# Treasury Committee

## Oral evidence: The venture capital market, HC 134

Monday 27 June 2022

Ordered by the House of Commons to be published on 27 June 2022.

Watch the meeting

Members present: Mel Stride (Chair); Anthony Browne; Gareth Davies; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1-57

### Witnesses

I: Will Fraser-Allen, Chair designate, Venture Capital Trust Association, Michael Moore, Director General, British Private Equity and Venture Capital Association, Christiana Stewart-Lockhart, Director General, Enterprise Investment Scheme Association, and Richard Stone, Chief Executive, Association of Investment Companies.

### Examination of witnesses

Witnesses: Will Fraser-Allen, Michael Moore, Christiana Stewart-Lockhart and Richard Stone.

Q1 **Chair:** Good afternoon and welcome to the Treasury Committee, and to the first of our hearings in our inquiry into venture capital markets. We are very pleased to be joined by four witnesses this afternoon. I will ask them to briefly introduce themselves to the Committee, starting with Richard, please.

***Richard Stone:*** Good afternoon. My name is Richard Stone. I am the chief executive of the Association of Investment Companies. We represent closed-ended investment funds whose shares are traded on the stock market, which includes venture capital trusts. Our members are solely those companies, and we have about 380 members, with about £260 billion of assets. That includes 45 VCT member companies, with about £6.3 billion of assets among them.

**Christiana Stewart-Lockhart:** Hello. My name is Christiana Stewart-Lockhart. I am the director general of the Enterprise Investment Scheme Association. We represent everyone involved in the EIS and SEIS—seed enterprise investment scheme—industry, including entrepreneurs, solicitors, advisers, fund managers, promoters, accountants, platforms and other intermediaries. We have about 270 members.

***Michael Moore:*** Good afternoon, Sir. I am Michael Moore, director general of the British Private Equity and Venture Capital Association. As the name suggests, we represent the continuum of capital from just post-angel stage—so, early-stage venture capital—through to the biggest global private equity buy-out firm. We appreciate that the subject of this inquiry is a slightly narrower scope.

**Chair:** Welcome back, Michael. I know you gave evidence before—on the future of financial services, I think. Finally, to Will, please.

***Will Fraser-Allen:*** Thank you, Chair. I am Will Fraser-Allen. I am the chair-designate of the Venture Capital Trust Association. We represent 13 managers of VCTs, which is about 90% of the just over £6 billion VCT industry.

Q2 **Chair:** Welcome to everybody. I will start with an observation: the first quarter of 2022 has been remarkably successful for venture capital fundraising, yet we have struggled as an economy in all sorts of different ways for quite some time now. Why is it that venture capital has held up so well in the first quarter of this year?

***Michael Moore:*** Allow me to have the first stab. We are delighted that venture capital has, as part of the economy, been growing in its influence and its contribution over the whole range of sectors and over a long period of time. Our organisation was set up 40 years ago, when venture capital was a nascent industry. I think it is fair to say that it has been a slow burn over the years, but in recent times it has developed critical mass.

What we are seeing is a recognition that the United Kingdom has a lot of exciting opportunities in which to invest. The world is changing very rapidly, and therefore technology and other factors such as climate change are beginning to influence investment in a large way. We have very successfully built up a venture capital ecosystem here in the United Kingdom. Depending on which measure you take, we like to say that it is the second largest in the world, after the most famous one, namely that in the United States. Within Europe, it is unquestionably the largest.

The £5 billion of VC investment into the UK in the first quarter, which you referred to, Chair, follows on from £20 billion the previous year, which itself was quite a big increase on the previous year. All of that is very encouraging, and we hope that with further support from Parliament and the Government we can continue to attract the capital and the know-how, and ensure that we have the investment environment that will allow us to do more.

**Chair:** Thank you. Would anyone else like to come in on the reasons why venture capital seems to be holding up so well?

***Will Fraser-Allen:*** I would only add that, as an asset class, it has become increasingly popular. A lot of the fundraisings that have taken place will have been in process for a considerable period of time, so I think you just need to be conscious that there may be an element of lag. Quite how the environment changes from here we will see—clearly, the broader economic environment is more challenging, but I would absolutely agree with Michael's point that with the appropriate support, particularly from Government, we can be hopeful that we can continue to make a significant contribution through venture capital investment activities.

Q3 **Chair:** If you dissect it into four or five different things that the UK is doing really well, which means that we are world beating—with the exception of America, but that is obviously a much bigger economy—what would those four or five things be? Michael, you have mentioned great opportunities here, and so on. What are the other four or five components that are propelling us to the top of the pack in venture capital fundraising and investment?

***Will Fraser-Allen:*** I think it is the extent of the industry, which has grown significantly. The investment expertise that has been built up over time has allowed and given confidence to investors in the broad sector, so I would say the talent in the investment sector, as well as the talent of entrepreneurs in the UK. We are seeing an increase in the number of people who want to be entrepreneurs—

Q4 **Chair:** More so than in our European competitor countries? Are we naturally more entrepreneurial here?

***Will Fraser-Allen:*** Certainly, in my experience over the 20-odd years that I have been involved in venture capital, I am impressed every year by just how many people are looking at becoming entrepreneurs and setting up their own businesses. As the scale of the industry has grown, so too has the number of entrepreneurs that we have been prepared to back. The fact that we are leading in Europe must say something about the UK's entrepreneurial approach.

***Christiana Stewart-Lockhart:*** There is no doubt that the seed enterprise investment scheme and the enterprise investment scheme have played a crucial role in this. One of our members—an Italian entrepreneur who sits on many of the lists for top female entrepreneur in fintech—said to me that when she was considering where to start her business, she considered a number of countries in Europe. Obviously, as she is Italian, Italy was one of them, but she chose to base her company in the UK because of the enterprise investment scheme.

***Richard Stone:*** In the UK, we are very successful at having different solutions for different points in the financing of enterprises. You have the seed EIS and EIS, then the venture capital trusts, and then the broader venture capital and, ultimately, the private equity market. There is a sort of natural ladder in the UK system as it stands—and as it has stood for a number of years. That is another point: many of those schemes have been around for some time. The VCT schemes have been in existence since 1995. The fact that they have existed through different Administrations for a significant time means that people build a level of confidence in them. That adds to the success of the UK in meeting the needs of that market.

Q5 **Chair:** We will come in more detail to the EIS, SEIS, VCT and so on, but you seem to be saying that such schemes are more established here than they might be elsewhere. Are they more generous than the schemes on the continent and in the US, for example? How do they stack up competitively?

***Richard Stone:*** They are more established and—I am sure my colleagues will contribute as well—I think they create a tapestry that meets the needs of businesses at different phases.

Q6 **Chair:** But are they in themselves quite generous compared with the alternatives that entrepreneurs might look at in other jurisdictions?

***Richard Stone:*** I think that, as Michael has said, they are certainly world beating relative to other jurisdictions, which have looked to see what they can do to emulate the schemes in the UK. You can see that in some of the evidence bundle.

***Michael Moore:*** If I may, you were appealing for three or four things. Here we are in this amazing city of London, which has, down the ages, become one of the global hubs for finance, highly specialised and with lots of different parts. We have seen venture capital and private equity more broadly build up their hub of expertise in the UK. Christiana talked about the accountants, lawyers and professional services in the UK.

The fact that you can almost plug and play here as an investor makes the UK a deeply attractive place to come and do that. From London and the rest of the UK, not only can you invest here in the UK, but you get a bird's eye view across Europe and other parts of the world. That ecosystem is hugely important, as is the attractiveness in the round of the regulatory and investment arrangements. The tax advantage schemes that we have been talking about a little, and which I know we will come back to, are hugely important within that, but it is a very sophisticated infrastructure.

We are also blessed by the talent and people that we have in the UK, in terms of both the investors and the opportunities in different areas. Where we in the UK are leading the world in particular areas, such as in life sciences, that becomes a very attractive reason to be here in the UK. There is the innovation and intellectual property around that, and our university sector. The BBB's recent "Small Business Equity Tracker" report highlighted the cluster effects for different cities around the country. I don't think it takes too long to join the dots between the cities and the great universities, and the other ecosystems they have, which goes back to the investable opportunity point. And we just have a very sophisticated set of capital markets here, which means that the whole world meets through the UK.

Q7 **Chair:** That is really helpful. May I come back to something that you said, Will, in answer to my question about why venture capital is holding up so well given what is going on in the economy generally? You mentioned the idea of a lag, so, unfortunately, it could be that it just takes time for it all to slow down. Is there any evidence of that? What effect do you think rising interest rates are having on the sector?

***Will Fraser-Allen:*** I think we are in interesting times—that would be my conclusion. Clearly, rising interest rates do change investor risk appetite, and we have seen in previous economic crises that there is a reduction in liquidity in the venture capital market when things get tougher. I suspect we will see that, but there will be a lag—there always is—which is why it is so critical that we continue to attract investment into the venture capital system. Clearly, where I sit, representing VCTs, the reliefs that are given to invest in VCTs are critical in terms of maintaining capital in what are permanent vehicles.

***Michael Moore:*** We have been through a period of historically low interest rates and inflation, and one of the reasons why there has been a growing appetite to invest in these kinds of opportunities is that the returns that are generated have outperformed both the public markets and other—dare I say it?—more plain vanilla forms of investment. I think there is an inevitability about that.

That has been very helpful, because it has raised the profile and the experience of investors in venture capital here in the United Kingdom, but these are long-term investments. The funds that are placing those investments have built up over seven to 10 years. People are locking money away for a considerable period of time. In recent years, because the returns have been very strong, there has been an increasing ability to raise the funds—particularly, from a UK perspective, internationally—and that is now being deployed.

We have seen the Nasdaq, which drives people's views of technology valuations across the globe, reverse this year in fairly challenging ways, and that will percolate through to valuations across private markets as well. Nevertheless, given the long-term view that these investors and the management teams are taking, we believe that the industry will prove pretty resilient. That is not to say that there will not be some setbacks and some cyclicality to it, but there is now a sophistication about the UK market that enables it to look confidently at the headwinds—if you can look at headwinds—and manage a way through.

***Richard Stone:*** If you look at what the sector adds as the economy goes through various cycles, difficulties and crises, venture capital trusts, in particular, provide a permanent pool of capital, which can assist companies in their lifecycle, can make follow-on investments, and so on. They have continued to invest throughout the covid pandemic—in 2021, they invested at record levels. They can support companies through periods when capital markets and other sources of finance may become more difficult. I think the fact that they are there as a permanent support and can keep going through those sorts of cycles is really important to their contribution as well.

**Chair:** That is helpful; thank you very much.

Q8 **Kevin Hollinrake:** We heard evidence earlier in the session about the amount of money that is going into VCTs and other reliefs for investors at the moment—I think you said it was £20 billion last year and £5 billion in the first quarter of this year. Will, you said that was largely because of the culture and entrepreneurialism, but you did not mention tax reliefs. How much of that £20 billion, and the £5 billion this year, would have still been invested without the tax reliefs provided for those moneys?

***Will Fraser-Allen:*** Just for clarity, the figures that Michael quoted are for the whole VC sector, rather than for tax-efficient bit, which is obviously a subset. Venture capital obviously covers the whole continuum from very early stage right through to growth. If we look at the broad SEIS, EIS and VCT bit, that is the really critical bit to get these things going that can then be invested in by funds more focused to larger growth. On the last numbers, as I understand them, it was about £2.5 billion into the three schemes combined. That was the amount raised in aggregate.

Q9 **Kevin Hollinrake:** So the same question: how important are those tax reliefs in encouraging investors?

***Will Fraser-Allen:*** The answer is that they are absolutely critical. There is an absolute recognition that what we do is high risk. We back young companies without a track record, and a significant number will fail. What the tax incentives are designed to do is unlock the pool of capital from retail investors. Whenever we have surveyed our shareholders, it always comes back to a resounding confirmation that it is because of those tax incentives that they feel confident enough to be able to take the associated risks. So it is an important part of unlocking a significant amount of investment at an early stage for the company so that it can grow in both scale and importance.

***Christiana Stewart-Lockhart:*** A survey by the UK Business Angels Association found that 90% of angel investors would materially change their capacity to back high-risk start-ups without EIS and other tax reliefs. The sunset clause is incredibly important because it really will change behaviour. It is crucial, particularly when we have been talking about so much economic uncertainty, for the Government to give some clarity as to the long-term life of the schemes.

**Kevin Hollinrake:** Yes, and my colleague Anthony Browne will ask questions on the sunset clause shortly.

***Richard Stone:*** From my perspective, there are a couple of things. If you take a step back and ask, "What is the problem that we are trying to solve?", there is an information asymmetry around the cost of due diligence into smaller companies and the expertise that is required. That is why you do not get institutional investment at such levels in that area, and why you need those tax reliefs to help overcome those asymmetries.

They are also overcoming the risk-return trade-off for retail investors, to act as that extra nudge. On the point that Will made about encouraging retail investment into this space, there is an additionality of capital there. You are bringing in capital from an extra source and therefore increasing the pool of capital available in venture in its broadest sense, and the tax reliefs are essential to doing that. Those are the three aspects for me.

**Kevin Hollinrake:** Chair, I should have declared an interest. I have invested through these schemes and I have had businesses that use these schemes for investment purposes.

**Chair:** Noted.

Q10 **Kevin Hollinrake:** Michael, these figures might be too simplistic, but I heard you refer to £20 billion in its entirety last year, but these schemes are £2.5 billion of that. Is that the right kind of ratio? Some of that £2.5 billion would have happened, so are these tax reliefs essential? It sounds as though the vast majority of investment would happen anyway, certainly in the mid-market businesses. Is that not right?

***Michael Moore:*** We need a spectrum here. We need to get the earliest investment into businesses that have started off as a bright idea—a practical answer to a frustrating problem and somebody thinks maybe there is something that can be done at a bigger scale. The family helps with bootstrapping the initial costs of getting a business under way. That leads to the next stage and you say, "I still don't have a product that is ready for the market" or, "Even if I know what the market is, I haven't yet been able to enter it with confidence and the right amount of preparation, so I need other investors." If you are still at that very earliest of stages, the tax support is kind of a partnership between the state and the individual; it is saying, "Right, we recognise that you are taking on risk that otherwise you might not be willing to take on," and then a proportion of that is offset through the tax relief.

The great news about that is that you then create this cohort of small, exciting businesses. Some will fail and others will succeed and go through, and then they will move on to the next stages. As you go through those stages, you get larger venture capital firms and international investors that do not need that investment, but they would not be investing at that stage in the spectrum unless somebody had brought those businesses forward from the earlier stages.

Q11 **Kevin Hollinrake:** I absolutely believe in SEIS and EIS. Don't get me wrong—I think lots of investment would not happen without them. Christiana, you set that out. If we accept that it is important for SEIS and EIS, is it as important for VCT? Isn't some of the money that attracts tax relief going to companies that would attract investment anyway—maybe not those early-stage ones? Would some of the businesses getting the investment not get it anyway?

***Will Fraser-Allen:*** The answer is no. If you look at the scale of the businesses that we typically invest in, they continue beyond EIS but they are still very small. They typically have a turnover of maybe about £2 million, on average, and they might have about 30 employees. They are still very loss-making and extremely high risk, and would not attract capital. VCTs fill that important part, which is running up to the handover of a company, away from tax-incentivised money to non-incentivised money. Clearly, the companies we are supporting—some 1,000 companies, employing over 50,000 people, are currently supported by

VCTs—still need that support, as many of them make considerable losses, until they are of a scale at which they become investible from the point of view of the next stage.

Q12 **Kevin Hollinrake:** Are there any criteria that stop tax-incentivised money from going into businesses that didn't need that tax incentive?

***Will Fraser-Allen:*** Absolutely. The patient capital review from 2017, which many of you will remember, was very effective in ensuring that the schemes were properly targeted. There are size requirements: companies have to have less than £12 million of gross assets, have fewer than 250 employees and be less than seven years old. It is all designed to make sure the companies are young and high risk.

The other really important set of principles is what is known as risk to capital. This is a set of principles that ensures that anybody who is investing is actually taking proper risks. There must be a real risk that they will lose their capital. That test is applied for a company to be able to qualify for EIS, SEIS and, indeed, VCT. There absolutely is a set of rules and principles in place to make sure that the companies that get it are appropriately high risk and in need of the funding.

***Michael Moore:*** I think we all recognise that the taxpayer needs confidence that the arrangements put in place here are fair and that they get additional investment; so they are not just crowding out or subsidising what would have been there anyway. On Will's point, across the whole venture capital piece, over 90% of the businesses that are invested in are small and medium-sized enterprises. We are talking about that bit of the economy, which is hugely important in every constituency in the land and hugely significant to the UK, whether it is about just ensuring that we reimagine existing bits of the economy or introduce entirely new bits.

We can reflect back on the great financial crisis and the debates we had here at the time about the availability of bank lending, bank finance and what was happening with small businesses. This is equity finance; it is about risk. It is there for a good, long period of time; it is not a short-term deposit and out. In that context—the type of finance it is, the risk profile it has, the length of time it is for, and the types of businesses it aims to support—it has been very successful, although we fully accept that it is legitimate for Parliament to ask questions about value for money.

Q13 **Kevin Hollinrake:** You talk about value. When one of the businesses I invested in talked about the pre-money valuation, which might be described as pretty optimistic, I said, "How did you get to a valuation like that?" It said, "Well, don't forget you get huge tax reliefs on the money you put in as an SEIS investment." Is it not the case that valuations are somehow inflated on the basis that there are such generous tax incentives for investors?

***Christiana Stewart-Lockhart:*** It fundamentally comes back to what the tax incentives are there to do. As we have explained, these are very high-risk investments—there is a significant chance that investors will lose all their money—and therefore the tax incentives exist to try to incentivise behaviour in this area. Ultimately, investors are investing at a price, agreed with the entrepreneur, that they think shows value for money from their perspective and where they believe growth exists.

The other thing to bear in mind is the added value that investors can often make. With equity investments, a huge amount of the value also comes from all the additional benefits, whether that is opening up networks, mentoring or connecting people. That is a really important part of the value that investors bring with them, using the various schemes that we have talked about.

Q14 **Kevin Hollinrake:** So when it comes to valuations, do you think they are basically a matter between the investor and the entrepreneur?

***Christiana Stewart-Lockhart:*** I think that if investors are willing to invest at a certain amount, then that makes sense.

Q15 **Chair:** Can I follow up on Kevin's point about deadweight cost? Presumably not all the money that the Government are putting in is yielding new investment, in the sense that some of those businesses would have attracted capital anyway. Have there been any studies, or are you aware of any studies, on what the deadweight element might be across the different schemes, particularly post the patient capital review and the changes that Will referred to, which I think appeared in the Finance Act 2018? Are there any studies out there? Isn't it slightly concerning that there isn't at least some third party—the Treasury or somebody—that has done the work to try to answer that question?

***Michael Moore:*** I would be very surprised if the Treasury had not kept their eye on this all the way through—with their all-seeing eyes. They may take the view that it might look as if it is a deadweight at the start, but hopefully a successful business is going to more than repay the taxpayer later on as it grows, in lots of different ways, and as it takes on more employees and pays greater amounts of tax into the Exchequer in other ways.

Perhaps it would be interesting to explore this, but I think it would be hard to differentiate between them—how would you determine up front whether that was the best route to go anyway? Who would arbitrate that particular decision? Schemes like these set out clear rules and give investors a good timeline about what the rules are and how they can get those reliefs. That gives them greater confidence to make their investment in the first place.

***Richard Stone:*** That is the point that I would make: it is about the additionality. It is difficult to prove whether a company that got funding from a VCT would have been able to get that funding somewhere else or not, or what that might have been.

**Chair:** But just because it is difficult doesn't mean we shouldn't try.

***Richard Stone:*** No, but fundamentally the schemes and the tax incentives are bringing additional capital in to be deployed for the benefit of that particular part of the economy, which is then designed to drive growth and so on. So it is about the additionality of the capital it brings, and looking at it from that perspective.

Q16 **Anthony Browne:** I have a follow-up question on that. When the Treasury spends money on things like this, it normally does benefit-cost ratios through the Treasury Green Book. Are you aware of that having been done for the effect of spending or subsidy in venture capital investment? I know that is a question I should ask the Treasury, but do you do any estimates? In a lot of other areas people do their own estimates of how much economic growth is encouraged. You referred to it rhetorically, but people often put numbers on it. You can believe the numbers or not, but that is an attempt to quantify it.

***Richard Stone:*** I am not aware of that, but I don't know whether my colleagues are? No.

Q17 **Anthony Browne:** I have a follow-up question, initially for Christiana and Will, on something that Christiana touched on about the sunset clause. You said that the schemes are a great success but they are not going to be there in three years' time unless the Treasury decides to renew them, because of the undertakings given to the EU. How problematic is that uncertainty? It is already causing concern among investors or investor companies? When do you need to know, in order that it doesn't disrupt the industry?

***Christiana Stewart-Lockhart:*** It is definitely starting to cause some concern. When entrepreneurs are considering how they are going to secure investment for their companies, they are now faced with the prospect that in less than three years' time, EIS and VCT will not exist anymore. That has an impact, not only on their plans there but from knowing that investors who invest now might not be able to invest later with follow-on funding.

There are also issues where we are starting to see articles about investments through EIS that are coming with warning signs about the sunset clause, and that is very concerning. Particularly, as I have said, when there is so much uncertainty in the world, we really need some security about the sunset clause and the longevity of EIS, sooner rather than later.

Q18 **Anthony Browne:** Obviously you would like to know now, but when is the latest time by which you must know in order to not cause really measurable damage to schemes?

***Christiana Stewart-Lockhart:*** It is very hard to give a firm answer. I think the important thing is that it is starting to have an impact, and that impact will only get bigger and bigger the closer we get to the deadline.

**Anthony Browne:** Will, same question to you.

***Will Fraser-Allen:*** To answer that part of your question first, the sooner the better, frankly. The reason for that is the broad uncertainty, and if you look at who is affected by that uncertainty, it is a number of different stakeholders. The one that concerns me most is the entrepreneurs that we back. These are the people who are toiling endlessly to build their companies, who are running at losses because they see a bigger picture at the end, and who will build something of real value. But they know that, without funding, those losses are unsustainable. It is critically important that the entrepreneurs that are already being backed have clarity that they can be funded by their existing tax-incentive investors.

Then there are those investors who actually invest within the VCTs—that is, the money that managers like me have the privilege of managing. They are becoming, and will become, increasingly concerned about the future of the scheme. There is a significant amount of investment already in the VCT scheme. There will be worry and unease. They will also be worried about the ability to increase their investment, because they are doing this for lots of reasons. They are doing it because they want to back entrepreneurs; they see this as a very good way of backing future exciting growth and growing innovative companies.

The boards of our VCTs are also facing uncertainty. They need to make decisions about how they manage the assets of the investment companies that VCTs are—how much cash do they need to maintain for supporting the existing portfolio, for example? What will happen is that even before an announcement, you will increasingly see decisions being made limiting the amount of new investment, to ensure there is sufficient capital for supporting the existing portfolio. Then there will be question marks about, "How do we carry on supporting them? How will we be that important part of that £2.5 billion that has been so critical to creating all the success stories and the 1,000 or so companies that we already back?"

There is uncertainty at many different levels, so I am very keen to engage with this Committee and, ultimately, the Treasury and the Minister to understand how we can help in allowing the relevant decision makers to make the decision. To answer your question, the sooner the better, please.

**Anthony Browne:** I should have declared at the beginning that I, too, have been an EIS investor in the past.

**Chair:** Thank you.

Q19 **Anthony Browne:** I was going to ask about your engagement with the Treasury on this, both the EIS Association and the Venture Capital Trust Association. I assume you are making the arguments you have been making so far in this session, in terms of attracting capital investment, the importance of it and so on, but I can imagine that the Treasury officials advising John Glen and Ministers will be asking questions about deadweight costs, which you could not answer. They will be asking about the use of public money—there is, I think, roughly £500 million for both schemes. How much of that is really forgone, as it were? Would it be better spent on other forms of subsidy, or building another railway line or something? Are you engaging in those arguments with the Treasury about the use of public sector money and deadweight costs? If you have officials there arguing that, actually, it is 100% deadweight—that everyone would make these investments anyway—from a Treasury point of view, there is no reason to do those investments, even if the investors and the companies like them.

***Will Fraser-Allen:*** It is a big question for the AIC as well, because the AIC are part of the engagement with the Treasury. Speaking on behalf of the VCTA, we have had a very productive relationship with the Treasury over many years—after all, they are a very important stakeholder in the scheme. That relationship has often been around providing data.

To your point about the deadweight, a lot of what we show is how many businesses we are supporting and how they grow—the growth in the number of jobs. In the VCTA's submission you will see a number of statistics that we have derived from various data gathering efforts. We have been engaging with the Treasury, and the Treasury is aware of the sunset clause. Having said that, I would very much welcome further engagement with the Treasury. We have requested a follow-up meeting with the Treasury, and we await to hear whether that will happen. I would welcome further engagement on this important point.

***Christiana Stewart-Lockhart:*** Likewise, we have had some good conversations with the Treasury. Our understanding is that it intends to address this issue before the end of 2023. That is too late; we really need something sooner than that, ideally.

***Richard Stone:*** Likewise, we have had good contact with the Treasury. We had our annual VCT conference for our member directors a couple of weeks ago. The Minister gave a video-recorded statement to us, and two members of the Treasury team were present for the day. We have had good contact and continue to make the case with them.

Q20 **Anthony Browne:** That is one thing I wanted to advise you both: when you do engage with the Treasury, you need to address the use of public funds and justify why using the money this way is better than spending it on something else. One issue with the sunset clause is that it is there because of the EU state aid rules that applied at the time. With Northern Ireland, we still have part of the UK under EU state aid rules. We have the Northern Ireland Protocol Bill going through at the moment. It seems to me that the UK could either engage with the EU and ask for some UK-wide continuation of the legislation, or it could have a separate scheme just for GB—and do something separately for Northern Ireland. I was wondering if you had particular views on how the UK should go about that, and whether the Northern Ireland Protocol Bill answers those questions and gives the UK Government more freedom to end the sunset clause for the whole of the UK?

***Richard Stone:*** I think ours was the only submission that brought this point out, simply because we wanted to highlight the fact that it is not as easy as just changing a date and some legislation—there is an overlay here with Northern Ireland protocol. Our understanding of the legislation as it is currently drafted is that the aim is to bring subsidy control back within the remit of the UK, and therefore it would resolve the issue of the UK Government being able to change the sunset clause provisions.

In our evidence to the Committee we set out the two routes—absent the Northern Ireland Protocol Bill that is going through at the moment. You either do something separately for Northern Ireland from the rest of the UK, or you go back to the EU for state aid approval, which we are confident you could potentially get. We have done that before, but it is an administrative process.

The other point I would make is that, if it is brought back within the auspices of the UK—as opposed to further approval being sought under EU state aid rules—then the scope for the UK Government to make subsequent changes is greater. As an association, we do not take a view on the Northern Ireland position—it is not for us to do that. However, it is important to have a handle on the different potential outcomes.

Q21 **Anthony Browne:** If it does come fully back within the purview of the UK Government, are there any changes to the schemes—the EIS or the venture capital trust scheme—that you would want in terms of scope? There are also all sorts of requirements about the age of companies, turnover and so on. Are there changes that you are actively seeking to make, or are they roughly about right as they are?

***Richard Stone:*** My view is that if it is working, as it is at the moment, the No. 1 priority is to see that continue. Beyond that, there are things that could be done around the targeting of the funds and making some of the rules more flexible. There are various suggestions in the evidence bundle, which we would welcome a discussion on. First and foremost, it has to be—

Q22 **Anthony Browne:** What would be one change that you would like to see to the schemes? Michael, I do not mean to exclude you, but you are a different bit of venture capital.

***Richard Stone:*** There are a number in there. If I was to pick out a couple, it is potentially extending the KICs, the knowledge intensive companies, to cover a broader range of possible companies around deep tech, green technologies and other things—different things that Government policy potentially wants to target. That is one area that you could pick out. Increasing the lifetime limits and the age of companies, but particularly the lifetime limits, might be another, because there is a potential gap that is opening up, or potentially exists, between SEIS, EIS, VCT and broader venture. The lifetime limit on what can be invested into a company was extended for the knowledge intensive companies but now, with the onset of inflation and all the rest of it, it is getting to a point where it could be extended a bit. As I said, they would all be "nice to haves" in terms of having that conversation.

Q23 **Anthony Browne:** Christiana, are there particular changes that you are looking for as an association?

***Christiana Stewart-Lockhart:*** The important thing to ask here is, what are the Government trying to achieve with the schemes? Obviously, the Government have several priorities, including the levelling-up agenda and supporting female entrepreneurs and other under-represented groups.

At the moment, there appear to be some unintended consequences, because the age limits on SEIS and EIS make it much harder to use the schemes outside the south-east and London. That has been noted by a number of different studies, including the Government's taskforce on innovation, growth and regulatory reform. It happens in large part because, often, companies outside London and the south-east do not scale as quickly, so when it comes to the point where they want to look for investment, they are already too old for SEIS, for example, which has a two-year age limit, and EIS, which has a seven-year age limit. I don't think that is what the Government intended to do, but it is happening.

There is also a challenge because those founders who are less familiar with the financial world or these schemes prior to starting a company may not be aware of the time limits on the schemes. Therefore, when they come to try and use them, they find that they are not able to anymore. That is really important and is constraining the use of EIS and SEIS outside London and the south-east.

There are some fantastic hubs, it must be noted. Edinburgh and Manchester have brilliant, thriving start-up and venture capital industries, which is fantastic, but I think the age limits are really worth considering, aside from the sunset clause, which would be the No. 1 priority.

Q24 **Anthony Browne:** Will, for the Venture Capital Trust Association, are there any changes you would like?

***Will Fraser-Allen:*** We are very clear that the important change is to make the scheme permanent by removing the sunset clause.

**Anthony Browne:** I would take that as read.

***Will Fraser-Allen:*** It is fundamental to the continued success of VCTs and the EIS. Beyond that, I think the changes made in 2017 have been very effective. This is still playing out. It was really useful to have a bit of stability and continuity in terms of the rules. While there are a number of technical points that we have raised in the Budget submissions, these are not fundamentally going to change the success of the scheme. The absolute key to us is the sunset clause.

Q25 **Anthony Browne:** Michael, do you have anything to add?

***Michael Moore:*** I defer to my colleagues on this one.

Q26 **Anthony Browne:** I have a question that you might want to answer on deep tech, which is, as I understand it, new technology that has not been used yet. Obviously, there is an element of risk there, as you do not know whether the technology will work, as opposed to companies that use existing technologies, such as Uber. We had various bits of evidence that deep tech has a problem with investment, as I guess the investors do not really understand what is going on with these new technologies. What is the issue with deep tech? Is there something that Government can do to help improve investment in deep tech, and should they do so? Michael do you have an answer on that?

***Michael Moore:*** It is a good example of a broader truth, Mr Browne, that there are sectors of the economy that are nascent and developing, and where the United Kingdom, maybe through universities or other sources of expertise, is leading the way. If we are talking deep tech, that could be artificial intelligence, quantum, clean tech—there is a whole range of areas. Alongside that, you have life sciences as a separate example of the types of highly complex, exciting scientific developments that have a practical technological development, which can be good for society and for the economy.

It sits with that that these are complex new areas, and therefore the risk profile that goes with them is hugely different to that within more established bits of the economy. I hope my colleagues in the industry will not mind if I say that there is a different profile attached to deep tech than, for instance, software as a service, where the market is business and professional services or otherwise.

What has been exciting is that we have seen that developing hugely in recent times, and certainly, whether it is Oxford or Cambridge—the golden triangle—or, to Christiana's earlier point, areas such as Manchester, Glasgow and Edinburgh, there are some great opportunities there. However, the availability of capital, and the expertise to deploy that capital once you have got past the early-stage investing, does become an issue.

Growth and scale-up capital is one of the areas that, in our submission and across the piece, we are very focused on. We must be able to give confidence to those who invest in these businesses that, for the next development of scale, they will be able to get funding here in the UK. We see a lot of international investors getting into this space. The danger for us, as UK Ltd—as opposed to plc—is that the more you get international investors taking direct stakes in the later funding rounds, the more likely it is that the next stage of development will happen internationally as well.

Q27 **Anthony Browne:** On this issue of deep tech, does anyone else have anything to add? Is there a concern about investment in deep tech, or anything the Government should do to encourage it?

***Will Fraser-Allen:*** The core of deep tech is solving a difficult scientific problem with creative technology. It takes a long time and a lot of capital, as Michael has said. Part of the solution can be delivered by the tax incentive schemes at the early stage, so we are well placed to be part of the solution, but clearly it is in the context of a broader set of target companies.

Then, it comes down to how sufficient capital can come in for long enough, and that is the key--this takes a long time. That is where bringing new capital into the broader system is important. The bringing in of DC pension money seems a very sensible part of that solution. However, it is all about time and scale.

**Anthony Browne:** I think some of my colleagues will ask about that later. I would love to ask you more questions, but I am afraid my time is up.

Q28 **Kevin Hollinrake:** On the deadweight costs that Anthony referred to, SEIS was made less generous at some point—it was 2017, wasn't it? The tax relief used to be more generous, and then was changed. Isn't that correct? I just wondered, but that may not be a question you can answer.

***Michael Moore:*** Are you asking if the investment fell as a result of that? We can get back to you on that.

**Kevin Hollinrake:** Yes, did the investment fall as a result of that? That is exactly right.

Q29 **Gareth Davies:** I want to follow up, Michael, on the point that you just made on scale-up capital. It sounds like you think we have a bit of a problem in this country with companies that get launched, get the capital initially, get to a certain size and then go off elsewhere. What would you recommend that the Government do about that to ensure not just that we have the funding for scale-up but that those companies that receive it stay in this country?

***Michael Moore:*** There are multiple dimensions to this, inevitably, Mr Davies, and I appreciate that funding is but one of them. If we look at it the other way round, this is a hugely exciting opportunity. Different people put different levels on it—whether it is the scientific superpower that we want to create, or a fantastically successful set of regional economies in England and the devolved nations over and above that.

Our industry, as you have been hearing, goes from that earlier stage, after you have run out of money from your family, all the way through to some of the biggest names in venture capital basing themselves in the UK to invest in the opportunities here. At each stage, you have a different set of individuals, with different sets of expertise around the type of capital and the amount of capital they are investing and the sectors in which they specialise. One of the corollaries of the growth in the industry over the last 40 years, and particularly over the last 10, is that you get increasing specialisation in these different areas.

Without being trite about it, if a lot of the hard work has been done by UK-based fund managers and the entrepreneurs they are backing, but they then don't have the capital pool on which to draw to move on to the next stage—you get increasingly big funding rounds, up to $100 million and so on, but that very quickly wipes out the entire allocation from a lot of the different fund managers that exist in the UK—you inevitably go to those with the deeper pockets, and increasingly that means you will be looking at the United States. We are very open to that capital—we love it, and everything else—but what we are not so keen on, and where we think there is potentially a lost moment here, is that, with the decision making and the influence that goes with that, people, teams and developments could and can move elsewhere.

Undoubtedly we want to see more capital made available. That is where we get into, as Will referenced earlier, the issue of where the big pools of capital are in the UK—defined contribution pension schemes are one such potential source. The change in the rules around Solvency II, about the risk profile of how the capital is allocated by insurers and so on, is another potential source.

Candidly, I think we also need to build up the investment expertise that will deploy those sums of money. We have been working very carefully over a long period of time with the Treasury and others to see how we can get access to the capital. It is not a guarantee that, should we get there—we hope we will—the capital will be deployed.

So, on multiple levels, we are keen to see these things and we know that BEIS, the Treasury and others are pretty actively looking at areas of the economy, or areas of British expertise, that they would like to see grow, and talking to people along the river, in the City, to see that they have also got the expertise to make the investments.

Q30 **Gareth Davies:** I guess that what I am getting at—I hear what you are saying, completely, and it is particularly interesting on the expertise point—is, to what extent is the issue structural? Putting aside the volume point that you make about the United States, which we can only do so much about, how much is structural versus cultural in this country?

***Michael Moore:*** If I may, I will pray in aid the report that was done by the ScaleUp Institute, Innovate Finance and Deloitte a year or so ago. Essentially, they identified a growth capital scale-up gap of £15 billion per annum. They identified that, broadly speaking, half of that was structural and probably half of it was cyclical.

In terms of the structural side of things, what they were talking about was the approach we have adopted as a country. It is inevitable: over time, Parliament legislates and Governments decide on tax arrangements and regulatory environments, and they are not all necessarily designed to help holistically to deliver the best investment environment possible, but there are complications that we might sort out there, and getting access to the capital is part of that.

A point that I think has been raised already is that around the UK—outside London—sometimes there is a lack of capacity to look at the investments and ensure that there are funding pools there to match.

Q31 **Gareth Davies:** Is there an appetite? You just mentioned the ScaleUp Institute report. In that report it also says that 63% of all investment into UK tech businesses came from overseas. That is up hugely, by 50% since 2016. In the PLSA's written evidence, they were not exactly glowing about reforms to unlock pension capital for venture capital investment. Is there a risk appetite issue—a cultural issue—that we have in this country, compared with the United States, that maybe we just cannot do much about?

***Michael Moore:*** If I may, I am slightly wary of making it about us versus America or us versus France and Germany. In other words, is there a pecking order of risk appetite? It is very much an individual thing culturally too, you might argue. I think the difference is that the United States is many leagues ahead of us in terms of the depth of the capital available and the sophistication of the ecosystem that goes with it. As I said at the start, our ecosystem is hugely impressive and important relative to the rest of Europe, and because we sit here in London we have access to a global hub and to expertise in finance. That is brilliant, but we are on a journey that has not quite got us to where the United States is.

Is there an appetite? Yes. We see lots of great businesses and you see that the investment is growing year by year. What we would hate to be doing is reflecting at a future hearing of the Committee—in three, five or 10 years' time—and saying, "Ah, what a shame. We missed out on those opportunities".

Q32 **Gareth Davies:** We have Solvency II coming down the track, and we are going to come on to pension funds in more detail shortly. If, say, we unlock a lot more capital, is there a risk that that money goes overseas? How confident are you that our businesses will get that investment if we unlock UK pension assets, for example, or UK insurance assets or retail assets? How confident are you that that money will stay in the country?

***Michael Moore:*** We are an open economy, so let's concede that the investment flows go internationally both ways. We are celebrating the fact that some of the shortcomings at the moment are being put right by the United States, or by Asian or other sources of finance, and that is to the good of the UK economy. I think that openness is a real strength. It depends on the rules that are put around the schemes and what the trustees of those schemes think, but let's put it this way: Ontario teachers, Texan retired teachers and plenty of other public sector workers in California and elsewhere get lovely returns—outperforming returns—for investing in UK venture capital opportunities, and it seems slightly strange that we miss out on that here in the UK. They get those returns as things stand; we would like to get more access to that to balance it up.

Q33 **Gareth Davies:** How do we compare internationally, in terms of the investment performance of the companies that you and your members are investing in, for example?

***Will Fraser-Allen:*** It is difficult to directly compare because we are at an early stage. But I think the point, Mr Davies, if I may make it, is that venture capital in its entirety has grown and developed so effectively over recent years because there are some really exciting companies coming through. Do we need to worry about whether the opportunities will be there for the pension funds to benefit from? No, we don't. There is an enormous number of really exciting businesses and it seems, from the growth evaluations, particularly in areas like fintech, that these opportunities are coming through. The concern, I guess, for all of us, is to ensure that there is a sufficiently developed UK availability of capital, and that those businesses are funded and stay in the UK.

Q34 **Gareth Davies:** What is the typical time horizon of an investment in a VCT?

***Will Fraser-Allen:*** In terms of how long we are investing in our underlying companies, it is usually around seven to 10 years. It is probably longer than one might imagine. What we are seeing though is that as those businesses get to the stage of handover, from what we do to the non-incentivised, we are increasingly seeing US funds investing in those opportunities, because they see a relatively better opportunity than they perhaps do in the rather more competitive and more developed market in the US. We really want to ensure that we are not losing those opportunities.

Q35 **Gareth Davies:** Thank you very much. I want to switch briefly to seed capital. Christiana, can you explain to us your perspective on how we are as a market for seed capital?

***Christiana Stewart-Lockhart:*** Absolutely. Thank you for the question. The UK does pretty well for seed capital. We are one of the best places in the world to start a company. That is a huge achievement that should not be taken lightly.

If we look at seed investment, education is key, and there is still a lot more that could be done on education. The UKBAA surveyed 200 women in its networks who were considering angel investment, and 90% of them were unaware of EIS tax breaks and had not been advised on that by advisers. That shows that where it is working well and where the schemes are known, it is very effective, but there are parts of the country, in particular outside the south-east, where education around SEIS in particular—but EIS as well—is not as successful.

That is where there is a real opportunity. Education is a huge priority for EISA, but there is also a real opportunity for MPs and other people involved in the ecosystem to champion the schemes and to make sure that the entrepreneurs in your constituencies are aware of the opportunities available to them and, equally, that the investors are playing an active role in the area as well.

Q36 **Gareth Davies:** The Federation of Small Businesses has said exactly the same, generally about tax reliefs overall, but you are saying that it also applies to SEIS. You have suggested that we as MPs may need to spread the word, but what else can be done? What can the Government do? What can other parties do to ensure that business is made aware?

***Christiana Stewart-Lockhart:*** A huge part of this is about connecting people and the infrastructure. As has been mentioned, where we see the infrastructure existing and working well, and where it is familiar with EIS, SEIS and others, entrepreneurs are aware of them and find out about them. Often, entrepreneurs find out about SEIS initially and then EIS from other entrepreneurs, so where they are not connected up as they are in certain parts of the country, they might not be finding out about these schemes until it is too late, as I have mentioned already. Working with the various interested bodies—whether that is entrepreneur networks or the accountants, lawyers, investors and organisations like EISA, the others here today and UKBAA, which is important—a lot more can be done in this area, although there have been some good efforts already.

Q37 **Gareth Davies:** In your written submission, you recommended that the limit for SEIS should go up to £250,000. Will you explain that a bit more and how you think it will have a material impact on seed capital?

***Christiana Stewart-Lockhart:*** Thank you for picking up on that. As it stands, the amount of money that a company can raise using the seed enterprise investment scheme is £150,000. That was set in 2012, when the SEIS was first created, and it has not been adjusted for inflation. Considering the needs of entrepreneurs now, companies have different needs. Their initial round is likely to be a slightly larger raise.

What happens at the moment is one of two things: either they are doing their initial rounds under SEIS, but having to come back to the market fairly quickly to raise additional capital in order to grow, which takes up valuable time for the entrepreneurs involved that could be better spent focusing on the company; or, which often happens and which was also noted by the UK taskforce I mentioned, they do two separate rounds. As it stands, SEIS and EIS must be issued on separate days. What sometimes happens is that entrepreneurs do a SEIS round and then, the following day, an EIS round, and that is just an additional administrative burden on the entrepreneurs, which does not seem to make a huge amount of sense.

Our recommendation, therefore, is to increase the limit on SEIS to £250,000. That would bring it in line with inflation, but it would also represent the additional needs of the companies involved and reduce some of the administrative burden I mentioned. I feel that it is important to put that in the context of the sunset clause as well, because perhaps the EIS and VCT schemes will not be available at a later stage to help them increase their growth and have further impact. It has to work as an ecosystem as a whole.

Q38 **Alison Thewliss:** I have some questions about diversity to begin with. The diversity statistics for venture capital, whether that is the firms themselves or the firms they invest in, are pretty stark. Big Society Capital has told us that a report by Extend Ventures showed that less than 2% of VC funding flows to black entrepreneurs, and according to Diversity VC, women only hold 20% of investment roles in firms and 83% of investment committees have no members who are women at all. Why is that still the case in 2022?

***Michael Moore:*** If only there were a good answer. I am afraid the figures are really poor. The British Business Bank, which probably has the most recent report on a lot of this, has highlighted that all-female founder teams get less than 2p in every pound that is allocated, mixed founder teams get 14%, and all-male teams get 84%. If you look at the different bits of the ecosystem as it assesses things, all-female founder teams are 9% of seed funding, 6% of venture and 2% of growth.

It is something that has been really poor, and remains really poor, but as was being suggested before, a number of initiatives are now under way overtly to address those issues. Diversity VC has done a lot of important work in this area, whether that is intern programmes or providing the right networking arrangements, because a lot of this comes down to your connections in a particular bit of the world. Historically—I will not hide behind other bits of financial services or other bits of the economy—this has been a pretty weak area across the board. We as an industry are signed up to the investing in women code, which is, I believe, due to produce its latest report very soon. Certainly from what we can see in our bit of financial services, I believe it will indicate that there are some very small steps being taken, but such a long way to go.

***Will Fraser-Allen:*** I absolutely concur with Michael. There is a great deal to be done, and this is a very important area in which we need to do better.

Just in terms of what my members are doing about it, the investing in women code is very useful. It is a Government initiative; the majority of my members are now signatories to that, and it encourages its members to look very carefully at how they are channelling money to female entrepreneurs, collecting the data and incorporating it into their decision making.

Progress is being made; that is not to say there is not a lot more to do, but we are already seeing a lot of female founders and female-led businesses. If I look at the portfolio of companies within my business, Albion, 30% of our companies are now either founded or led by women—companies like the Evewell clinic, Koru Kids, Elliptic, Proveca and Speechmatics. Those are all businesses that are really doing something different, which are either founded or led by women. Thirty percent is not enough, but we will improve. I know that Octopus, one of our member funds, is also doing a lot in this area: I believe some 23% of its businesses are similarly female-founded or female-led, so we are getting there.

In terms of the investment execs within our businesses, lots of active measures are being taken to improve the diversity of the team, so that those female executives can gain experience and become the leaders of our business in the future. That is very much the ambition generally, but it will take time; it will be steps in the direction of travel.

***Richard Stone:*** I echo the comments about the fact that there is more to do. AIC represents the companies themselves, so our members are the member directors who sit on the boards of those listed companies. They are non-executive directors. Progress has been made. The number of all-male boards has almost halved since 2018—in the last four years—so we are seeing more come through, but there is undoubtedly more to do. That aspect of the board sits there, and the fact that we are listed companies means we will be subject to the new listing rules that have come out, which will require reporting on both gender and ethnic diversity. Having that degree of transparency will drive further change in this space.

***Christiana Stewart-Lockhart:*** First, I really welcome the Alison Rose review and the work that she is doing, which is incredibly important, and we have been involved in that.

It is important to mention that only 30% of women know an entrepreneur, and that has a big impact on the way you then think about how to start a company—even the idea of perhaps starting a company—so at one level, this needs a long-term solution. We need to go right back to education in schools and look at financial education, and also at how entrepreneurship is taught in schools. There is clearly a long-term solution here, but, as has already been mentioned by others here today, there is a lot of work that the industry is trying to do to address this. It is not where it should be or needs to be, but we could have more education. As I mentioned, some of the barriers in respect of the age limits on which companies can apply for SEIS and EIS can make a big difference.

Q39 **Alison Thewliss:** I was quite pleased with the point you made, Christiana, about the awareness of schemes. It strikes me that a lot of this feels like it is not about what you know but who you know. It is old boys' networks, on the golf courses, and all those kinds of things. How do you break that down to the benefit of people who are not currently getting that access at the moment?

***Christiana Stewart-Lockhart:*** Something EISA has been looking at is democratising the information about investment. Sometimes it will be quite hard for an entrepreneur to know where they should go. They say, "I've got a company and it does this. Which funds specialise in this area and who should I speak to? Which angels specialise in this area?" So there is an information element to it. We need to make sure that information is more freely available, and we are working to do that.

Connections are really important. We know that where people are close together, networks form, and that is important. During covid, work became much more remote, and it was interesting to see the differences and the impact that that had. We will see the long-term effect of that in terms of the number of people reaching out and things like that. Ultimately, networks are really important and, equally, they can be a huge opportunity. There are a lot of very successful female entrepreneur networks at the moment and, as I mentioned, the Alison Rose review is doing a fantastic job in this area.

***Michael Moore:*** There is increasing evidence that the lack of diversity in investment teams is really bad for a business, so that is a pretty persuasive argument for many in the industry. Equally, there is a welcome increased emphasis among investors and consumers on ESG. Although quite a lot of the ESG debate can focus understandably on climate change and the E, in terms of the S, diversity and inclusion becomes much more of an issue. In our industry you find, particularly as you get further along the continuum of capital, that you have huge pension funds internationally and others who are investing, and as they arrive they ask more and harder questions about a range of things.

As an industry body, apart from playing what I hope is a full part in the various initiatives, including the Rose review—one of my colleagues is a part of that process—we work with Level 20, which is very focused on increasing the number of women involved in the investment processes and across the industry more generally. As a convening body for the industry and through the events that we do, we are more and more focused on the issue.

I would be quite doubtful how much is still done on the golf course, but I would not rule it out. I am not a golfer, so perhaps I am betraying my ignorance on that. Beyond that, providing those forums at events and putting it into the mainstream of our events, rather than always treating it as a separate subject, is something that, in just three years, I have seen quite a big change in.

Q40 **Alison Thewliss:** How much of this is related to risk—that you are more likely to invest in what you think you know, rather than in women or ethnic minorities, who may be perceived to be more of a risk by those people in the industry?

***Michael Moore:*** I would have thought that is an excuse that is running out of road, if that is seriously what is in people's minds. Mr Davies asked questions earlier about deep tech. The scientists in our universities who are creating the science that has a technological application are just as likely to be female as male—and I do not just mean biologically just as likely. That means that the source of the ideas and the entrepreneurship should be getting broader too. If someone's attitude is, "I'll just stick to what I know," I think they will find themselves redundant quite soon.

***Will Fraser-Allen:*** I certainly don't recognise that approach at all. What I am encouraged by is how many female founders we are now seeing coming through and presenting their ideas, plans and ambitions to us as part of their quest to get funded. It is an education piece. I think it is about all entrepreneurs—all potential founders of start-up companies—understanding that the finance is available regardless of their gender or ethnicity.

I think that progress is being made. There is a lot to do, but the VCTA very much welcome it, and we continue to do what we can to support the members in how they might do it better—how they can put in processes that help to avoid any bias in their approach to selecting investments. We will get there.

***Christiana Stewart-Lockhart:*** I also think that the significant growth of the femtech sector is evidence that that is not the case.

Q41 **Alison Thewliss:** Okay. Moving on to the other big disparity—the nations and regions, and how that is spread around—I was really quite shocked at the VCT investment in only three SMEs in Northern Ireland, with £10 million since 2018. That is really quite stark. What are the reasons for that?

***Michael Moore:*** Sorry. Which submission is that from?

**Alison Thewliss:** There is a table here showing "VCT investment by region". There were three SMEs and £10 million invested in Northern Ireland, five SMEs and £17 million in Yorkshire and the Humber, and the vast majority in London and the south-east.

***Michael Moore:*** For the industry as a whole, I am afraid that picture is all too true. Having said that—this goes back to some of the points I have been making throughout—it is not the first bit of the economy where London is the biggest, given the population and the reality of the economy in this part of the world. Our challenge is to ensure that the great strength we have from that is then enjoyed elsewhere around the country.

Again, to reflect on recent British Business Bank figures, Scotland actually had a decent share of the number of deals that were done in the last year, at about 8%, but the value is only 3%. We see that in different parts of the country; Yorkshire and the Humber had 3.5% of the deals and 1% of the investment value. It slightly goes back to the point I raised with Mr Davies, which comes straight out of the ScaleUp Institute and other things, because inevitably the networks and ecosystem in London are a lot deeper, longer established and at a scale that nothing else would rival. However, frankly, London helps the UK to punch massively above its weight elsewhere in the international context.

The good news is that we are seeing more and more investment outside London and the south-east, and real success stories. I will dwell momentarily on Skyscanner, which has disrupted the travel market in a positive way—unlike so many other things that are disrupting it. Skyscanner has transformed the way in which people are able to access and make bookings for holidays. Scottish Equity Partners, based in Glasgow, was involved in that business at a key moment. The halo effect of that investment has helped enormously. I think that Par Equity, which has a strong presence in Scotland and the north of England, has been critical, along with Mercia and other regionally based English fund managers. They have been behind Nova Pangea, a business in the north-east of England that is looking to develop sustainable aviation fuels and the like. We need to celebrate and promote these examples further—and the organisation certainly does—and ensure that all the benefits that London gets are replicated elsewhere.

Q42 **Alison Thewliss:** Given the scale of the imbalance here, it still feels very much as though it comes back to the network of people you know, rather than taking risks in other parts of the country and encouraging people to invest where they are.

***Michael Moore:*** It can be. I finished in this place seven years ago and then went on to work for one of the big four consultancy businesses. I was based notionally in Edinburgh, as I still live in the south of Scotland, but I knew that I was more likely to meet one of the Scottish partners in London than in Edinburgh or Glasgow. I don't want to make excuses for this, but the reality is that so much of the decision making and networking actually happens here regardless of where people are based. I think it is a broader truth of the economy that there is a huge skew to this part of the world. I do not believe we can uninvent it, and I think we need to make sure we celebrate it and look to see what we can replicate elsewhere, rather than saying, "Do we need to shackle London and its success story?"

Your colleagues in the Scottish Government are taking a lot of new initiatives, including the Scottish National Investment Bank and Scottish Enterprise. There are a whole range of state infrastructure points that are trying to address this. The British Business Bank's regional programmes in England are hugely significant. Those programmes are some of the biggest cornerstone investments for parts of the country beyond London and the south-east. We see things such as Northern Gritstone being introduced recently, which raised over £200 million in its first raise, which by any standard is a really respectable figure. There are lots of exciting opportunities.

We are on a march, and we want to see more of that. The balancing out of that may take a number of years, but I think there is a lot of effort by entrepreneurs outside London, funders outside London and—dare I say it—the British Business Bank or Scottish, Welsh and Northern Irish institutions to support the growth of those ecosystems.

***Will Fraser-Allen:*** Could I just address a couple of points? One is on what the VCTA is doing about levelling up. It is really important to reflect on the infrastructure that has been built up through the VCT scheme. If I look at the VCTA members, they are now operating out of 20 towns and cities across the UK. That includes two in Edinburgh, one in Glasgow, as well as Bristol, Newcastle, Leeds and Manchester. There is already a network of investment professionals out there helping entrepreneurs identify those who need the help. By being there on the ground, they are clearly in a better position to identify and support them, so the infrastructure is there.

It is interesting that when you look at the number of employees for VCTA-backed businesses, as opposed to the investment itself, some 60% of the 51,000 employees are actually outside of London and the south-east, so there are different ways of looking at how we are supporting businesses. I do think that greater employment is one useful measure. In your constituency, we are investors in RUA Life Sciences, which is backed by Maven, which has a Scottish presence—as you may well know, it is a medical devices business. That is to name just one in your constituency.

The broader point is that there is infrastructure in place to do this. To a certain extent, driving further investment outside London and the south-east is about creating regional clusters and regional ecosystems that create the types of business that the schemes have been directed to invest in: high-growth technology and healthcare. It is about building up clusters around universities, which I know is a key focus for the Government currently and more broadly.

But it is also about business angels. If the businesses angels are out there banging the drum, they are delivering the EISA's desire that more people know about SEIS. As you will have seen from the British Business Bank's submission, its regional angel programme appears to be very successful. Indeed, if my numbers are correct, the initial £100 million is being added to by a further £150 million. If we can get these angel networks, clusters around universities and entrepreneurs in the regions, my members stand ready to help.

***Michael Moore:*** And there is—

Q43 **Alison Thewliss:** I just want to bring in Christiana. I am almost out of time on this section, and I don't want to miss that end of the table.

***Christiana Stewart-Lockhart:*** To add to what has already been said, there are some really significant success stories. We have mentioned Edinburgh and Scotland more broadly. A company in Scotland has a 24% higher chance of being funded than a similar company in London, so there are some positives that we can take away from this. As has already been said, the age limits affect the companies that use the scheme and where they are based. Things like manufacturing, which may traditionally take more time, are more likely to be based outside the south-east.

***Richard Stone:*** The only thing I would add is that in addition to the fact that it is about creating the pipelines of business creation within the regions, which the venture capital firms and others can then support, and what more can be done on that, we must not overlook the fact if we drive those successful businesses and enable their growth, they can themselves move economic activity elsewhere. Saietta Group, which was backed by one of our members, is based in Oxfordshire—the south-east of England, so it ticks that box—and now has a motor manufacturing plant up in Sunderland. Although it proved the technology and gained the technology expertise around electric motors in its base in Oxfordshire, it then moved its manufacturing. There is an ability to drive economic activity elsewhere because of the success of the schemes.

Q44 **Kevin Hollinrake:** Christiana, according to our table, since 2018 VCT investment in Yorkshire and the Humber has been 1% of the total of VCT investment. Bear in mind that Yorkshire and the Humber is about 8% of the UK population, so that is quite a low figure. Do you know the comparable figures for EIS and SEIS by region?

***Christiana Stewart-Lockhart:*** I know that HMRC has released some. I don't have the specific number to hand, but I can find it out for you.

Q45 **Kevin Hollinrake:** That would be great. You said that scaling up takes longer in the regions. Are you making an argument that there should be enhanced tax incentives for SEIS or EIS in the regions?

***Christiana Stewart-Lockhart:*** What we suggested in our submission is to look at the age limits. By extending the age limits, you could make it easier for companies based outside London and the south-east to access the investment through SEIS and EIS.

Q46 **Kevin Hollinrake:** Okay. Does VCTA have a similar perspective?

***Will Fraser-Allen:*** No, we are not making any specific recommendations about that. Our broader desire is to enable investment through the infrastructure that has been created through the regional offices. It is about helping the broader ecosystem.

Q47 **Kevin Hollinrake:** But those figures are quite disappointing—1% versus 8%. How are we going to fix that?

***Will Fraser-Allen:*** We will fix it by making investment in areas and backing the entrepreneurs who are creating the types of business into which we can invest. It is important to make that distinction, because clearly we are being asked to channel money, by the rules that surround the scheme, into high-growth technology, typically healthcare. It is broader as well—it is not just those types of companies—but an awful lot of the types of investment that meet the rules fall into those categories. It is about making sure that entrepreneurs in such areas are able to come to the fore.

***Michael Moore:*** If I may, I have two or three quick data points that, hopefully, will help make people feel a little more positive about some of this stuff. In the north-east of England, having boots on the ground—local people who are investment managers—is a relatively recent phenomenon. Yet in 2020, our BVCA figures on investment showed that 63 of the companies invested in were early stage; 33 were growth and only three were later in our buy-out sphere.

On the earlier point about Northern Ireland, Neurovalens, invested in by IQ Capital— Kerry Baldwin, a former chair of BVCA, is part of that—is a potentially world-beating organisation that is using non-invasive techniques to understand neurological conditions better. That is based on the great principle that the expertise is in Northern Ireland and funding has been found there as well. Where the ideas and the funding can be paired together is a very exciting thought.

The other point from the north-west of England is the fact that in 2020 the north-west was home to six of the UK's 14 digital unicorns—a unicorn being company that has a $1 billion valuation. I am not saying that it corrects all the imbalances that we are trying to address, but there is a very exciting investment programme underway by the industry, with brilliant entrepreneurs with great ideas.

***Will Fraser-Allen:*** The number of jobs backed by the VCTA in the north-east is 5,700, of the 51,000. The other point is that these are highly paid jobs. If you look at the typical job created by VCTA, they are typically earning about £10,000 more than the national average. Those are the sorts of skilled jobs that the UK economy benefits from and is looking to create.

Q48 **Julie Marson:** Michael, can we follow up on the conversation you had with Gareth about DC pension funds and unlocking that hugely tempting pool of capital that seems to be sitting there? The Government have been consulting with the industry and various other players about how we could do that, and proposals are being implemented. What are the most effective things that the Treasury is doing with the FCA and the industry to unlock that pool of capital?

***Michael Moore:*** I will give a little context. The productive finance working group, which I am sure this Committee has been tracking, last autumn published its report, although the work continues. It highlighted the fact that people's pension futures are increasingly determined by defined contribution schemes. In 2012 there were £200 billion-worth of assets in those schemes. Currently it is estimated at half a trillion—£500 billion—and by 2030 it is expected to have doubled to £1 trillion. To quote its figures, four fifths of what is already in those schemes is invested in listed equities and bonds, be they Government or corporate, and two thirds of DC schemes do not invest in long-term, less liquid assets, of which we represent a fairly chunky element. Of those that do, most of it is real estate property investment.

We believe that there are two virtues that can be unlocked here. One is to enable pension savers of the generation coming through at the moment to look forward to better returns than those that they are necessarily locked into at present. To give a snapshot of the higher returns, our analysis is that the funds of our members were producing a 22% return consistently over the last decade. That is rather better than you would get in most other places, understanding that there is a risk that goes with that to a certain extent.

The other bit of this is that getting access to that capital—going back to an earlier conversation—allows us to channel it to the real economy. Our members' mindset is that they are the last mile that connects the City of London, or whatever the international capital source is, to the real economy—be that in London and the south-east or around the United Kingdom. Getting capital investment into the real economy, and generating returns for the next generation of savers, are two really important public policy goals.

With what the Government are working on, we are grateful for the progress that has been made. The final bit we hope to get to, when it is unlocked, is to change the cost cap on the schemes, so that we have well-designed performance fees—which are part of the way in which the industry generates its returns—that are able to be brought within it. I stress that they should be well-designed and also that they should be done through appropriate vehicles. We are not looking for a free-for-all where individuals are buying and selling shares in unlisted entities, but rather through skilled managers—that can be done for pension trustees.

There is progress to be made, and we look forward to seeing the final arrangements around the cost cap. There is also the issue around the appropriate vehicles. The long-term asset fund that the Chancellor has been promoting is an interesting prospect, and we are working with others to see how we can make that a reality.

Q49 **Julie Marson:** Thank you. You touched on the context being the opportunity—and the opportunity is huge. With the two measures you mentioned—the cost cap and the long-term asset fund—can you quantify if that will be a step change? I am trying to get at how much of a step change will be achieved with the technical or regulatory measures that remove barriers and unlock those funds?

***Michael Moore:*** It will remove regulatory barriers for investment managers, who have a mandate to look after pension funds, to invest in those particular types of security. Of course, it will be part of a balanced portfolio, in the same way that defined benefit schemes have for a long time taken a portfolio approach and have put a lot into the same areas—listed equities and bonds—while they have also gone into unlisted securities and other alternative assets as well. As I mentioned earlier, international pension schemes for Californian public sector workers do that all the time.

I think the potential is huge. However, what we realise is that getting access to the pool of capital is not the same as having the capital. Our members will need to be persuasive about what they can do and how they will get the capital deployed to continue to generate the returns. But that is what they exist for—they would love the opportunity.

Q50 **Julie Marson:** Some people have suggested being more radical by mandating investments from DC funds into the venture capital industry. You could say that it is a different profile of risk—maybe not riskier. What are the advantages and disadvantages of that approach? It is radical.

***Michael Moore:*** It is radical. I am speaking in a personal capacity when I say that I have yet to meet a member of our industry who would want to have capital because somebody has been told to give it to them. I do not think that is a very good way to make decisions. These are highly experienced and highly sophisticated investors, who are raising capital internationally—they are no slouches at being persuasive. They are subject to huge amounts of diligence and investigations into what they do. They would welcome the opportunity to grapple with people closer to home who might have that capital available for them. Mandating would seem like quite a blunt tool; I cannot think of anybody I know who would think that that would be a good way to get access to capital. They are persuasive people; if they cannot persuade, they should not be doing it.

**Julie Marson:** Okay. Does anyone else want to add to that?

***Richard Stone:*** From my perspective—if I put my broader investment company hat on—we have some reservations about the long-term asset fund structure. We would also say that, fundamentally, the structure to invest in those longer-term capital assets exists within the listed investment company environment. More than half our members' assets are now invested in what might be broadly described as alternatives, which would include private equity and listed equities in other companies. If you are a pension trustee looking at what you are invested in, the question is what can be done to incentivise you to take that step to invest in those sorts of asset classes.

I can understand why pension trustees would be potentially reticent to do that. Their job is to look after the interests of their beneficiaries rather than to support a particular Government agenda or otherwise, so the question is then whether there is a need for other incentives or things in this space to encourage pension trustees to look more favourably on those sorts of investments, but I don't think it is necessarily an investment structure issue in that sense.

Q51 **Julie Marson:** So it is much more about mutual understanding, but it is also about how companies sell their risk profile to investors. Is that part of the equation as well? It works both ways.

***Richard Stone:*** It works both ways. It is the structure of the plumbing around the platforms and things that pension funds use to hold their assets. They are largely built around open-ended structures. For example, they don't necessarily allow closed-ended structures or equities as easily. There are a range of different structural and cultural aspects to that.

***Michael Moore:*** In the end, the question is not so much about mandating but almost about saying, "How are you going to generate the pensions for the generations of today or those who are going to be 20-odd years into their pension?" An awful lot of people have been locked out of defined benefit schemes, but the projections will not be as strong as they might be if they could take out a broader portfolio. So the value that can be generated is the question. Then the trustees and the managers who are given the mandate can be challenged about what they are trying to create, but also remain in control of the investment decisions.

***Richard Stone:*** Sorry to keep going on, but the other point I would make is that when we are looking at different structures and options for those pension funds to invest in, the question has to be whether we are looking to get into investing in private assets or in growth capital. Those two things can be very different. Enabling investment into private assets does not necessarily automatically mean that that then goes into growth capital, so that is another distinction that needs to be drawn.

Q52 **Julie Marson:** Thank you very much. What about retail investors? How desirable is it to have more retail investors into the VC investment sector?

***Michael Moore:*** We are not advocating a general free-for-all for retail investors. All the work we have done on the productive finance working group, looking at things like the long-term asset fund and other things that come along, is about the appropriate level of skill and expertise for the investor. In the pension scheme world, you have experts who can make the right decisions on behalf of others. We are not bidding to be on one of the platforms where people will go to do that. There are different vehicles for doing that; there are companies such as Baillie Gifford and others who offer investment trusts and other products, with the usual level of FCA protections and guidance. This is about, as I said before, getting a sophisticated approach to a broader range of investment opportunities and, at the same time, providing capital to the real economy, so that it can also thrive.

***Richard Stone:*** If you look at VCT specifically, it is essential that retail investors are able to do that. The VCT structure provides the structure that gives them certain protections. They are getting the expertise of the investment manager and access to a diversified portfolio. They have an independent board that is there to protect their interests. These things are also listed, so you have all the transparency and disclosure around that, and all the protections from an FCA financial promotions perspective that Michael is referring to.

From a retail investor perspective, yes, they should be able to access this market. Going back to the Committee's earlier questions, part of the purpose of these two schemes and the return for the tax relief is the additionality of bringing retail investment money into the growth capital part of the economy. They are a vital part of that and the VCT structure provides a suitable structure for them to do that in.

Q53 **Julie Marson:** I would like to finish with a question to Christiana about the proposals to make the criteria around high net worth individuals tighter. Will that have an impact on the EIS and SEIS schemes?

***Christiana Stewart-Lockhart:*** We have made a submission to the consultation about this as well. Bringing the levels in line with inflation does make sense to a certain extent. These are high-risk investments and should be treated accordingly. Obviously, if the regulation around that was constrained to such an extent that it prevented appropriate investors from investing in this space, that would be problematic. But the increase of the threshold for high net worth, in line with inflation, was not something that we saw as hugely problematic.

**Chair:** Finally, Siobhain.

Q54 **Siobhain McDonagh:** I want to look at Government involvement in venture capital and at Government institutions. How important is the British Business Bank in the UK venture capital market?

***Michael Moore:*** Massively important. I will declare an interest: the idea was obviously mooted and created back in the coalition days, but it has been through various iterations. For a lot of funds, we have primarily been focusing on what they invest in, but to the point about having a really successful, positive investment ecosystem, you need lots of fund managers to be there as well, and the British Business Bank plays a crucial role in being a cornerstone investor in some of those funds, which then attracts other institutional investors to come in alongside it. It also has a very strong focus on the English regions outside London and, given that the rules were changed at the end of last year, it will now have a presence investing in Scotland and the other devolved nations too.

As their recent report has highlighted, they have taken a very close interest in gender and other diversity issues in terms of the investments that are being made. They are a hugely significant organisation and were given responsibility for the future fund arrangement throughout the pandemic—that was £1 billion. You would expect me to say this, but it was a really enlightened programme, because I think they originally expected to make £250 million available; I think £1 billion was put into over 1,000 companies. As regards the fragility of the early stage of investment, in terms of both getting the funds and then putting them into the companies—this is a kind of counterfactual point—I very much doubt that the success of the businesses that we are seeing now would have been anything like it is without the British Business Bank and that particular Government programme.

Q55 **Siobhain McDonagh:** Does anybody else have anything they want to add? No? Okay. In its evidence to us, the Treasury said that Innovate UK aims to fill funding gaps that innovative businesses typically face when growing—for example, in the seed stage. How well has it achieved that?

***Christiana Stewart-Lockhart:*** There are many companies that receive SEIS investment and EIS investment that have also received grants from Innovate UK, so there is evidence that they are working well alongside each other.

One thing that is important to emphasise when it comes to investment through SEIS and EIS, as I mentioned before, is the additional benefits that come with that. It is really important not to undervalue the additional benefits beyond the initial financial investment. A good example of this is one of our entrepreneur members who received an investment of £20,000 when she started her company, which was important and very valuable, but that angel investor went on to connect her with someone who took out a six-figure contract with the company. That is the power of investment through venture capital more broadly, and it is something that really must not be downplayed. You don't get that in the same way with grants, which are very important though.

Q56 **Siobhain McDonagh:** Thank you. Where is Government funding, as opposed to tax reliefs, particularly important to the venture capital market?

***Michael Moore:*** In other areas, beyond the capital deployed through the British Business Bank and the like, it is about the opportunities for investment, such as in research and development expenditure for businesses more broadly, particularly in the most risky technology or life sciences fields. The Government have set out big ambitions for increasing the level of research and development spend within the economy, and some of the money they directly put in matters hugely. I appreciate that the research funding for universities is not exclusively about getting economic benefit out the other end, but that plays a huge role too.

Q57 **Siobhain McDonagh:** Is there any area where the Government need to step up more strongly, in the whole science area, given the difficulties that we are having with the EU as result of Brexit?

***Michael Moore:*** Thanks for that nice little question on Brexit—

**Siobhain McDonagh:** It just came off the top of my head!

***Michael Moore:*** I thought we had snuck through the session without needing to address Brexit. The biggest issue post Brexit—it is an adaptation point, and I'm seeking to say this as neutrally as possible—is that a lot of funding that was provided by the European Investment Fund is fading away, although, technically, I think it might still be accessible. That is where the British Business Bank has been really important in stepping up.

There is a bit of a mismatch in the quantum, and that is an issue. It is not the focus of the Committee's inquiry today, but the fact that the bank is focused on minority stakes and on supporting funds that invest in minority stakes in businesses, rather than in majority stakes, means that, for certain other bits of the ecosystem where businesses take majority stakes—growth and private equity, as opposed to venture capital—that sum of money that used to be available from the EIF has been taken out. But that is a point for a different day.

Tracking the amount of money there afterwards is hugely important. Beyond the money, as various submissions have pointed out, we need to make sure that we adapt the regulatory environment appropriately going forward, so that we maintain the attractiveness of the UK, to international standards, as a place to set up funds, invest your capital and so forth. All that is a work in progress. Regarded from a political perspective, that is recognised.

**Siobhain McDonagh:** Anybody else? No? Okay, thank you very much.

**Chair:** Thank you very much, Siobhain. That brings us to the end. I thank you all for coming to share your wisdom and insights with us today. Venture capital is a very important part of the economy. It is pleasing to have you confirm that it is still doing well. We want it to continue to do well in the future. It has been useful to look at all the different schemes, to dissect them a bit and to touch on areas like diversity and the regional impact of venture capital investment. That concludes the session.