the investment community.

The government stated in the 2014 Autumn Budget that it would seek EU state aid clearance for a £5 million limit, which resulted in interest from prospective investment managers. However, when it was announced that the limit would only rise to £1.5 million, interest fell significantly. We would suggest that the lifetime limit is increased to £5 million, which would be of sufficient scale to attract a larger number of SITR managers to enter the market i.e. investments need to be of a sufficient size for it to be worthwhile for managers to invest.

We would note that a lifetime limit of £5 million is equivalent to the amount that a non-social enterprise can raise through EIS / SEIS in a 12-month period and considerably lower than the lifetime limit for those schemes of £12 million.

Question 14 As an investor, enterprise or interested party, do you have a view as to why the take up of SITR has been less than expected?

One of the key drivers for low take-up of SITR is the low life time limit of £1.5m (see our response to question 8).

The age limit of seven years for social enterprises to be eligible from SITR has also proven restrictive, as mature social enterprises are unable to benefit from the regime. There is no logic in applying an age limit to a regime that seeks to encourage investment into social enterprises. .

SITR take-up has also been limited due to restrictions on certain activities. This includes:

- Short-term asset leasing – many social enterprises supplement their income with short-term leasing of their facilities to ensure their sustainability. Current SITR rules allow enterprises to undertake such activities up to a 20% limit, which is restrictive when such income generation is crucial to the enterprise's sustainability or where the threshold is breached following SITR investment. We would propose permitting asset leasing where it is on a term shorter than one month, which would considerably expand the universe of organisations eligible for SITR.

- Nursing homes and residential care homes – additional private investment in social enterprises delivering nursing and residential care is needed as UK's population continues to age. HMT suggested a scheme to accredit nursing and residential care homes to make them eligible for SITR if they can be classified as having a social impact in 2017, however there have been no further developments since.

- Small-scale food production – community organisations producing food on a small scale to improve food security and reduce hunger and poverty in economically deprived areas, which do not benefit from government subsidies, could also be made eligible.

- Refinancing of debt – many social enterprises have a number of high-interest loans that could be replaced in part or fully by SITR loans. This would reduce complexity, cost and cash flow constraints for such enterprises. Refinancing of existing debts was prohibited under the changes to SITR legislation in 2016, however reintroduction would reduce hurdles to social enterprise growth.

We would be happy to discuss the contents of this response with you. Please feel free to contact Sundip Jadeja at the BVCA (sjadeja@bvca.co.uk).

Yours faithfully,

Tim Hames

Director General, BVCA