

Business and Trade Committee

Oral evidence: Financing the real economy, HC 1220

Tuesday 21 October 2025

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Members present: Liam Byrne (Chair); Antonia Bance; John Cooper; Alison Griffiths; Sonia Kumar; Charlie Maynard; Mr Joshua Reynolds.

Questions 98 - 115

Witnesses

- Mo Jamei, Director of Economic Policy, Confederation of British Industry;
- Fhaheen Khan, Senior Economist, Make UK;
- Rosalind Gill, Director of Policy, Analysis and External Affairs, National Centre for Universities and Business.

Examination of witnesses

Witnesses: Mo Jamei, Fhaheen Khan and Rosalind Gill.

Chair: Welcome to this final panel in today's hearings on access to finance. Thank you very much indeed to our witnesses for joining us.

Q98 **Sonia Kumar:** Can I ask the panel how you would describe capital market conditions, and the struggles your members face in raising finance?

Mo Jamei: I would start off by saying that most of our members raise money from cash flow and use capital markets, but the challenges they face are actually much broader. When we talk about investability, it is really around policy clarity, fast approvals, competitive energy prices and in particular the challenges that they are facing around the cost of doing business.

Q99 **Chair:** Are you arguing that their access to finance is constrained by that?

Mo Jamei: From the perspective of our members, it is often not about supply; it is more that the demand is not there for raising finance. There are challenges in supply that I can come on to talk about, but really it is about the demand uncertainty and the policy environment. There are some genuine issues and challenges that members face when it comes to planning ahead; what the demand environment looks like is limiting or putting them off raising capital for investment.

Q100 **Chair:** We have taken lots of evidence from people who are seeking scale-up finance in particular and simply cannot find it in the UK. They are therefore having to take finance from the United States in particular. Are you saying that is not the message your members are giving you?

Mo Jamei: When we look at CBI's membership in particular, they focus more on the larger side; they will face some challenges, but most of our members will raise money from cash flow and bank lending rather than capital markets. The challenges that you have talked about and that previous witnesses have mentioned are absolutely the right issues to focus on, but from our members' perspective, policy clarity and demand uncertainty, both domestic and global, are issues they are facing alongside that.

Q101 **Sonia Kumar:** Can you give us some examples of policy uncertainty?

Mo Jamei: When we talk about policy uncertainty, it is fair to say that what we saw in the autumn Budget last year was a big challenge. It was unexpected, in particular when it came to employers' national insurance contribution changes. Before that we had the covid-19 pandemic, and before that it was Brexit. Post financial crisis, there have been a lot of changes, a lot of new strategies the Government have brought out that have not been followed through. Businesses have been waiting six, nine, 12 months to see what the landscape looks like.



Again, when it comes to the autumn Budget that we expect to see next month, members have concerns around what is expected in terms of tax changes; the low fiscal headroom that the Government left themselves has almost certainly been eroded. Once again, businesses are waiting to see what the outcome will be. Some of our members say, "This is a bout of uncertainty that we expect to see before the next bout of uncertainty," and that starts to add up very quickly. So that is where some challenges lie domestically.

Internationally, it is more around tariffs and geopolitics. But domestically, the Government could be providing the kind of policy clarity that we have not seen for the best part of 20 years now.

Fhaheen Khan: Speaking on behalf of the manufacturing sector, capital markets are absolutely essential to the performance and activities of manufacturing investment, and it is a challenge. Finance is one of the key factors for achieving their growth and investment ambitions. Similarly to what Mo has outlined, we see slight differences in our membership from the perspective of their willingness to use the capital markets for growth.

While the availability of finance from the supplier side needs to be addressed—there are some gaps there—the demand side also needs to be addressed. What we do see is that the wider business environment—how businesses are able to assess whether growth finance will actually support their ambitions to grow—is quite challenging, specifically talking about three factors around the access of talent and skills.

First, when manufacturers are thinking about accessing finance to grow, they also have to demonstrate that they will be able to use that finance. While we tend to use homogenous terminology to describe capital, capital stock can be highly variable at the firm level, so a specific skillset is required to utilise that and to demonstrate a return on investment.

Secondly—as has already been discussed on the previous panel—UK energy costs remain on average 46% higher than the global average for electricity prices, which makes it very difficult. Again, when it comes to growth finance, the willingness to adapt or use finance to grow will depend on whether the return on investment can be justified around that wider environment.

Thirdly, there is the availability of tax relief. Our members tell us that they use tax reliefs as a model to change or impact the risk profile of the projects they are considering. We did a study on this earlier in the year. There is a slight difference between the average manufacturer and a scale-up manufacturer, but where they are not different—as you will have heard before—is that they face the most difficulties accessing finance at the Series A and Series B levels, which is often described as the valley of death. We did not see any differences between scale-ups and non-scale-ups in that particular area, nor with normal manufacturers who do not meet that definition. Where we did see a slight difference was that, in comparison with the average manufacturer, scale-ups were more likely to



suggest that Series A would be more challenging to access finance than Series B.

Just to finish up on my final point, there is a limit to the appetite for growth finance. About 46% of manufacturers in the UK primarily access finance to invest in the maintenance of their existing productivity levels. Once you have reached a size that is deemed relevant by the market you supply, you tend to need asset finance or common traditional forms of finance like debt or loans in order to maintain the productivity levels required by that market. That tends to be a big motivating factor; there is no incentive to scale up unless the demand side of the market requires a manufacturer to double in size. We see that across both the typical manufacturing and the advanced manufacturing sector.

Q102 **Sonia Kumar:** What reforms do you want to see with tax relief? Looking at Series A, what do you think we can do to make it more competitive?

Fhaheen Khan: The Enterprise Investment Scheme is one particular area we can look at for manufacturing. One of the criteria that makes a critical difference to the value of that scheme is the seven-year age limit for start-ups and early-stage businesses. Now, you will find that most manufacturing businesses tend to be far older than seven years; some are actually approaching 100 years. But we have seen evidence within our own membership that occasionally, if there is a change of leadership or ownership, a business can become a scale-up business much later in its life. There is sometimes a change in business strategy or opportunity because the new leader has ambitions that have attracted new investors. We have seen an example of a business that cannot meet the criteria of accessing seed-level funding because it is not a seven-year-old business, it is a 50-year-old business that became a scale-up when it turned 51. That is one area we would look at.

In our scale-up report earlier this year, we suggested creating a modified version of the Enterprise Investment Scheme, the Growth Enterprise Investment Scheme, or GEIS, which would remove the seven-year age limit and allow businesses that become scale-up businesses later in life to access that sort of support.

Rosalind Gill: I agree with what has been said so far, but there are two points I would add. The first takes a slightly broader perspective but is important for probably all the contributions I will make later in this session; the second is more specifically on university spin-outs, and that is obviously a very specific area of interest for this Committee.

First, on the bigger picture, in the session last week, you heard from Tera, Jonathan and others that business investment has historically been very low in the UK; it significantly lags behind our G7 peers. But it is quite interesting that when we look at the most recent years, although we have seen a slight recovery in business investment levels more generally, we have also seen a noticeable decline in business R&D investment. That is quite distinct from what we see in most countries,



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where businesses are choosing to invest a lot more in R&D because they recognise that in an age where technology and knowledge are advancing faster than ever before, that is what they need to maintain a competitive edge. It is really important to understand why business R&D investment is declining and, importantly, what can be done about it.

What is quite interesting is that when we get to the second point, on university spin-outs, we are not following that same trajectory. University spin-outs are at record levels. We have just under 1,700 active university spin-outs at the moment, which is more than we have ever had and, importantly, their survival rates are also high. Now, what we hear generally is that finance is particularly hard to access for a lot of R&D—it is higher risk; it is less liquid—but in the spin-out space, there has been a very concerted effort among universities, with UKRI and the support of successive Governments, to identify where there are challenges, where there are barriers, and where those can be addressed and unlocked. That has helped to buck the trend, and it is a good area to look at for examples of good practice.

However, that is not to say it is fully resolved. University spin-outs are often described as having two valleys of death, one at the pre-commercialisation stage and another at the scale-up stage, which is something we have already touched on. But there has been significant progress, and we are seeing some really positive results.

Q103 Charlie Maynard: We have named uncertainty as one of the devils out there. In terms of things that could help reduce that uncertainty, I am going to name three, and you can critique them and add your own. The OBR has two outlook events a year; we have two Budget events a year. The fiscal framework is horrendous. What else would you do to try to reduce systemic uncertainty?

Mo Jamei: That is a good question. The Government have committed to one fiscal event a year, and the recommendation has been to remain committed to two forecasts a year. It is useful to have two forecasts a year as genuine new information comes out; that is something we have said as well. It is important to note that the uncertainty stems from the fact that there is only a small headroom when it comes to the Government's commitments to their fiscal rules. Expanding that headroom and making it more sustainable could be a solution to reducing uncertainty.

Q104 Chair: The IMF advice is different. The IMF says that it is actually quite unusual for a country to calculate headroom in the way that we do. Folk such as Andy Haldane have argued this week that it should be expressed in a much wider range and potentially as a percentage of overall budgets rather than with the kind of precision that has become a tradition in this country.

Mo Jamei: There is some truth in that; we are looking at figures that are five years into the future, and the smallest of changes, including 0.1%



changes to productivity forecasts, can have a huge impact. But the IMF is clear that, if we did not have two forecasts a year, we would be an outlier when it comes to the OECD. I would not want to comment too much on the fiscal rules that the Government are committed to, but having two forecasts is useful in providing that information for businesses.

In terms of policy uncertainty, things like the Employment Rights Bill and the Make Work Pay agenda—while we agree with the principles—are causing huge uncertainties for many businesses. You will have heard this before, and we have certainly spoken a lot about it; it is one of the key things that continues to be on the horizon for businesses because it risks tying up a lot of working capital when it comes to proposals around unfair dismissal and tribunals, and it potentially reduces the flexibility that many of our members rely on. Like I say, while we agree with the principles around trying to stamp out the behaviours of some employers, we think the shape of that legislation and what it might look like could be particularly damaging.

The other thing I would add is about energy costs generally. We have talked about this a little already, and again, it is something that many of our members raise in terms of international comparators; they end up losing business and we risk de-industrialisation as a result.

The third point is around tax policy and regulatory certainty. We heard from the previous panel members how they are able to raise money and capital in certain sectors, but that is not applicable across the board. When I talk about policy uncertainty, that is about providing things like corporate roadmaps where commitments to tax simplification are made over the lifetime of a Parliament given that we have one of the longest, if not the longest, tax codes in the world.

The same applies to regulation. While we support deregulation or de-duplication of regulation, the pace at which that moves is something we need to consider quite carefully. If it happens too quickly, it still risks creating an additional compliance burden on businesses. We need to figure out where changes are taking place. So it is about a mixture of those issues in the Employment Rights Bill.

Q105 **Charlie Maynard:** Could you clarify the meaning of de-duplication? What duplication are you referring to there?

Mo Jamei: One of the commitments of the current Administration is to reduce the regulatory burden by 25% over the lifetime of this Parliament. Broadly we are supportive of reducing regulation that is out of date or where there is an overlap in terms of two regulators that perhaps regulate a certain sector or a certain area. One of the things our members have raised more recently with us is that careful consideration is still required to make sure that there are no unintended consequences from the commitment that risk reducing regulation at a pace that is not sustainable or creating uncertainty where businesses do not know the direction of travel. So it is important to encourage collaboration and have



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that transparency and openness with business to try to guide that Government objective over the next three or four years.

- Q106 **Chair:** Mr Khan, you talked from the manufacturing sector perspective about some things that were potentially suppressing the demand side for securing new finance. Are there things on the supply side of capital that you would point to as well? Do you think that the UK is blessed with an abundance of organisations seeking to invest in manufacturing? When you look around the world, perhaps others are in a better place than us; what is your take on the supply side of capital?

Fhaheen Khan: The supply side is interesting because it is not that there is no money available; there is, but it is not necessarily being directed towards UK companies. Relatively speaking, there are other companies in other countries that are perhaps more appealing to investors globally. Investors have freedom of choice as to where their money needs to go; while we have capital markets in the UK, we also have capital markets in other countries and there is the freedom to invest in any of those companies that are available for investment.

The challenge is that the wider business environment that I outlined in my initial statement, which impacts the willingness of businesses to borrow capital to grow, also impacts the supply side when they assess the biggest opportunities to grow their own portfolios and to get the strongest returns on their investments. At the moment, they will also look at the talent pool: if a business wants to borrow money, can they capitalise on that investment?

- Q107 **Chair:** So the same factors may be at work on the supply side as on the demand side?

Fhaheen Khan: Both sides mirror each other.

- Q108 **Chair:** You mentioned that tax reliefs can be used to reshape the risk profile and therefore flatter the attractiveness of particular projects. We have talked about a couple of those, such as EIS and VCTs; are there other tax reliefs that are particularly important in helping to create more attractive risk profiles?

Fhaheen Khan: Absolutely. In manufacturing, we tend to describe them as the big three reliefs: capital allowances, R&D tax credits and the patent box, of which the manufacturing sector is the biggest user in the UK.

Now, the way that manufacturers use these tax reliefs is perhaps slightly different from the way the Government would like to see tax reliefs impacting investment. For example, when the super-deduction policy was introduced, there was massive hope from the Government side that it would result in a huge surge in new investment in the UK. That is not necessarily what happened; it did partly happen, but most investment was brought forward from the future.



It is worth noting that, on average, the typical manufacturer invests about 67% of their turnover on plant and machinery; it is just slightly below that for R&D. The way that manufacturing companies use these tax reliefs and the way they look at tax reliefs is as follows: imagine a risk and reward profile of different projects that businesses can choose from, divided by a straight line. On one side, there are projects they will proceed with no matter what the tax reliefs are in that country. It is the equivalent of saying, if you had 100% guarantee of winning the lottery tomorrow, you would buy a ticket. No amount of tax relief would change your mind.

On the other side, there are going to be investments where it does not matter how good the tax reliefs are, you are not going to change your decision; you will reject those investments because they do not result in the productivity improvements you are looking for. They do not result in a growth in revenue, nor do they improve your business.

Improved 100% capital allowances, very generous R&D tax credits, and a very generous patent box system would not affect all the decisions made by a business. Where they may have an impact is in that grey area where projects are on the fence; then manufacturers may use them.

Q109 Chair: Is it your view that the shape and policy design of those three tax credits is in the right place now, or does it need amending?

Fhaheen Khan: At the moment, businesses tell us that the system is quite good but that there are some challenges. Starting with capital allowances, the one thing manufacturers point to is their use and applicability to software. Within the capital allowances' handbook, software can meet the definition of "plant" under certain conditions. What we find among many of our members, especially SMEs and even more especially scale-ups, is that their in-house accountants, or the accountants who they speak to, often do not know how to make that applicable to capital allowances.

Q110 Chair: So a country confronting a collapse in the intangible investment rate—as we are—would benefit from some clarification there?

Fhaheen Khan: Yes, we would like some clarification on the exact circumstances where the use of software would apply. This would not require anything other than to make it very clear to accountants who are applying it on the books.

Secondly, on the R&D tax credit system, this is slightly more challenging because it has already gone through some changes but, according to HMRC's own statistics, there has been a massive drop in SMEs making use of the scheme. Our own data shows that SMEs tend to prioritise and do far more R&D investment relative to their size than bigger companies. Part of the reason is that large companies tend to subcontract R&D projects down into smaller, more innovative companies.



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The bureaucratic elements of using the R&D tax credit scheme—such as HMRC’s requirement for additional information forms—has made it more difficult for SMEs to access that tool. We fully sympathise with the Government’s need to eradicate fraud within the system, and we believe that is necessary, but we are also compromising at the expense of SMEs who are using that system far less than they would like to.

I would like to finish up with my third point, the patent box. The patent box system is not very widely used: 94% of usage comes from large companies. That is not surprising because most patents tend to sit in the ownership of large companies, but we have found in our research that a sizable proportion of manufacturing businesses that could realistically patent or apply IP protections to certain products or unique processes do not do so in the UK, partly because the perceived cost of using intellectual property outweighs the perceived benefits.

Manufacturers tell us they simply do not know how to use the patent box regime and they need to go to consultants to be able to apply it. Often, they do not know exactly under what conditions it works best. There is some data on this coming out from Make UK on Monday next week, which I will be happy to share with you once it is published.

Q111 Mr Reynolds: Rosalind, looking at our UK academic research base, where do you think the UK is getting it right and wrong when it comes to increasing investment readiness and commercialisation?

Rosalind Gill: I am going to talk about the work that universities do to push their academic research out, and the critical and more complex role they play specifically in pulling in business-led R&D and innovation.

Where we are doing a lot right is in pushing academic research out, and we have seen a lot of progress in that space. I referenced that in my response to the first question; we have had an independent review of university spin-outs and seen lots of co-created guidance that supports university practice. Critically, we have seen investments in scale-up, through both the Mansion House reforms and the expanded remit of the British Business Bank, which is very warmly welcomed in terms of addressing some scale-up challenges.

A lot of universities are now much more commercially aware and tech transfer offices are more professional and operate in a more coherent way. That seems to be bucking the national trend around challenges because a more active role is being played by universities in supporting founders and helping to progress these key things. That does not mean we are getting everything right; there are still sizeable challenges and there are still sizeable gaps. A lot of the work is also unfinished. Even now Tony Hickson is leading a review for Research England that is looking specifically at those investor-university links and the role they can play.

While we are on good things, we have not mentioned the Industrial Strategy, which is really important. We have talked about uncertainty and



instability; a lot of our members, both universities and businesses, really welcome the Industrial Strategy and its commitment to things like long-term R&D budgets, because that provides stability and certainty of investment and gives them confidence to make longer-term investments as well. Those are some good things.

Where we are seeing more of a challenge is in the dynamic relationship that can be played between the public sector and the business sector when it comes to leveraging R&D and using the UK's research strength. All the businesses in our network would say that the university sector is one of our strongest assets, but we are not always getting the full demand-led value in the same way. We could use the experiences of the push and spin-out world to apply that thinking to how we can strengthen those ties between our academic research base, business R&D and business demand.

One of the things that has been most positive so far in this Parliament has been the creation of Skills England; one of the things that Phil Smith has said as the chair of Skills England is that he really wants to see it owning the post-16 skills system. We might need the same provocation when it comes to deciding who really owns our R&D system—not just our excellence in research, but our full research and innovation endeavour—if we really want to make that the cornerstone of our economic policy.

We recently did a significant piece of work with businesses on trying to understand why there has been a 6% decline in real terms in R&D. We have a lot of feedback from industry saying we are spread too thinly across too many different areas and the system is too complicated. We are often a minority voice when it comes to the research system and the research priorities set by the nation. There are some real opportunities to bring businesses much closer into our R&D system and to leverage the benefits that would bring.

Chair: Very useful, thank you. We are slightly behind time, so let me come to John Cooper.

Q112 **John Cooper:** Very quickly, looking towards the Budget, my side of the House calls it the nightmare before Christmas. If on Christmas Day companies were to be able to unwrap a present from the Chancellor, what one thing could she do to help companies access investment?

Mo Jamei: We have just made representations; I have our Budget submission in front of me, and I can share it after the meeting.

On access to finance, there are a number of areas. We have called for things such as the stamp duty reserve tax and other taxes to be removed. I think the previous panel was talking about making IPO costs tax-deductible, which again is something we have called for, so there are a number of small changes that can be made in the Budget.



Just looking at the picture as a whole when it comes to UK plc, one of the big areas where we would like to see intervention is around energy costs for businesses in particular. When we look at the business case and how decisions are made in the boardroom—we have done a piece of work on this with multinationals—we are competing with many other countries around the world on these factors. They are not things that get reported in the media, but energy costs and the labour market are two areas that our members are saying will become much less competitive in the next five years. We have asked for things on capital markets, but there are much bigger things in tradable sectors like energy costs and employment regulation that would be impactful areas if we were going to unwrap presents.

John Cooper: You are asking for a lot of presents.

Alison Griffiths: Can I jump in on that quickly?

Chair: Yes, briefly, then Mr Cooper can continue.

Q113 **Alison Griffiths:** I just wanted to dig into the energy cost piece. What precisely have you asked for from the Chancellor that will make a difference to businesses? It is a subject close to my heart.

Mo Jamei: We have called for a targeted electrification discount for businesses that are moving away from gas towards electricity to reduce their ongoing energy costs. We have also called for changes to the design of BICS—I know some colleagues here have as well—which is the scheme that has been committed to in the Industrial Strategy.

We are currently working on a mechanism to try to remove some policy costs off electricity bills for businesses. Because policy costs are such a big proportion of our total electricity cost in the UK, up to 24%, that is an area where the Government could make a significant intervention by making them repayable over a long period or offsetting them for a number of years.

There are no good solutions in this space, and we know that more policy costs are coming down the track in the next five years for transmission and distribution and to pay for nuclear and other energy sources, but we cannot continuously add these to the bills of businesses. It will make us even more uncompetitive than we are at the moment.

Chair: That is very helpful. Mr Cooper, I will let you pursue your nightmare before Christmas studies.

Q114 **John Cooper:** Can I ask the same question: what do you think you are unwrapping?

Fhaheen Khan: Very quickly, I align with what Mo has said but our members also tell us what they would not like to see happening in the Budget, which is more business taxes. As I have already mentioned, the wider business environment has a massive impact on access to finance.



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We should acknowledge how that relates to a manufacturer's ability to access finance; more business taxes of any shape or form would weaken their ability to demonstrate their viability to lenders and investors.

We fully align with what Mo has said on energy prices but I would take that one step further: we should take a hard look at business rates as well, which is a massive disincentive for investment in energy. The interim report that was published by the Treasury recently was quite positive, but it neglected the decarbonisation angle, which suggests that is not going to be included, or we do not know yet. If we were to ask for one thing on that, it would be to permanently exclude investment in energy generation assets in the calculation of business rates because we have, of course, a sustainability agenda and goal in the UK and it is not the right way to work with this particular tax.

Chair: We are incentivising it.

Fhaheen Khan: Yes.

Rosalind Gill: From our perspective, it is about maintaining those capital commitments that were made in the spending review, and no big tax surprises. But where there is a more interesting space for the Government to think and play in is not just the quantum of spend, but how we are spending it and how we are maximising the value of it.

Our taskforce nailed down three areas. First, there should be a focus around the Industrial Strategy areas. Secondly, the Government should simplify because we have too many different support funds and they are very difficult for businesses to navigate. Thirdly, there should be reform: give us support in terms of a national co-ordinator that really thinks about where business R&D sits and fits within our R&D system.

Q115 **Charlie Maynard:** Rosalind, I am curious about US versus UK relationships with tech spin-outs for universities. My understanding is that in the US, a university will often take 5% to 10% and it will get most of its money through royalties and licensing. In the UK, we go for 30% or 40%, but frankly, Stanford seems to do a lot better than we do. I am just sceptical as to whether we are being penny-wise, pound-foolish.

Rosalind Gill: One big difference between the UK's university base and the US one is that US universities benefit from huge endowments that they can use to overcome those pre-commercialisation gaps in the funding and finance arena. We see that as the main issue. Multiple reviews have looked at the equity stakes issue, and we have seen a lot of universities start to address that through things such as the USIT guidance. We are not hearing that it continues to be a significant barrier to investors choosing to invest in university spin-outs, and indeed, that is not what the data is suggesting at the moment.

Charlie Maynard: That 30% or 40% is a big difference compared with 5%; if I am an investor, I am going to care about that.



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Chair: If there is anything further you can submit to us on that, we would be very grateful. We are out of time but thank you so much to our witnesses for a brilliant final session that has helped us round out a really efficient and effective afternoon. That concludes this panel and concludes this session.