BVCA Response to Invest 2035: The UK's Modern Industrial Strategy

7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

The BVCA welcome the Government's Green Paper, Invest 2035, and its plan to deliver the policy certainty and stability businesses need to invest that will drive the Government's central growth mission.

In addition to supporting growth driving sectors, a successful Industrial Strategy must ensure the market ecosystem for each sector, including regulation, incentives, and talent pool, works to attract investment in businesses of all sizes. Private capital backed businesses contribute 10% of all private sector GDP, and almost 1 in 10 private sector workers are employed by private capital backed companies. This means the Government's Industrial Strategy must look to maximise private equity and venture capital investment in UK businesses. Creating the right conditions for private capital investment can help businesses to grow, enhance UK productivity, and create the high-quality jobs that the UK desperately needs.

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 £178 billion of funds to invest, which they expect to deploy in the next three to five years. Historically, around half of the funds managed in the UK, known in the industry as 'dry powder', are put to work here.

Capital is mobile. To drive economic growth, we must bring that capital here, both by encouraging the global investors to put their capital in UK funds and by ensuring that investors have the confidence to invest in UK businesses. Earlier this year, the BVCA and Public First set up the Investment Commission, bringing together a range of experts representing investors, business leaders, academics, think tanks and business groups, to recommend changes that would result in a greater share of dry powder being invested in the UK.

To support its work, the Investment Commission conducted two surveys of BVCA members, held one-to-one interviews with senior investment professionals, and convened expert roundtable discussions on three specific themes: green transition and clean energy, the UK tech sector, and investment in the nations and regions of the UK.

The Investment Commission identified seven barriers to investing in the UK, which we outline below with accompanying evidence. These barriers cut across growth-driving sectors and industries.

Barrier 1: Policy uncertainty

Political uncertainty and frequent unpredictable changes of policy damage the confidence of investors and create problems for the UK businesses they invest in. Capital is mobile. Government needs to think about the messages it is sending not just to voters but also to people who are considering making large, long-term investments in the UK, and who could make those large, long-term investments in businesses based elsewhere instead. In our BVCA member survey, we found that 71% say UK businesses they invest in have experienced problems because of political or policy

uncertainty, and 33% say a clearer net zero and policy roadmap would make it easier for them to invest in a UK business.

Barrier 2: Complexity around regulation and incentives

Investors told us that complex regulation and uncertainty over incentives can make other nations a more appealing destination for investment. A simple message about predictability of return on investment and Government support, along with clarity about who to engage with, really matters. In our BVCA member survey, we found that 42% of respondents have decided not to invest in a UK business because of regulatory uncertainty, and 50% say reform of the British Business Bank to support larger-scale investments or invest more flexibly would make it easier for them to invest in UK businesses.

Both the Inflation Reduction Act (IRA) in the USA and the very differently-structured EU Green Deal were mentioned as initiatives that potential investors could navigate relatively easily, compared to opportunities for UK government support for investment. The precise level of particular taxes is not investors' only consideration: where tax rates in a particular country have been highly stable over decades, investors can build that predictability into their assumptions when assessing likely returns, meaning that tax stability provides a comparative advantage in itself.

Barrier 3: Planning delays

A major uncertainty facing investors, and the businesses they invest in, is the length of time it can take to get planning permission for facilities they are ready and willing to pay for, such as factories and labs, but cannot build without approval. In many cases, their plans are also vulnerable to planning delays affecting other necessary infrastructure, both public and private, from the grid to transport to housing. For example, a lack of housing in certain areas has a direct impact on workforce capacity, which again impacts the viability of investments. In addition to the need for planning reform to remove blockages and delays to necessary infrastructure, there is a basic problem of capacity within the system, with both additional resources for planning departments and additional planning staff required to meet demand. In our BVCA member survey, we found that 35% of respondents say businesses they invest in have experienced problems because of planning delays, and 33% say planning reform would make it easier for them to invest in UK businesses.

Barrier 4: Poor public infrastructure

Some of the most important factors that affect whether an investment will deliver a return are beyond the control of either investors or the businesses they invest in, but are either in the direct control of government or subject to long-term government decisions: grid connections that affect whether a new manufacturing facility can operate; transport links that affect where the workforce can be drawn from. This is separate from the question of whether public investment can "crowd in" private investment in related sectors; it is about public infrastructure that creates overall national capacity and, in the case of transport infrastructure, especially regional capacity for businesses to attract investors.

In our BVCA member survey, we found that 42% have decided not to invest in a UK business because of a lack of public infrastructure such as transport or grid connections, 43% say that significant public investment in green energy would make it easier for them to invest in UK businesses, and 34% say that significant public investment in transport infrastructure would make it easier for them to invest in UK businesses.

Survey respondents also cited a lack of investment in the regions and in transport and other infrastructure as major barriers to investing outside London and the South East.

Barrier 5: Domestic workforce skills shortages

Skills shortages in the recruitment of their domestic workforce were identified by investors in our 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.

The Investment Commission also heard that 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.

In our BVCA member survey, we found that 79% say UK businesses they invest in have experienced problems as a result of skills shortages in the recruitment of their domestic workforce, and 25% have decided not to invest in a UK business as a result of skills shortages in the recruitment of their domestic workforce.

Barrier 6: Recruiting global talent

The UK is not the only country seeking to attract investment. New visa schemes elsewhere in Europe are making it easier for talent in the tech sector in particular to settle in other countries for longer periods at a lower cost. Small teams at venture capital and some growth equity firms, start-ups and SMEs often lack in-house expertise in international recruitment and immigration rules, and are forced to rely on expensive external advice: streamlining the visa application process for these firms would make it much easier to attract and retain talent in the UK.

In our BVCA member survey, we found that 68% say a less restrictive immigration regime for global talent would make it easier for them to invest in UK businesses, and 11% have decided not to invest in a UK business because of barriers to access to global talent.

Barrier 7: Lack of regulatory agility in innovative sectors

Many tech startups in particular are working with innovative technologies – from AI to medical devices to quantum technology to driverless cars to novel foods – which are rightly subject to regulation but where their regulatory status is unclear, because regulations have not kept pace with what is now technologically possible. This makes it much more difficult for investors to understand what their return on investment is likely to be, whether a product has a path to market and how quickly it will get there, and indeed whether a business is viable at all.

In our BVCA member survey, we found that 91% of respondents say a faster and more agile regulatory system would make it easier for them to invest in UK businesses.

The BVCA Investment Commission can be found here: https://www.bvca.co.uk/Research/BVCA-Publications/Details/BVCA-and-Public-Firsts-Investment-Commission-Report

8. Where you identified barriers in response to Question 7 which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?

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.

We welcome the Government's recognition in Invest 2035 that skills and recruitment of international talent are critical for driving investment. To attract investment from across the globe, the Government must ensure that private capital firms looking to invest in growth-driving sectors are able to hire and attract the skilled talent they need to grow innovative businesses. The UK is a leader in technology, 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 our education and training systems are setup to provide the relevant training, and that companies looking to attract highly talented individuals from abroad to build and lead businesses are not hindered by non-competitive immigration rules or overly slow visa processes that mean that UK companies risks losing those with very specialised skill sets to companies based in other countries.

Domestic Skills Shortages

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.

These shortages will vary from sector to sector, but the people we spoke to were particularly concerned about difficulty in recruiting people with certain technical skills, from heat pump installation to the ability to use particular kinds of software. In some cases, they said they were in a position to attract people with the right skills from other sectors – for example, people who can move from real estate development to renewable energy development – but noted that those sectors were also nationally important and in need of the same skilled workers, pointing to a recruitment problem that goes beyond the needs of any specific business or investor or sector. Support for skills training programmes that focus on particular skills gaps would make it easier for businesses to be confident that they can recruit the workers they need, and for investors to back them.

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.

To address domestic skills shortages, the BVCA recommends:

- 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.
- The flexibility proposed by the introduction of a new Growth and Skills Levy should be used 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.

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Recruiting global talent

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The UK is an attractive place for highly talented individuals to come to and build and lead a business - but they will not do this without immigration rules which allow them to come to the country in the first place.

To address barriers to attracting global talent, the BVCA recommends:

- Visa schemes for top global talent should be simplified so that investors and the companies they invest in can access the talent required to grow.
- There should be clear criteria for recruiting talent into portfolio companies, that recognise the role of venture capital and growth equity: securing a defined level of funding over a defined period should be sufficient to demonstrate that a company is looking to scale and should be able to recruit skilled overseas talent in order to grow the business.
- Members have told us that the visa process for highly specialist skills is too slow. Members who invest in new and innovative technologies compete in a small talent pool for specific skills and often lose candidates to companies working in countries where visas don't take months to obtain.

9. What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?

As detailed in Question 8, the flexibility proposed by the introduction of a new Growth and Skills Levy should be used 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.

10. Where you identified barriers in response to Question 7 which relate to RDI and technology adoption and diffusion, what UK government policy solutions could best address these?

The UK should be the best place to both start and scale innovative businesses. BVCA data shows that £8 billion was invested in UK venture capital in 2023, highlighting a strong year for a sector that fuels a diverse range of startups across the country. Our data also reveals British venture capital-backed businesses also added £20 billion in GDP to the UK economy in 2023, underscoring the vital role these companies play in driving innovation, supporting jobs, and economic growth.

But there is more to do in the UK to attract the investment that helps businesses start up, and significantly, continue to scale in the UK. The Industrial Straegy must ensure that private equity and venture capital firms are able invest in and commercialise RDI so that they can deploy more investment into companies driving UK innovation.

R&D (research and development) tax relief plays a very 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 relief provides an efficient way of supporting companies to reinvest in their future growth. It is particularly important for early-stage businesses in the period before they start to generate income, as the availability of a payable tax credit increases the length of their cash "runway" (the amount of time for which they can operate before they run out of money). The UK economy needs these early-stage businesses to drive growth and employment for the future.

Feedback from our members indicates that there are significant concerns both over the amount of the relief, and the way in which it is administered by HMRC.

The amount of R&D relief, both under the merged and enhanced schemes, is significantly less generous than it was before changes that came into effect from April 2023. In the BVCA's view, the Government needs to increase the amount of support available for R&D if the UK is not to lose out to competitor jurisdictions.

In addition, the existing R&D relief will only reach its intended targets if eligible companies are able to claim it. Our members' experience indicates serious concerns about HMRC's approach to checking that claims are valid, including:

- Businesses are being required to provide large amounts of additional information, placing a compliance burden on what are often very small enterprises.
- HMRC appear to be under-resourced and lack staff with the appropriate technical knowledge to assess whether a company is carrying out genuine innovative R&D, resulting in significant delays in these businesses receiving essential tax relief, if it is received at all.

This is causing significant disruption to many companies carrying out genuine innovative R&D activity.

We understand that HMRC's current approach is largely a response to reports of large-scale fraud and error in R&D claims. The BVCA supports the Government's aims to ensure the relief is properly targeted and to reduce fraud. However, there are concerns about how HMRC calculate the amount of fraud and error. The problems we have described above often cause businesses to abandon valid R&D tax relief claims because of the burden involved in responding to HMRC's enquiries. HMRC appear to classify a withdrawn claim as "incorrect", which may be distorting their "fraud and error" figures.

BVCA welcomed the Government's Corporation Tax Roadmap 2024, which helps to provide policy certainty and confidence to investors looking to utilise R&D reliefs.

The BVCA welcomed the Roadmap's commitment to maintaining the generosity of rates for the merged R&D Expenditure Credit scheme and the Enhanced Support for R&D Intensive SMEs. However, we recommend that the amount of R&D relief be increased, to incentive genuine innovation and pioneering investment, and to prevent the UK missing out to countries with more attractive R&D tax regimes.

We welcomed further announcements in the Corporation Tax Roadmap committing to enhancing the administration of R&D reliefs by establishing the R&D expert advisory panel, continuing to improve signposting and guidance on R&D reliefs, and launching an R&D disclosure facility by the end of 2024.

To further improve the functionality of the regime, BVCA recommends:

- Better resourcing of HMRC so that R&D claims may be processed quickly and fairly. This means appropriate risk assessment procedures so that HMRC enquiries can be targeted effectively on claims that do not involve genuine R&D, and appropriately qualified staff who can evaluate the scientific and technological aspects of R&D claims.
- Greater transparency by HMRC over the sources of the "fraud and error" data that is used as the reason for burdensome HMRC checks into R&D claims.

11. What are the barriers to R&D commercialisation that the UK government should be considering?

Supporting innovation and entrepreneurs, for example by helping to commercialise the Intellectual Property (IP) flooding out from UK universities through 'spin-outs', and keeping those businesses in the UK, is crucial to economic growth and creating jobs. The more growing businesses we have, the more investment opportunities there are. The stronger the UK can make its domestic pipeline of promising businesses, the more the country will attract private capital firms to expand their teams and investment activities here.

The UK has a strong track record in science and technology research but loses out on opportunities when companies move overseas, taking intellectual property, quality jobs, and innovation with them. Other challenges relating to the UK's regulatory and infrastructure framework further inhibit the UK from being a global scale-up destination for the largest technology companies.

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 British Business Bank, 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 Government should implement the findings of the Independent Review in full.

Government programmes and incentives that provide a much needed source of capital at the early-stage should be expanded and simplified to enable research-driven and knowledge intensive companies (KICs) to continue development towards commercialisation. This includes:

- Lifting the EIS Knowledge Intensive Company upper limit from £20 million to £30 million so R&D intensive IP rich companies in sectors such as biotech and deeptech can continue to raise capital after hitting the current ceiling
- Increase funding for the British Business Bank's Future Fund Breakthrough scheme, which focuses on R&D-intensive companies.

- Expand the UKRI Translational fund as UKRI funding often falls short in advancing technology to the commercialisation stage. Further funds and expertise should be provided for UKRI, Innovate UK and early stage university funds in the nations and regions, to help build a national pipeline of high growth companies ready to scale.

The UK's regulatory framework is often cited as a key challenge to enable effective speed to market for R&D commercialisation so it is positive that the government is setting up a new Regulatory Innovation Office. Regulatory checks are often cited as impacting investment activity.

There are further challenges that are commonly cited as a barrier to R&D commercialisation including skills and talent. Innovative, research intensive companies often find hiring product management specialists and those with a strong customer perspective difficult. Recruitment is often from a small pool of specialists and requires companies to look overseas for talent. The current visa process is slow and can hamper a firm's ability to hire the best minds to provide much needed expertise to commercialise. The UK is therefore losing out to other jurisdictions with a more efficient visa application process. The Government should review the current application process and identify where this could be made more efficient to ensure decisions are made within hours or days, rather than months.

14. Where you identified barriers in response to Question 7 which relate to planning, infrastructure, and transport, what UK government policy solutions could best address these in addition to existing reforms? How can this best support regional growth?

The Government recognises that infrastructure underpins all economic activity by connecting people, goods, services, and ideas, and that improvements in infrastructure will be essential to promoting UK economic growth.

The BVCA and Public First's Investment Commission looks at some of the most important barriers to investment across the board, but it is worth noting at the start that these barriers are particularly high when it comes to businesses outside London and the South East - where skills shortages are higher, infrastructure is poorer and investors, especially those from overseas, are somewhat less likely to be prepared to invest.

Although over half of the 12,000 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 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. 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.

Business investors are not investors in infrastructure, but they can only deliver high growth and strong returns if there is world-class infrastructure for their businesses to make use of.

The BVCA and Public First's Investment commission makes several recommendations to improve the UK's planning and infrastructure:

- Planning laws need to be changed to make it significantly quicker and easier to build both the facilities and the supporting infrastructure that enable investment and job creation in the UK.
- Greenfield status should not be a block on building new facilities and supporting infrastructure. Forthcoming changes to Green Belt designation should not be restricted to housing development but must ensure that job-creating sites can be built where they are needed where there is insufficient suitable brownfield land.
- 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 also give stronger powers to the National Infrastructure Commission to ensure a clear roadmap around nationally significant projects.
- 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.

15. How can investment into infrastructure support the Industrial Strategy? What can the UK government do to better support this and facilitate co-investment? How does this differ across infrastructure classes?

BVCA welcomes the inclusion of Clean Energy Industries as one of the eight growth-driving sectors for the Industrial Strategy. Private capital investors are key to backing the innovative UK firms developing sustainable solutions to the challenge of net zero and climate.

To ensure that the Industrial Strategy successfully leverages investment into clean energy, the Government must ensure that the surrounding policy frameworks, incentives, and regulation, successfully encourage private equity and venture capital investment into the sector. Creating the right conditions and co-investment models will serve to crowd in private capital investment in nascent green technologies, finance Net Zero innovation, and create high-quality jobs in the sector.

Blended finance is a strategic tool that can attract private capital into innovative infrastructure projects, especially those achieving net-zero goals. It can also be used to facilitate co-investment. By mitigating risks and leveraging public-private partnerships, it can address funding gaps and mobilise investment in green technologies and sustainable infrastructure. However, to unlock its full potential as a financing mechanism, it needs to be accompanied by robust and consistent policy frameworks alongside enhanced stakeholder engagement to understand where the pain points exist with current mechanisms. We have detailed below some of these pain points and barriers to current approaches:

- Unclear and short-term net-zero policies create regulatory uncertainty, deterring investors by making terms unpredictable and investments less appealing.
- Higher levels of risk surrounding these investments also deter investors and without appropriate de-risking mechanisms, they remain unattractive.

- Current models often fall short for large infrastructure projects, requiring more significant and sustained investments. Furthermore, evolving technologies and market demand for bespoke mechanisms emphasise the need for flexibility in blended finance models.
- Uncertainty about future liabilities and market changes combine to make long-term investment commitments harder.

To effectively harness the potential of blended finance, it is essential for the Government to establish stable net zero policies and enhance the understanding of how these mechanisms can be integrated into the private capital model. The BVCA recommends:

- In line with the Industrial Strategy's need to increase market dynamism to allow labour and capital to flow more freely towards growth-driving sectors, a detailed roadmap outlining sectoral priorities, public investments and clear policies should be implemented to build investor confidence in long-term net zero projects, reduce regulatory uncertainty and foster sustained private capital investment. This can be achieved through collaboration with the UK Transition Finance Lab, leveraging its outputs developed as part of the Transition Finance Market Review.
- Development of simpler frameworks, replicable examples and targeted knowledge building to help private markets comprehend how these approaches can be used successfully. Leveraging specialist knowledge to tailor solutions for different contexts will also improve effectiveness.
- Guidance and provision of blended tools like guarantees, first-loss capital and concessional funding to reduce risks presented by emerging green technologies. Government should further look to align financing structures with investment timelines to support with this.

18. Where you identified barriers in response to Question 7 which relate to competition, what evidence can you share to illustrate their impact and what solutions could best address them?

In order for the Industrial Strategy to successfully leverage private capital investment across growth-driving sectors, the Government must ensure its competition policy maintains the UK's competitive advantage in private capital to attract global investors.

BVCA echoes Competition and Markets Authority CEO, Sarah Cardell's recent comments that competition is an engine for growth and an essential level in the Industrial Strategy, while also acknowledging that in pursuing growth competition must be balanced alongside other policy objectives. We further welcome the CMA's new regulator outreach programme with investors and start-ups and look forward to continuing the private capital industry's recent engagement with the CMA to help increase understanding of how regulators can support innovation and investment in the UK's most promising businesses.

In our response to question 7 we mention 3 areas which relate to competition policy in the UK: (1) Policy uncertainty, (2) Complexity around regulation and (3) Lack of regulatory agility in innovative sectors.

It is in these three areas that the Uk's merger control regime is adversely affecting growth. The regime, implemented by the CMA, is well-respected and viewed positively on the whole. However, there has been an increase in investigations and complexity in the regime in recent years which are potential barriers to growth. Navigating the regime is taking additional time, raising costs, and

creating uncertainty for our members (venture capital and private equity firms) when they conduct M&A activity in the UK. The following points hinder growth:

- The CMA has become more prominent since Brexit. The number of deals that raise novel issues has risen, for example, threats to dynamic or potential competition and innovation, and the CMA has become more interventionist in prohibiting or approving deals with conditions. We also see more market studies, for example, in social care, energy and food which can negatively highlight perceived issues with competition in the UK and drive policy uncertainty.
- The CMA has an increasing tendency to make judgements on future competition, increasingly basing its decisions less on the state of market competition now and increasingly on what the market could look like within a five year timeframe, which is partly a reflection of underlying sectoral changes to the economy.
- There is a limited scope for appeal within the UK process, which can deter investment in the UK and demonstrates a lack of regulatory agility.
- The new 'killer acquisition' thresholds, included in the Digital Markets, Competition and Consumer Act have the potential to catch more M&A activity, again increasing the number of deals reviewed by the CMA. It appears that these thresholds are targeted more at the technology and pharmaceutical sectors, which will affect some of our members and potentially prevent/dampen investment in these areas and see start-ups fail due to lack of exit opportunities.
- There is a perception that the UK continues to make its merger clearance approach more procedurally complex and unpredictable than others, with concerns about divergence from the EU and US agencies.

The above points, taken together, can result in a dampening of investment where there is a concern that the CMA will intervene, causing delay, uncertainty and additional cost. Where possible and proportionate, it would help to simplify the rules and approaches the CMA follows to ensure the UK merger control regime is not seen as overly complex. We have noted down a few of these points:

- Provide more certainty for investors with further guidance indicating when the CMA is likely to wish to review a transaction or investment.
- If the CMA does wish to step in to review a non- notified transaction, intervention as early as possible would be appreciated.
- In completed transactions, compliance with the standard "hold separate" order can be very onerous and could be simplified if the CMA could facilitate standard carve-outs.
- Reconsider grounds for appeal process to increase the options for merging parties.

It is positive to note recent developments with the CMA, including additional outreach to its external stakeholders to discuss issues faced by the industry, as well as recent announcements mentioned in the green paper, including the new UK-EU Competition Cooperation Agreement. This agreement could alleviate cross border M&A issues and streamline processes for our members if it improves cooperation between the UK's and EU's competition authorities, and allows for greater dialogue and information sharing.

19. How can regulatory and competition institutions best drive market dynamism to boost economic activity and growth?

The private equity and venture capital (private capital) industry is a key partner for driving UK economic growth. Already backing businesses that contribute 6% of UK GDP, the industry has a stock

of £145 billion that is expected to be invested in the next 3-5 years. If we can attract this capital to the UK, we can drive economic growth.

For the UK to remain an international destination for investment, the Industrial Strategy must ensure the UK's regulatory and competition institutions across all growth-driving sectors maximise the private equity and venture capital industry's ability to invest in UK businesses of all sizes.

It is vital that the UK retains its place at the centre of the global financial ecosystem so that private capital continues to choose to invest in the UK and help UK businesses thrive. This requires regulation which takes a common-sense approach, is applied consistently, and equally balances incentivising growth with upholding world-class standards. Regulatory frameworks must be flexible, proportionate, and clear to allow capital to flow efficiently and predictably through UK structures.

Many tech startups work with innovative technologies, from AI to medical devices to quantum technology to fintech. It is of course right that regulators take a view on new technology to protect consumers and the wider economy, however in many cases rules have not kept pace with what is now technologically possible. This makes it much more difficult for investors to understand what their return on investment is likely to be and whether a product has a reasonable path to market, if at all.

Tax, legal, and regulatory structures affect the day-to-day operations of both investors and their portfolio companies. Uncertainty and inefficiency around corporate governance and audit reform, the national security investment regime, and future regulation of innovative industries is costly, time-consuming, and adversely impacts investor confidence and appetite.

To support a financial services sector for growth, the BVCA calls for:

- Policy alignment and coordination between HM Treasury and the FCA is essential for ensuring a stable, effective and competitive regulatory system in the UK. Enhanced coordination will help their ability to meet shared economic and regulatory goals.
- Regulators to adopt a competitive mindset, balancing oversight with flexibility, holding firms to the high standards demanded by investors without unduly constraining investment activity. There are certain prescriptive elements of the UK regulatory framework that put UK-based private capital firms at a competitive disadvantage when compared to their EU and international counterparts, adding significant compliance burden and costs. A more proportionate regulatory environment will make the UK a more attractive place to locate, invest and do business – which will help to drive investment and growth.
- Improvements in the operational efficiency of regulators. Regulatory checks can be unnecessarily slow and cause frictions that cool investment activity. Lengthy waits for case allocation and processing delays are disruptive and can be damaging to the reputation and competitiveness of the UK. Improved operational efficiency will enable regulators to be more effective, responsive and make better use of their resources. The benefits would not only be felt by industry but also by investors and the wider economy.
- The introduction of proportionate governance and audit reforms, setting out a clear strategy and timeline for implementation. With the recent non-financial reporting reviews and increase in thresholds, reform should go further to remove red tape around reporting requirements and corporate governance. It is vital to the industry that the FRC Ethical Standard private equity carve out is included in proposed corporate governance and audit

reform legislation. This is extremely important and allows for sufficient competition and choice in the non-audit services marketplace.

- Improvement in the functioning and approach to the National Security Investment Act. Lack of communication from the Investment Security Unit combined with too wide a scope from the Act have resulted in delaying and disincentivising investments.
- A cross-cutting Government review of regulation of innovative technologies, focused on areas where regulatory capacity is holding back innovation and growth, and where legislation has not kept up with technological possibility.
- Increased resources for regulators that face particular challenges keeping up with technological change.
    - 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.
    - Expand the Regulatory Pioneers Fund to £50 million initially, in time rising to £100 million+, to provide dedicated surge capacity for regulatory innovation projects on top of core funding increases.

20. Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in Question 7?

Private capital stands ready to help the UK economy grow. Investors support businesses over the long-term, helping to develop and build companies that are resilient and sustainable.

The Industrial Strategy must ensure regulation for each growth-driving sector works to encourage investment in businesses of all sizes. As private capital backed businesses contribute 10% of all private sector GDP, it is essential the UK's regulatory environment continues to encourage private equity and venture capital investment. Below we make proposals on three areas of regulation which affect private capital investors across all growth-driving sectors and will help create the right conditions for the private capital industry to invest in the economy, driving growth and innovation.

National Security and Investment Act (NSI Act)

The BVCA has been heavily engaged with the Cabinet Office and relevant officials on the review of the National Security and Investment Act (NSI Act) and the industry's experience of interacting with the Investment Security Unit. Although our overall impression is that the NSI Act is broadly meeting its objectives, feedback from our members suggests that the regime does not strike the right balance between protecting national security and encouraging investment in the UK.

Without these clarifications and improvements, it is our view that the difficulties faced by private capital investors will continue and could potentially lead to the UK becoming a less competitive location for attracting investment, impacting negatively on innovation and growth. In our view, there are specific areas where small improvements could help to address these issues:

- Narrow the scope:
    - The Government should not increase the scope of certain aspects of the regime, as suggested in the previous government's Call for Evidence in 2023, and should instead look to narrow and focus it. Mandatory sectors should be refined and types of transactions (such as internal restructuring) should be removed from scope.

- For sectors that the Government is targeting for investment (as named in the new Industrial Strategy), fast track and pre-approval processes should be incorporated for investors from countries considered allies (outside the most sensitive transactions). There should be a specific carve-out for UK domestic investors. These reforms could serve to reduce regulatory barriers to low-risk deals, thereby supporting the Government's goal of stimulating investment into the UK.

- More official guidance and communication from the ISU: Members are finding that the ISU is inconsistent in its approach and can be slow to communicate. This creates uncertainty and delay in a transaction and the risk is that it could cause the business, for example a small startup looking for venture capital investment, to collapse due to cost pressures. We would therefore advocate for a case officer to be assigned to each filing from the outset to allow parties to follow up on the progress of a notification and for any queries the parties have. We also recommend that existing guidance should be updated to clarify matters in response to queries and requests to feedback and new guidance should be created via engagement with the investor community.

- Administration issues: The ISU should aim to speed up the timing of reviews, which often run to the full 30 days. This delay can significantly impact Venture Capital firms in particular which need to invest nimbly into fast growing companies. Another way to improve the smooth-running of the ISU would be to remove the need for duplication of work, such as adding a way for repeat notifiers to pre-populate sections of the notification form.

- Improvements to the Legislation**:** Remove the clause in legislation related to Automatic Invalidity for failure to file under the mandatory regime. Under the mandatory regime, if a notification is not made where it should have been, there is automatic invalidity. We believe that this is legally flawed for agreements governed by laws in jurisdictions other than the UK, it is disproportionate and should therefore be reviewed. Additional safe harbours should be included and exemptions should be included now that the regime is in place and becoming established.

The BVCA's full response to the National Security and Investment Act Call for Evidence 2023 can be found here: BVCA Feedback to the National Security and Investment Act Call for Evidence 2023.pdf

Audit Reform and Corporate Governance Bill

BVCA welcomed the inclusion of the draft Audit Reform and Corporate Governance Bill in the King's Speech and the confirmation that ARGA will be set up. We would welcome further opportunity to engage on the detail of the legislation to ensure that reporting is proportionate and comes with the appropriate support and lead in times. The lack of a clear plan and timeline, and continuous reviews and consultation around the implementation of reform in 2021 and 2022 caused uncertainty and has impacted confidence in the UK's predictability.

A clear and proportionate definition for a private company PIE is essential, including when and how a company might come into/out of scope of being a public interest entity (PIE). It is also vital that the Bill includes the FRC Ethical Standard (ES) private equity carve out in proposed corporate governance and audit reform legislation, to allow for sufficient competition and choice in the non-audit services marketplace. The carve out was included in the FRC ES following a review in 2019 and engagement between the BVCA and the FRC. Following its review last year, the FRC will amend its ES, which will remove the carve out due to the proposed expansion of the PIE definition. This will have an adverse impact on our members and their portfolio companies, removing choice in the market for non-audit

services, and therefore limiting competition for a range of businesses – a clear divergence from Government intent to increase competition in the market.

The BVCA's response to the 2021 white paper can be found here: 210708 BVCA response to BEIS consultation.pdf

Pensions and access to capital

The BVCA welcomes the clear commitment from the UK Government to achieving increased investment from UK pension funds into private capital. Private capital investments generate good returns for investors. As of December 2023, UK private capital funds delivered a 10-year horizon return of 15% compared to 5.3% for the FTSE All Share and 7.5% for the MSCI Europe index over the same period.

Over recent decades, the evolution of the UK pensions industry – the move away from DB to DC funds, and the move away from collective risk pooling - has made it harder for pension savers to benefit from the returns, and diversifications, typically offered by private capital.

Sixteen times more capital from pensions around the world goes into UK private capital than UK capital. This means that UK pension savers are currently missing out on the returns generated by private capital in the UK, which pension savers in other countries currently benefit from.

We are particularly encouraged by the proposals set out in the Chancellor's Mansion House speech, and look forward to working with the Government over the coming months to ensure that they can maximise the potential of private capital investments, in the interests of both savers and the wider economy.

However, we also recognise that scale can bring with it an increase in the size of investments that schemes are prepared to make – often because scale does not necessarily result in more resource and expertise.

Both large and small private capital funds play an important role in diversification and UK growth. Larger funds facilitate deploying large amounts of capital targeting strong net returns from growing large companies across geographies, including the UK. 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 equity funds, which form a vital part of the ecosystem for building UK companies.

We note that this is likely to be a particular consideration in the LGPS, where a new requirement to pool all fund assets poses a risk to some investments made with a nod to regional growth and jobs. We welcome the inclusion in the consultation of a number of proposals aimed at countering this risk – for example local strategies and specific requirements for FCA regulation. We would urge the Government to ensure that the plans do not inadvertently prevent regional considerations.

As regards DC pensions, which is clearly a very different landscape, we welcome the proposals to require DC schemes to be a certain size and, in particular, the strong view the Government is taking on the need to move away from an excessive focus on cost in the DC market. The BVCA-convened Pensions & Private Capital Expert Panel has been considering these issues over the past year, and set out its recommendations in an interim report in September: Pensions & Private Capital Expert Panel Interim Report | BVCA | British Private Equity & Venture Capital Association.

BVCA full response to the Pensions Investment Review Call for Evidence can be found here: https://www.bvca.co.uk/policy/policy-submissions/bvca-responses/BVCA-response-to-the-Pensions-Investment-Review-Call-for-Evidence

21. What are the main factors that influence businesses' investment decisions? Do these differ for the growth-driving sectors and based on the nature of the investment (e.g. buildings, machinery & equipment, vehicles, software, RDI, workforce skills) and types of firms (large, small, domestic, international, across different regions)?

In addition to supporting growth driving sectors, a successful Industrial Strategy must ensure the market ecosystem for each sector, including regulation, incentives, and talent pool, works to attract bottom-up investment in businesses of all sizes and in all sectors. Private capital backed businesses contribute 10% of all private sector GDP, and almost 1 in 10 private sector workers are in private capital backed companies. This means the Government's Industrial Strategy must look to maximise opportunities for the private equity and venture capital industry's investment in UK businesses. Creating the right conditions for private capital investment can help businesses to grow, enhance UK productivity, and create the high-quality jobs that the UK desperately needs.

From global capital firms that invest around the world in some of the largest businesses, to UK facing mid-market growth equity firms that help domestic businesses expand, and venture and early-stage investors who back the UK's most exciting start-ups, private capital efficiently allocates capital to solve new and established policy challenges, supporting innovation, talent, competitiveness and sustainability, while investing nationwide. Private capital firms support businesses across all sectors and in all regions of the UK.

In order for the UK to retain its global position as a home for investment, government policy and regulation must be guided by four key principles. Ensuring a stable economy, world class regulatory standards proportionally applied, competitive advantages to maintain scale and breadth of talent, and predictable policy frameworks for growth sectors. Through an investment ecosystem which abides by these principles, global capital will remain attracted to the UK and UK firms will be able to seize productive investment opportunities.

Britain is a great place to invest, we could make it even better. When we surveyed BVCA members, just 3% of respondents said that it is harder to execute investments in the UK than in other countries they invest in, compared to 35% who said it is easier. The barriers investors face in finding investments and deploying capital are in large part the barriers the UK itself faces in achieving sustained economic growth.

Capital is mobile. To drive economic growth, we must bring that capital here, both by encouraging the global investors to put their capital in UK funds and by ensuring that investors have the confidence to invest in UK businesses.

BVCA data shows that UK-based private capital managers are more likely to invest in the UK than those based elsewhere, and when managers are investing in the UK, if they are UK-based they are twice as likely to invest outside London and the South East than those investing in the UK from abroad.

On a domestic level, in our Report on Investment Activity, the data shows that the nations and regions of the UK, outside of London attract capital from UK headquartered investors, but are less likely to attract non-UK funding. They are also more likely to attract funding into established businesses but less likely to attract venture funding. There are many reasons why fund managers may be more successful and confident when investing in domestic markets, including in-country

networks, access to information, an understanding of market opportunities and local culture, and a preference by companies to be backed by a "local" private capital firm. The data further shows that:

- Over half of the the UK businesses invested in by the private capital industry are based outside London and the South East, with 9 in 10 of the businesses backed by private capital being small or medium sized enterprises.
- 80% of jobs backed by private capital in 2023 were outside London.
- This report also shows that different types of SMEs across nations and regions attract different types of investment. Almost 80% of SMEs backed in London and the East of England in 2023 were venture stage businesses. North West and East Midlands on the other hand attracted proportionally more investment into larger and more established businesses with 33% of companies backed at venture stage.
- 43% of all SMEs backed in the UK were in London, but only 36% of all non-SMEs backed were London based.
- 37% of London based non-SMEs were backed by firms headquartered outside of the UK. This is in contrast with other nations and regions where large companies predominantly receive funding from domestic investors.

In 2021, a BBB report showed that distance matters: In 82% of equity investment stakes, the investor has an office within two hours travel time of the company they are backing. In 61% of instances, the proximity is even closer and the two parties can travel between their premises in one hour or less. Increased remote working in 2020 does not appear to have affected these distance patterns in equity investment.

Sources:

- https://www.bvca.co.uk/Portals/0/Documents/Research/2024%20Reports/Private%20Capital%20-%20Building%20a%20better%20economy%20for%20the%20future.pdf
- https://www.british-business-bank.co.uk/about/research-and-publications/regions-and-nationstracker2021#:~:text=The%20largest%20four%20regions%20within%20the%20UK%2C%20London%2C,outperform%20on%20private%20debt%2C%20attracting%2069%25%20of%20investment.

22. What are the main barriers faced by companies who are seeking finance to scale up in the UK or by investors who are seeking to deploy capital, and do those barriers vary for the growth-driving sectors? How can addressing these barriers enable more global players in the UK?

The private capital industry, in particular venture capital and growth equity, is key to getting capital into fast growing, early-stage businesses across the Industrial Strategy's growth-driving sectors. It is vital that the Industrial Strategy creates an investment ecosystem to support private capital firms to deploy investment and scale innovative UK businesses from the bottom-up through broadening access to capital, supporting emerging VC funds, and establishing new investment schemes.

The UK has the third largest venture capital hub in the world. However, while the UK has a strong funding ecosystem at the early stage of a company's growth, the 'scale-up' stage of VC investing often prompts UK companies to seek investments from the US and elsewhere. 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 £400 million.

However, as UK companies look to continue to grow from series B stage and beyond, investment is often found from the US and elsewhere as a result of the significant investment gap in the UK. The UK has a strong track record in science and technology research but it loses out on opportunities when companies move overseas to secure this funding, taking intellectual property, quality jobs and innovation with them.

According to the British Business Bank's (BBB) Small Business Finance Market report 2024, US companies receive 1.4 times more funding compared to UK companies at the late VC stage. The BBB also recognise that there are significant funding gaps for research intensive sectors, which represented only 0.26% of GDP in 2019-2021.

It is important that the UK remains internationally competitive and establishes an environment that continues to support the innovative companies in these sectors as they grow. This is particularly important for life sciences and technology companies, in particular in the development of AI technologies, given the wider geopolitical challenges. To achieve this, it is important to increase the flow of domestic scale up capital, which means protecting our world class universities, having investor support for spin-outs and encouraging a greater appetite for risk-taking at later stages to ensure companies can scale in the UK.

The data indicates that the increasing importance of foreign investment is due to the UK not having sufficient funds of scale to invest in deals over £20 million. This is a far from ideal outcome, both for the companies and UK investors.

The Industrial Strategy should consider the below solutions to address the barriers venture capital firms face deploying investment and scaling up innovative UK business.

Addressing the scale-up funding gap through pensions reform

The UK desperately needs greater levels of investment by UK pension funds into private capital; if we do not address this, UK businesses will continue to miss out on investment, notably scale-up capital. This can then be invested into UK businesses, driving economic growth and improving the retirement prospects of UK savers in this uncertain economic climate. UK-based private capital investors tend towards a home bias, investing around half of the capital they manage in the UK without any regulatory requirement to do so.

Currently, sixteen times more capital from pensions around the world goes into UK private capital than UK pensions capital. Canadian pension schemes most active in private capital investment typically allocate on average 21% of their capital to private equity, and major US schemes average around 14%.

UK pension funds are investing less in private markets than comparable asset managers and focus by Government on increasing access to this capital for the UK's fast-growing businesses is positive. In the UK, the launch of the Mansion House Compact in July 2023 reflected a commitment from 11 of the UK's largest Defined Contribution (DC) schemes to commit to increasing the proportion of their DC default funds allocated to unlisted equities, with objective of allocating at least 5% of that capital to such assets by 2030. However a report on progress since the launch of the Compact showed that Compact signatories currently hold 0.36% of their funds in unlisted equities.

Greater access to more capital funding is crucial to supporting our most innovative businesses to grow and in the meantime, UK pension savers are currently missing out on the returns generated by private capital in the UK, which pension savers in other countries currently benefit from. It also means that UK businesses miss out on a domestic source of investment, notably scale-up capital that

is required for these businesses to grow and remain in the UK. The Government recognised the importance of pension scheme investment into private equity can deliver better returns for savers in the long-term and boost investment in the UK, benefiting savers and communities in the Pension Investment Review interim report. The Government has committed to further reform of the LGPS to pool assets into eight pools or 'mega funds' run by professional fund managers to achieve increased investment.

The BVCA's submission and recommendations to the Government's Review can be read here: https://www.bvca.co.uk/policy/policy-submissions/bvca-responses/BVCA-response-to-the-Pensions-Investment-Review-Call-for-Evidence

Establishing new investment schemes to tackle the scale-up gap

The BVCA warmly welcomes the announcement of the British Growth Partnership (BGP). We are confident that the BGP will play an important role in unlocking UK pension investment and strengthening the UK's business investment ecosystem and look forward to working with the BBB as the design of the BGP is finalised.

The UK has missed out on £44 billion of investment since the European Investment Bank largely stopped investing in the UK, including via the European Investment Fund, which was a major funder of the UK's venture and scale-up ecosystem that has not been matched by the current suite of BBB programs. Whilst the UK has dropped backwards, other countries have moved forwards. France, for example, has drawn an additional £16 billion into private capital funds investing in French tech since 2020, through its successful Tibi scheme, spearheaded by the French President. The UK Government should match that ambition with cornerstone investment of billions of pounds, alongside determined political leadership at the highest level. Together these will deliver investable propositions to the consolidating pensions system and maximise UK savers' participation in UK boosting economic growth.

To grow the ecosystem, BGP must invest in pooled funds from the outset. Investing pensions capital in venture and growth equity funds is how the UK will build a strong pipeline of UK growth businesses, attract the best investment talent, and draw in more capital from global investors. This aligns fully with the BBB's mandate to develop the UK's business investment ecosystem. A similar focus on the power of funds to develop the ecosystem is a key aspect of the highly successful French Tibi scheme, which has already drawn €30 billion into the French Tech ecosystem.

Government investment should focus on companies with the strongest growth potential across the ecosystem. The BBB has a strong track record of backing successful funds, so is an important piece of the puzzle. However, Government investment should not be limited to firms that have previously secured BBB funding. Many of the best performing UK venture firms have never received funding from the BBB. There is also an acute need to bring growth and smaller private equity funds, which support the UK's regional entrepreneurs, within the current remit of the BBB's investment programs. Instead of restricting BGP investment to existing BBB relationships, there should be a fund manager accreditation process similar to that set up under the French Tibi scheme.

Creating the best framework to support first time and emerging VC funds

The UK has now established itself as the third largest venture capital market in the world (BBB, 2024) and the largest centre of investment in Europe. To build on this success it is important to create the best frameworks that help to build the pipeline of first time and emerging fund managers,

who are vital in supporting new talent and increasing diversity within the VC sector. To achieve this, the government should be:

- Enhancing the impact of the ECF by increasing the size and total number of investments the ECF programme can undertake;
- Providing working capital loans, via the BBB, to help with the set up costs associated with a new fund; and
- Addressing legal and regulatory barriers that are burdensome to deal with, by reforming the Registered Venture Capital fund ("RVECA") regime.

Over the last decade, the British Business Bank (BBB) has played a central role in supporting this part of the ecosystem. The Enterprise Capital Fund (ECF) programme predates the BBB and has been highly successful in catalysing many of the successful UK VC funds for the last 20 years. However, new and emerging managers are still finding it very hard to raise capital from Limited Partners, such as family offices or pension funds, with the majority of investment from LPs going to established VC funds. It is very important 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.

VC funds that do receive ECF backing face a challenge when the funds have reached the maximum amount of ECF investment in their funds, usually at fund 2 or 3. At this point, the ECF cannot commit to the next fund. Because there is often a gap between the mandates of ECF and funds backed by British Patient Capital (BPC), many funds "top out" from ECF but are too small to receive investment from BPC. For these VCs, this effectively means losing their cornerstone investment from ECF in the fund, requiring the VC to find a new cornerstone LP investor. In some cases, these VC 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 important to address this issue so that more successful VC funds, that owe their success to the ECF and other support provided by the UK government, stay in the UK over the long-term. Increasing the size and total number of investments the ECF programme can undertake can help alleviate this, increasing the number of first time fund managers the ECF can invest in, and allowing them to invest in funds that are not yet ready for investment by BPC.

The costs involved in setting up a new fund are also very high and it can often take years, with a great personal commitment, to get it off the ground. Working capital loans provided by the BBB or an accredited partner to help with these costs should be considered for first time funds, to support them early in their development. This will help to build a pipeline of future fund managers, thereby enhancing the ecosystem and encouraging a more diverse VC fund management industry.

There are legal and regulatory barriers for emerging VC funds in the UK to be addressed. For example, the Registered Venture Capital fund ("RVECA") regime, the UK onshored version of the EU's EuVECA created after Brexit, should be reformed in a number of ways to make it more competitive and help reduce the costs for VC fund managers. The fees to set up a new fund are also very high, and using a more standardised approach to fund documentation, as the BVCA already does for companies looking for VC investment, can also help minimise costs.

Promoting innovation and scale-up opportunities for growth

We welcome confirmation from the Government that the EIS/VCT sunset clause will be extended to 2035. This provides much needed certainty and will support early-stage companies to raise the financing they need to grow and succeed.

Innovative UK businesses will continue to need capital to create large-scale, independent, businesses that remain in the UK and continue to contribute to UK economic growth. Lifting the EIS Knowledge Intensive Company upper limit from £20 million to £30 million so R&D intensive IP rich companies in sectors such as biotech and deeptech will enable these companies to continue to raise capital.

Regional EIS and VCT funds are particularly constrained by restrictions such as the 7-year rule. This often limits access to access schemes as regional funds often take longer to reach the stage when they are able to receive institutional investment from VCs. Raising this limit would therefore provide more opportunities to scale up and grow across the nations and regions.

Other issues, related to a lack of infrastructure, further inhibit the UK from being a global scale-up destination for the largest tech companies. Planning laws need to be changed to make it significantly quicker and easier to build both the facilities and the supporting infrastructure that enable investment and job creation in the UK.

Greenfield status should not be a block on building new facilities and supporting infrastructure. Forthcoming changes to Green Belt designation should not be restricted to housing development but must ensure that job-creating sites can be built where they are needed where there is insufficient suitable brownfield land. 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.

Sources:

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23. The UK government currently seeks to support growth through a range of financial instruments including grants, loans, guarantees and equity. Are there additional instruments of which you have experience in other jurisdictions, which could encourage strategic investment?

As mentioned in Question 22, establishing new investment schemes to tackle the scale up gap is essential.

The BVCA supports the idea of blended finance mechanisms to enable and derisk investments. Whilst grants, loans, guarantees or equity are effective mechanisms to encourage strategic investment, other derisking/blended finance mechanisms which can further stimulate growth and investment include, but are not limited to:

- Pipeline development assistance which can include support in covering costs of legal and advisory fees for scaling companies.
- Tax breaks to stimulate targeted growth in strategically important green tech sectors.

The BBB is the largest UK-based investor in UK VC funds and has committed £2.8 billion into 120 funds through its Enterprise Capital Funds programme and British Patient Capital. It also provides wider support through schemes such as Regional Angels and the Future Fund Breakthrough programme. The Government should expand support for the BBB with further funding and provide the Bank with a wider mandate. This will enable the BBB to continue to support UK companies from the start-up stage to scale-up, including growth equity and buyout funds that can take majority stakes in companies.

The EIF had historically supported growth equity funds (growth and lower mid-market buyout funds) and had mandate to be a large cornerstone investor facilitating the first closing of a fund thereby giving momentum to the rest of the fundraise. Growth equity funds are often smaller UK-based funds investing largely, if not exclusively, in this country. They typically focus on small but high potential businesses and their model is one based on generating value through strategic and operational improvements through their equity stakes, not financial engineering. In reality, therefore, the distinction between such funds and large venture funds is somewhat artificial and there is a strong element of overlap in their ethos.

The mandate of the BBB should be widened to include growth equity funds, which give greater flexibility for returns (via secondaries). We believe that this would also provide a route to regional lower mid-market managers being able to attract investment from LGPS pools. Given the plans set out in the Chancellor's Mansion House speech to mandate the transfer of assets from LGPS funds to pools, we believe this is one way of countering the risks set out under Question 20.

The French Tibi scheme

The BVCA has also considered the contribution that international initiatives such as the French Tibi Scheme has made to increasing to institutional investment into the private capital ecosystem. The French Tibi Scheme is a notable example of the role that pension schemes in particular can have in generating a domestic source of capital and increase investment into the French Tech ecosystem. The BVCA has sought views on how the French Tibi Scheme has worked in practice given the focus on increasing UK pension scheme investment into venture capital and growth equity funds. It is important to consider key features of the French Tibi Scheme in a UK context given the focus on increasing UK pension scheme investment into UK venture capital and growth equity funds through the following areas:

i. Senior Government leadership – the convening power of the French President is cited as a critical reason for the success of the French Tibi scheme securing the participation of French institutional investors. The development of any UK initiative must be underpinned by the personal commitment and close involvement of a high-profile Government figure to secure the participation of large, UK institutional investors and venture capital and growth equity firms.

ii. Broad UK institutional investors base – catering to the various requirements of a wide range of UK institutional investors in order to achieve scale and a level of investment in UK companies that reflects the opportunity, should be a key area of focus for the Government.

This should include full range of UK pension arrangements, including LGPS, UK corporate DB schemes (potentially also via the Pension Protection Fund), UK DC schemes and UK insurance companies, which may each require different approaches or parallel schemes/ vehicles.

iii. Geographically broad investment policy focused on developing the UK investment ecosystem –to ensure the diversification and enhance returns for UK pensions schemes, venture capital and growth equity funds should not be required to invest 100% of the funds managed into UK companies. The requirement of UK-only investment would not necessarily achieve the aim of increase UK pension investment in UK companies. The aim should be to build the UK as a hub of expertise for investing and growing innovative businesses across Europe/globally, which will boost the growth of UK companies through domestic bias (around 50% of UK managed private capital is deployed into UK companies) whilst fostering the diversification sought by UK pension schemes.

iv. Focus on the scale-up gap –to support companies that have reached the scale-up stages of investments where there is a significant investment gap in the UK, a new vehicle should focus on developing the UK's investment ecosystem for investment at this stage. It will be important for close coordination with the BBB on its ongoing work to develop the Growth Fund to avoid duplication and ensure cohesion of investment vehicles across the Ecosystem.

v. Simple accreditation process – building on learnings from the French Tibi scheme, a UK scheme should have a simple, industry-led accreditation process, independent from Government, to give DC investors confidence in the assets and funds included within the scheme. This should follow a principles-based approach and could drawing on the BBB's expertise in due diligence and assessment of fund managers and products. This should also provide DC provers with some level of comfort on their investments.

vi. Bespoke legislative framework – to ensure compatibility with the UK market, a UK scheme may require bespoke legislative and regulatory framework to provide comfort for UK investors to become comfortable with illiquid, private capital assets and overcome hurdles in existing rules e.g., FCA authorisation or state aid rules.

The BVCA welcomes the Government's focus and intent to encourage more UK pension fund and institutional investment into innovative UK companies. The British Growth Partnership will play an important role in this and the BVCA will continue to engage with the Government as it consults on the announcements outlined by the Chancellor at Mansion House.

The BVCA encourages the Government to explore the development of a special fund of funds vehicle to get our local government pensions investing in growth. The Government should expand its ambition beyond the "hundreds of millions" of additional capital sought by the BGP, by establishing a larger fund of funds program aimed principally at the LGPS and global investors seeking European exposure with a UK bias. This would allow the benefits from LGPS pooling to continue being realised at the same time as boosting UK regional investment from the LGPS and other investors through smaller UK private capital funds. Such a fund of funds program could deploy private sector expertise alongside the BBB. The Government has the legislative levers to encourage LGPS participation as well as the convening power used to such effect by the French Tibi scheme.

NSSIF

The National Security Strategic Investment Fund (NSSIF) is the Government's corporate venturing arm for dual-use advanced technologies. Operating since 2018, it is a joint initiative between the Government and the BBB. NSSIF is now well established and has a strong track record of investing in funds as an LP and directly in companies. It is well respected by entrepreneurs and VCs as it provides data and insights on emerging sectors as well as routes to procurement and commercial traction for startups.

To allow NSSIF to continue to grow and diversify, its remit should be expanded to ensure it is able to partner with funds beyond those accredited by the BBB 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. We call for this to continue and ideally be increased so that a larger allocation of capital can be managed over a longer period

28. How should the Industrial Strategy accelerate growth in city regions and clusters of growth sectors across the UK through Local Growth Plans and other policy mechanisms?

A recent working paper found that if the UK's cities outside London had the same growth as their European counterparts, the UK's GDP would be £55 billion higher, bringing in around £13 billion per year of additional tax revenue. While deal opportunities exist outside of London and the south-east, originating those deals requires dedicated resources that smaller regional funds may struggle to allocate.

Proven investors specialising in particular nations or regions may be better positioned than London-based private equity and venture capital funds to deploy capital quickly to support regional growth, but it can be difficult for regional funds to raise capital from international investors, who often prefer investing through London-based funds. Constraints around maximum fund size exposures, target returns, and deal ticket sizes can make it difficult for regional funds to access the capital of large institutional investors like pension funds. Facilities or vehicles that could aggregate capital across multiple regional funds may help address this challenge.

The Government should consider expanding the £20 million translational fund as UKRI funding often falls short in advancing technology to the commercialisation stage. Further funds and expertise should be provided for UKRI, Innovate UK and early-stage university funds in the nations & regions, to help build a national pipeline of high growth companies ready to scale.

By investing in sectors and regions private capital can contribute to long-term economic stability. This involves not only supporting new, green industries but also helping traditional industries adapt to the demands of a low-carbon future.

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 UK Government's "levelling up" agenda, which seeks to ensure that all parts of the country benefit from economic prosperity. Opportunities for government support in this regard include:

- Clarity in Policies: Investors face challenges aligning with local needs due to unclear net-zero and economic development plans. Governments and investors must enhance clarity,

collaboration and information sharing to connect macro strategies with region-specific investments.

- Effective Incentives: Increase incentives to drive investment in universities across the UK, fostering innovation and spin-outs beyond London and the South East.
- Government-Private Sector Collaboration: Impact Investing is a proven tool to help channel private capital into underfunded public services and the green transition. Helping to scale and mainstream this approach to investing can help achieve growth by focusing investment into underrepresented regions.

Sources:
https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/Final_AWP_225.pdf

29. How should the Industrial Strategy align with devolved government economic strategies and support the sectoral strengths of Scotland, Wales, and Northern Ireland?

UK businesses backed by private equity and venture capital firms in 2023 employed around 363,000 people, 80% of whom are outside London.

Private capital is an integral part of national and regional economies across the UK. 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.

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.

32. How can the UK government improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?

The private capital industry has £178 billion committed which could be invested in the UK if we get the investment environment right. A cross-departmental focus is needed to enact policy changes for the Industrial Strategy such as reforming the planning system to enable scale, enabling innovation through a programme of agile regulations, upskilling the workforce and attracting global talent, and facilitating growth through efficient infrastructure.

The most important political leadership, in terms of setting strategic direction and making policy, is at a national level. But at the same time, in the context of regional investment in particular, we heard in our Investment Commission member survey that having significant political figureheads such as metro mayors makes a big difference – both as champions of the area they represent and as a focal point for engagement. 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.

New bodies such as the Regulatory Innovation Office, the Industrial Strategy Council and the Mission Board for Growth need to be empowered to deliver investment and growth. The Prime Minister has

pledged to “do everything in my power to galvanise growth including getting rid of regulation that needlessly holds back investment.”

The Office for Investment needs to be resourced to deliver a world-class concierge support for foreign investors to navigate the UK government landscape. This will help maintain the UK and the City as a global hub for investment, with a competitive and stable tax system and a clear roadmap that sells the concept of Britain and the future of our economy.