17th June 2015

The Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Cc: David Gauke MP, Financial Secretary to the Treasury
Cc: Harriett Baldwin MP, Economic Secretary to the Treasury
Cc: Sajid Javid MP, Secretary of State for Business, Innovation and Skills

Dear Chancellor,

I am writing to you ahead of the Summer Budget 2015 to offer the perspective of the private equity and venture capital industry. Private equity and venture capital investors are key providers of patient and long-term capital to growing businesses in every sector of the economy right across the UK and Europe. In 2013 alone, they invested £4.2bn into around 710 UK companies - 87% of which were small and medium-sized businesses. Some 3,050 companies are currently backed by UK private equity and venture capital, employing more than 800,000 people in the UK in full time roles.

Our members have largely benefited from the policy actions of the last Government, whether on tax stability, the provision of SME finance or the asset management marketing strategy. We are now hoping for more of the same, to build on that platform and help our members drive recovery in every region of the UK economy and take the country to even greater success. I have outlined below some specific recommendations that if addressed, would help further our vision of business and investment, conducive to more growing companies, entrepreneurship and innovation.

We believe that more needs to be done to incentivise institutional investors to allocate funds to the venture capital asset class, given the continuing presence of the "equity finance gap" and the limited availability of debt finance. A larger institutional investor involvement in UK venture capital – particularly pension funds, corporations, sovereign wealth funds - would provide crucial capital to allow our growth companies to expand further up the funding ladder and to prevent premature trade sales to overseas buyers. It is vital that we build a wider and deeper pool of risk capital that includes all types of equity finance which can be channelled into the high-growth businesses to help them succeed.

It is important that the public and politicians alike recognise the particular role of scale-up founders and their investors in the UK economy, given the disproportionate contribution of high-growth companies to job creation and their immense potential to deliver economic growth.

One of the biggest challenges for high-growth companies is finding requisite skills on the ground. Attracting highly-skilled workers and entrepreneurs to the UK, as well as allowing high-growth companies to find the employees that they need and at suitable speed to make the most of their market opportunity, is urgent, as is focusing on skills such as trade and technology which lend themselves to entrepreneurship.

We therefore call for an emphasis on new “talent breaks” as much as on, if not more than, “tax breaks”. Whilst tax breaks to potential investors should be entrenched - notably the legislation governing the reformed tax-advantaged VC schemes should be expedited once State Aid is secured and further guidance provided for investors’ confidence -, it seems that a more pressing priority for high-growth businesses in this Parliament relates to the freedom to recruit the people they need in a timely manner.

English Limited Partnership reform: increasing the competitiveness of the UK’s funds industry
We understand the Government is currently working on proposals to reform English Limited Partnership (“ELP”) law for private equity and venture capital funds. These proposals were first considered in the 2013 Budget as part of the Government’s efforts to enhance the competitiveness of the UK asset management industry and we are aware the preparations for a consultation on the reform are very close to complete. The BVCA has been encouraged by a constructive dialogue with HMT, for which we remain very grateful. The ELP is a popular structure for investment purposes and the implementation of the suggested changes, which are generally administrative and uncontentious in nature, would ensure the longevity of this structure in light of growing competition from other jurisdictions, not least Luxembourg (which is becoming increasingly popular) but also as demonstrated by the recent French attempt to create an equivalent to the English and Luxembourg limited partnership. However, we understand from your officials that a key part of the commitment made in the 2013 Budget – to give ELPs the option to elect to have separate legal personality – will need to be implemented by primary legislation. We believe this element is an important part of the package of reform and we would be very grateful for anything that could be done to expedite its implementation

Liberalising Entrepreneur’s Relief: removing or significantly lowering the 5% equity stake holding requirement
A fervent entrepreneurial culture is at the root of the UK’s position as a leading destination for start-ups, and we welcome the Government’s efforts to strengthen this. Nevertheless we must continue to foster a deeper culture of entrepreneurship and encourage academics, graduates, advisors and investors to participate in starting and building new businesses. Changes to the current Entrepreneurs’ Relief scheme would help achieve this. We have been encouraged by a significant and very welcome change in Budget 2015 to Entrepreneurs’ Relief making it applicable to academics and researchers when they contribute towards valuable intellectual property used in spin out companies. We would like to see even greater progress towards enhancing Britain’s entrepreneurship and suggest the following amendments:
- Removing or significantly lowering the 5% equity stake holding requirement to 2%, to allow smaller shareholders to qualify and therefore encourage broader participation in company share schemes. This would be instrumental in retaining talent in the UK and encouraging the second tier of our companies’ management teams.
- Increasing the cap beyond £10m in a lifetime to encourage greater aspiration by entrepreneurs for making more investments and in turn creating a culture of serial entrepreneurship akin to our US compatriots.

Implementing the infrastructure and devolution agenda
The BVCA is supportive of the Government’s economic devolution agenda which matches our commitment to foster regional growth beyond London and the South-East, as well as to enhance entrepreneurial Britain. We believe that the role of the private equity and venture capital industry in

fuelling the Northern Powerhouse can be enhanced by providing more substantial powers and funding to link business needs to local skills and infrastructure development, so that regional cities are provided the potential to develop existing nascent clusters into national success stories. EIS and VCT have channelled substantial amounts of money into renewable energy technologies and should be catalysed further to drive capital in other specific Northern Powerhouse related infrastructure areas, such as care homes for an ageing population. As well as more economic devolution, strong consideration should also be given to the establishment of a new Office for Infrastructure Delivery in a bid to increase certainty to investors, streamline planning decisions and fast-track the delivery of key infrastructure projects.

Introducing a "scale-up visa"

We support the recommendation by Sherry Coutu CBE to introduce a fast-track visa system allowing expanding companies to bring in specific workers from overseas within two weeks of applying. Such fast-track visas should be made available from Local Enterprise Partnerships ("LEPs") to the top local high-growth companies so they can recruit people they need in a timely manner. Each LEP should be provided 50 scale-up visas, with the number for the whole of the UK not exceeding 2,000 per annum. If successful, the scheme should then be expanded so that LEPs can grant more scale-up visas to more high-growth companies.

Delivering a substantial increase of the investment limit under the Social Investment Tax Relief and introducing an attractive Social VCT

The BVCA has long been an advocate of an ambitious investment level to really seize the momentum in the social investment market. We can only urge the Government to deliver on that promise for both the Social Investment Tax Relief and the forthcoming Social Venture Capital Trust (VCT).

The BVCA also believes that the introduction of a Social VCT presents a real opportunity to expand the number and type of investors. We stress however that the provision of an attractive package of tax reliefs is required in order for Social VCTs to attract a meaningful volume of mainstream investors. We believe in particular that allowing shares in a Social VCT to qualify for Business Property Relief, just as Enterprise Investment Scheme investments do, would achieve this. We would be delighted to work with the Government on the details and implementation of the scheme to ensure its attractiveness and take-up.

If you would like the opportunity to discuss these and other issues I would be happy to do so at your earliest convenience.

Yours sincerely,

Tim Hames
Director General