

Business and Trade Committee

Oral evidence: Financing the real economy, HC 1220

Tuesday 9 December 2025

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Members present: Liam Byrne (Chair); Antonia Bance; John Cooper; Sarah Edwards; Alison Griffiths; Sonia Kumar; Justin Madders; Charlie Maynard.

Questions 271 - 330

Witnesses

- Lord Stockwood, Minister for Investment, Department for Business and Trade;
- Blair McDougall MP, Minister for Small Business and Economic Transformation, Department for Business and Trade;
- Paula Crofts, Director, Small Business Growth, Department for Business and Trade;
- Sean Jones, Director, Companies and Economic Security, Climate, Energy and Environment, HM Treasury.

Examination of witnesses

Witnesses: Lord Stockwood, Blair McDougall, Paula Crofts and Sean Jones.

Q271 **Chair:** Welcome to this final session of today's hearing on access to finance. Lord Stockwood and Blair McDougall, thank you very much for joining us today. Thank you for bringing officials along with you.

Lord Stockwood, I am going to start with you. Today we are going to try to rattle through some of the conclusions that we have heard over the course of this inquiry, and basically test what you are thinking about where reform needs to go.

Let me just start with the basic story that we have heard, though. I want to ask you where you think the biggest problems are in terms of access to finance. We have heard that the UK equity market supply is too limited. We have this massive pool of savings, with £3 trillion in pension savings, but not enough of it is invested here.

That creates problems. For example, that hampers firms exiting on to the London Stock Exchange and elsewhere. We have banks that are not necessarily lending at the right price, if they are lending at all. We have public finance institutions that are too small. We have public procurement that is not really supporting scale-ups in the way that it could. We have a disjointed journey between firms that are backed by UKRI moving forward to access either start-up or scale-up finance, and we have VCT or venture capital funding that is a bit too concentrated at the wrong end, and not spread evenly enough across the start-up journey.

Those are the five big problems that have emerged over the course of the inquiry. What is your take on the scale-up finance problem that bedevils our country? Where do you think the problems are biggest?

Lord Stockwood: It is good to meet you all, by the way. Bear in mind that I am three months into Government, so calibrate your expectation of high-quality answers based on that information.

Q272 **Chair:** This is normally the stage where you can speak freely.

Lord Stockwood: It is the first time for me, so I will speak freely anyway.

Chair: This is a really unique moment in your encounters with Select Committees.

Lord Stockwood: I have been speaking freely for the last three months and no one has told me off yet.

It is interesting that you framed the question as this being a problem, because I genuinely do not see it that way. That is not being disparaging to anyone who has come and given evidence before.

Q273 **Chair:** Business says to us that it is a problem. The origin of this inquiry is the road trip that we did last year, and the lack of scale-up finance



being flagged as one of the big problems bedevilling British growth.

Lord Stockwood: I am someone who has built businesses for 30 years. I have spent the 30 years prior to September building businesses in three different industries. I am an investor in over 100 start-ups and scale-ups. I am an LP in a bunch of funds, all of which I have declared and backed off from now.

Undoubtedly, we can do better, but the UK, and particularly the Government's impetus around how we structure capital, is pretty well formed. Whether it is well understood might be a slightly separate thing. How we communicate the opportunities to different sectors could be a challenge, but generally, in my experience, good, successful businesses that are growing well do not have a problem with access to capital. Again, that is a sample of a universe of 30 years of experience that I have had, notwithstanding what people have said.

The Office for Investment is the area I have come in to oversee. It is probably worth dwelling on that just for a second, in case people do not understand. We have a really clear mandate to help fund our modern industrial strategy. The eight growth areas are where we take our instruction. How do we get capital to every sector, from the start-ups right through to the scale-ups and those large-scale businesses? That can be through venture funding, private capital or foreign direct investment. There is no source of capital that we are not interested in, quite frankly.

We also take instruction from the mayors' growth plans, so it is interesting that you have had Oliver and the team in previously. We are finding that there is a varying degree of capability and expertise in how they position projects. Again, these are early days, three months in, relative to the maturity of those different projects. I do not see an issue with access to capital. I have had three international trips already. There are a number of investors internationally, from private investors through to institutional capital.

The Mansion House accord and the reforms in our private markets are also giving us access to capital. There are various sources of capital, whether it is through innovative finance, our grant schemes with UKRI, our private equity markets, venture capital markets, BBB and NWF. I would be interested to have those discussions with people about where the bottlenecks are, because, in my experience, I have never seen a good business not get funded.

Q274 **Chair:** We are going to give you a whole report about the bottlenecks. Mr McDougall, are equity markets, banks, PuFins, UKRI and venture capital fine? Is it all fine?

Blair McDougall: I spend most of my time with small businesses. There are supply problems in lending for small businesses. There are also demand problems there, and the two overlap.



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I listened in on some business advice calls that our service was offering, and it became clear that the businesses that we were listening in on had been told “no” by a lender. They had heard “no”, but it actually seemed to be, “Come back. Develop your business plan and do more there”.

It is also about unlocking that financially to be seen as part of that wider business support. As you say, if you are seen as being a good proposition, you can often find finance. It is about getting more people to be that good proposition, getting over that risk barrier.

Q275 **Chair:** Where do you see the biggest problems? Are the biggest problems in equity markets, banks, PuFins, UKRI, hand-off to scale-up finance, or venture capital?

Lord Stockwood: One of the themes that I have heard in the last three months is about access to scale-up capital. There is this idea that, at a certain threshold, there are fewer institutions in the UK that can fund scale-ups. Again, it is about how the question is framed. If our prime directive is to use UK capital to scale businesses, then we need to build out our capital markets. We need to build out access to capital from different private and Government institutions, and we are doing that.

The NWF is a brilliant proposition, both in terms of access to capital but also in terms of increasing the wealth creation for UK taxpayers. With some of the choices that we have around technology investments in particular, it is really interesting that we have the NWF and the BBB.

That is a different question from whether there is access to capital at all. I have scaled businesses with international capital three times. Again, that is a small sample. It depends what the question is. If the question is, “Do we want UK investors only to help our businesses scale?”, then we solve that in a different way from giving our scale-ups access to capital. The access to capital is not a problem. I am not sure that, “How do we ensure that these are UK investors only?” is the question that we are trying to answer.

Q276 **Chair:** Let me put to you the challenge that has been put to us by the business community over the last 15 months since this Committee has been in operation, which is that accessing scale-up finance in this country is a nightmare, and that as high-growth firms proceed through their journeys, they find it harder and harder to raise the scale-up finance they need in this country. They are therefore easily and readily seduced, often by American-led VC firms that provide that scale-up finance, but in return ask the business to lift and shift to the United States.

We have heard multiple examples of companies that have basically left these shores and lost our country jobs and growth, because they were not able to access scale-up finance here. I am trying to understand what your analysis is of this problem.

Lord Stockwood: Let us say the question is about needing to retain companies in the UK. Taking a business to a US investor is an example



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that you give. There are multiple reasons why an individual entrepreneur would do that. One is the capital required to scale. By force of scale, those pools of capital available in the US market are very different. That is the reality. We are never going to be able to compete with that in terms of fund scales generally.

If it is about trying to retain market access, a lot of businesses will go to the US straightaway for market access into a country that is five times the size of the UK market. Again, it is a rational decision for an entrepreneur.

Again, I am not denying that businesses have the choice of where they go, but it depends what problem we are trying to solve. If you start a business, particularly a digital business, which I have done three times, then you care about market access more than anything else, but the access to capital is often the cypher for another issue. If it is about trying to keep business in the UK, I am not sure we should necessarily be trying to do that.

Q277 **Chair:** What is it that you think you are doing in your job?

Lord Stockwood: What am I trying to do?

Chair: Yes.

Lord Stockwood: I am trying to fund the industrial strategy. We are trying to make sure that the eight growth sectors are capitalised in the right way to create growth and to fulfil our potential as a UK Government.

Q278 **Chair:** Okay, and for what purpose?

Lord Stockwood: For what purpose?

Q279 **Chair:** Yes. Why are you going to work every day in order to try to make sure that the IS8 have this funding?

Lord Stockwood: It is about the growth agenda in this country and how we get the economy growing. That is commensurate with trying to keep jobs, although not always, quite frankly, particularly in the high-tech sectors.

Chair: Okay. Let us get into some of the details of the evidence that we have heard.

Q280 **Alison Griffiths:** We have had some of the answers to this, but I am not sure about the whole piece. Some of the problem is demand; some of the problem is supply. This is a question for Blair to start with. Could the problem not simply be that the price of capital in the UK is not compatible with the demand for it?

Blair McDougall: That is obviously underpinning any commercial decision on lending. The question is what we as Government do about it.

Q281 **Alison Griffiths:** The first question is what your analysis is. Do you



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agree with that hypothesis? Secondly, what are the Government doing about it?

Blair McDougall: It is clear that, when it comes to lending with small businesses, there are a lot of viable small business propositions that do not get the finance that they need. A lot of the time—and it is also true of the scale-up question—I would put that down to whether they have enough data for lenders to make a decision to invest or lend, because they are new propositions. That is why, in my bit of the landscape, the British Business Bank puts so much effort into finding ways to de-risk that lending to those recipients.

Q282 **Alison Griffiths:** What exactly are you doing that you are putting this effort into?

Blair McDougall: There is the five-year strategy of the British Business Bank in the investment side of the business. We are putting about £13 billion into that over the period, which we think will unlock £26 billion of private capital.

Then on the lending side of things, £10 billion of additional lending is being unlocked through the guarantees that the British Business Bank offers to commercial lenders, bridging that gap between their risk appetite and the viable business that is sitting and waiting for finance.

Q283 **Alison Griffiths:** Is there nothing that we can do to make the pricing to businesses more competitive? That is bringing the supply in, but the point is also about demand. What if the price of the product is too high? Perhaps Lord Stockwood would like to comment on this as well.

Lord Stockwood: I am struggling to understand the question.

Q284 **Alison Griffiths:** There are two sides of the equation: supply and demand. It seems that there is supply. You are bringing in funds from the US and elsewhere? Blair, you have just talked about the millions that you have been able to bring into the five-year strategy, but if we are not getting the uptake, if businesses are not availing themselves of this funding, the assumption has to be that the price of the product is too high for them.

Blair McDougall: I would challenge that slightly. We have a stock of very resilient businesses in this country.

Q285 **Chair:** Blair, I am sorry. You and I could go out and call five of our friends today, and they would all tell you about banks that are charging ridiculous amounts for an overdraft or asking people to put their homes down as collateral on loans. You and I both know that the price that many banks ask for, even for an overdraft, is completely egregious.

Blair McDougall: That is why, for example, the British Business Bank has the start-up loans that are low-interest loans for about 85,000 enterprises, because we recognise that that is a disincentive, particularly at the early stage.



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Q286 **Chair:** Where else do you think that there is a product gap offered by UK banks today because their pricing is basically putting their products beyond the reach of hard-working entrepreneurs in our country?

Blair McDougall: You can see the work the British Business Bank is doing through growth guarantees in terms of trying to expand, particularly for those scale-ups, the ability to get finance. Also, the money that is going into CDFIs is of particular importance to underserved, underrepresented groups of entrepreneurs who struggle to access finance. The additional £150 million that goes into that is a signal of seeing a gap there as well.

Lord Stockwood: I was trying to understand the product side. When you talk about "the product", I was trying to work out what you mean there, because there are varying degrees of what that product could be. It could be a debt facility. It could be an equity facility. It could be a grant.

Q287 **Alison Griffiths:** It is about the price that a customer will have to pay to a lender.

Lord Stockwood: Okay, so it is a lending product.

Q288 **Alison Griffiths:** We are talking about access to finance, so let us assume that we are talking about all financial products that help growth. I am just suggesting that the pricing of any service or product that enables that access to finance for businesses in the UK to scale and grow is not at a price point that enables them to take advantage of it.

Lord Stockwood: Within that assumption, again, you can raise capital from multiple sources, and they would be priced differently.

Q289 **Alison Griffiths:** You can, but we are talking about businesses that may not have access to all of those different options.

Lord Stockwood: That is why I am trying to understand the question. If you are a start-up, for example, you could have access to grant funding, depending on the product and service that you are providing. You could have access to debt equity. You could have access to angel funding. You could have access to venture capital markets. There are multiple sources.

The fundamental prices are set by the inflationary conditions of the country, so the best thing we can do to bring prices down is to bring inflation and the Bank of England rate down, and that will be the baseline. The margin people make varies as well. There are all types of different people that play a different part in the market. There is a huge variance in pricing depending on the products and services.

I can give you a live example. In my last business, we did not want to raise further equity, so we raised debt. There are five different types of debt that you could take on into your business, with different levels of seniority, all priced at different levels based on your risk appetite. When we talk about the product, there is a varying range of products.



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To your question, the pricing is fundamentally underpinned by our inflationary rate and the Bank of England rate.

Blair McDougall: Again, that is exactly why the British Business Bank has the enable guarantee and the growth guarantee. It is about bringing down the price of lending to SMEs.

Lord Stockwood: To build on that, this is where the national wealth fund plays a part. Their margin expectation will be lower than commercial products. If there is a gap in the market, the NWF can basically come in and cornerstone an investment, which is always the most important part for getting private investors to pile in behind them. There is something around the margin expectation of a publicly funded vehicle being lower than that of a privately funded vehicle. The NWF should be the thing that creates that market correction.

Q290 **Chair:** Let me just check something. Some of the evidence that we have seen, for example from Allica Bank, suggests that there is now a £65 billion SME lending gap when you compare the lending that is available today with the pre-crisis trend. Is that a figure that you recognise, dispute or agree with?

Blair McDougall: It is a figure that we have repeated ourselves in various documents. We reference it in the small business strategy. When we are measuring that, we sometimes miss the fact that it is sometimes measured as lending by traditional banks. A lot of the gap that was left by traditional banks' lending to SMEs falling has been filled by non-traditional lenders, by challenger banks and CDFIs. There is certainly a substantial issue there, but there are also new providers coming in to fill that gap.

Q291 **Chair:** What is your estimate of the lending gap to SMEs?

Blair McDougall: I would have to get back to you with an exact figure.

Q292 **Chair:** You do not think that the change in the main banks' risk appetite, which we saw after the financial crash, has anything to do with the pricing that they are now offering on SMEs?

Blair McDougall: No, it absolutely does, which is why we are putting money in through the various guarantee schemes, through the British Business Bank, to bring down that price, enable greater lending and deal with that risk appetite.

Q293 **Chair:** What fraction of the lending gap will the measures implemented by the British Business Bank cover off?

Blair McDougall: In the five-year strategy, we reckon that guarantees will unlock £10 billion of financing.

Q294 **Chair:** What fraction of the lending gap does that cover?

Blair McDougall: I would have to do the maths and come back to you on that.



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Q295 **Antonia Bance:** In 2023, it was calculated that two thirds of British equity investment occurred in London and the south-east. This Committee heard evidence from Louis Taylor, the CEO of the British Business Bank, who said there had been a hollowing-out of the investor community in the regions. How would you characterise the regional investment gap?

Lord Stockwood: That is correct. As someone that has been based in the north for most of my life, that is definitely true. In terms of how London has access to funds, the major funds in the UK are London-based. Some of the regional cities, particularly Manchester, have a growing number of capital providers that are based in those markets.

The British Business Bank is allocating £2.6 billion to growth outside of London. That is a start. The Office for Investment is trying to highlight projects that are available to be capitalised, irrespective of the source of that capital. They are working with the devolved powers and the mayors. Oliver is a good example of that. I would agree with that statement. A recalibration is required and necessary to ensure that regional businesses get access to capital in the same way.

Blair McDougall: At the moment, the British Business Bank is in the course of recruiting 10 cluster champions to support the development of that financing ecosystem in a more fairly distributed way around the country, based on the 10 innovation clusters out there. It is also trying to support the development of that ecosystem through the regional angels work. It is a lot easier to get that support if you are in OxCam or London than it is if you are out and about.

Q296 **Antonia Bance:** We have just had the mayors of Cambridgeshire and Peterborough and South Yorkshire in front of us. One of them is the mayor for Cambridge. He spoke about the capacity constraints on his mayoral combined authority in terms of that championing role, that convening role and that role in creating investable propositions. What is the role for the devolved Administrations, particularly the mayoral combined authorities? What is DBT doing to ensure that the case for devolution is put?

Lord Stockwood: That capability-building is absolutely critical. Manchester has recently announced a £1 billion growth fund and £150 million of that is underpinned by the national wealth fund. Part of that is about access to capital, but part of that is about the capability to deliver on projects. Investors are looking for the certainty that they will get the return on their equity in particular.

One of the things that we have done in the last three months is we have had meetings with all the mayors. There is such a wide variance of capability, just by the nature of maturity and how long the devolved powers have been there. I am absolutely confident that they can get to the same point.



Devolution needs to go faster and deeper, in my mind, but the mayors need to have the capability around understanding how you present an investable project. The OfI is offering resources to those mayors that are less developed. In fact, Tim Newns, who works on my team, was in Greater Manchester when it was first devolved. We have some expertise that we are trying to lend to the newer mayoral authorities to help them build out investable propositions and make sure that, on the other side of that equation, we are presenting to investors projects that are deliverable and that we can do with confidence.

I agree that devolution is the answer, but there are varying degrees of investable propositions by length and maturity in the devolved combined authorities.

Q297 Antonia Bance: Building on that, is there a role for central Government in ensuring that mayoral combined authorities literally have the capacity? I am talking about the numbers of staff. We were talking about the tripling of a staff team focused on growth in one of the combined authorities, turning it into a team of 12 people. We are talking about very small amounts here. Is there a role for central Government in helping with that?

Lord Stockwood: I think it is required. The OfI can offer support, but the whole point of devolution is having people based locally who understand the projects and the market. It is an incredibly reasonable request of those mayors to ensure that they are resourced properly at the levels that you talk about. Based on the return profile that you could create, it seems obvious that we should do that.

Blair McDougall: Just to add to that, the regional cluster champions that we are talking about and that the bank is recruiting at the moment will have a high degree of overlap in the devolved regions. They are going to be there, in those regions, working with the combined authorities on exactly what you are describing.

Q298 Charlie Maynard: It is good to meet you both. Talking about state lending and private lending, I am just curious about the space in the middle in terms of co-operatives or US-style savings and loans. That is very local and very commercial. I am always a little sceptical about how good the state is as a lender. How interesting is that? How interested are you in it? What is happening there?

Blair McDougall: The first thing to say in terms of the state as a lender is that most of what the British Business Bank does is through private institutions for exactly the reason that you say.

I met a few days ago with CDFIs, which have a remarkable story to tell in terms of their growth. I also met Lloyds about their support for CDFIs. There is a feeling that the dropping-away of the deep relationship with and understanding of customers that banks used to have is part of the reason for the difficulties of SME lending. CDFIs are filling that gap, and



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the big banks are supporting CDFIs to fill that gap. It is almost a cyclical thing that has gone on there. When you look at the finance landscape of other countries, the role that regional mutual banks play is where CDFIs are stepping in.

The other thing that I would say is you now have co-operative players in the business banking landscape for the first time. It does feel like there is an opportunity at the moment for exactly the type of growth that you are envisaging there.

Lord Stockwood: I will declare an interest. I used to be a trustee of something called the B Corp movement, which looks at triple bottom line stakeholders beyond shareholders. It is absolutely critical that we have that conversation, but, when markets are put under pressure, we default to shareholder primacy.

There is absolutely a role to play for these institutions. The co-operative movement has shown great success in being rooted in communities, showing value above average returns and having consideration beyond shareholders alone. Shareholders are absolutely critical, by the way, just to be clear, but having concern for the environment and your community are critical, and co-operatives are excellent at that. However, when systems are put under pressure, we tend to default to shareholder primacy.

It would be great if we could get more businesses to have broader considerations, but the global financial system is not set up for that at the moment. It is a huge structural and ideological change to get there. The co-operatives that do well do well over the long term and are rooted in their communities. I would love to see more of those.

Q299 **Justin Madders:** Good afternoon. One of the things that we have heard in evidence is how particularly smaller and innovative businesses see the advantage of getting a good Government procurement contract as a way of leveraging more investment. Getting that sort of contract seems to be almost like a golden ticket for them. Is that something that the Department can do more to encourage?

Blair McDougall: Yes.

Q300 **Justin Madders:** How are we going to do that?

Blair McDougall: We spoke about this when I was in front of you a few weeks ago. In addition to the changes in the Procurement Bill, we want to have more of an understanding across Government of pushing the envelope of the social value of contracts. That means not following the habit of a simplistic value-for-money analysis but instead looking at the impact on jobs and the local economy when we make these procurement decisions.

Q301 **Justin Madders:** We did have a slightly circular conversation about how we were going to get other Departments to follow your lead. Rather than



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repeating that exchange, do you have in mind any targets or ways that you are going to measure success?

Blair McDougall: All Government Departments are working on their procurement targets for SMEs. At the moment, they will have to report on those three-year targets. We are working on our own at the moment as well.

We spoke about this last time. The old global target did not work. It did not drive change. Trying to get individual Departments to take more responsibility for that and to set their own targets is the route that we are going down.

Lord Stockwood: I cannot remember the name of it, but the Cabinet Office is undertaking a review of strategic procurement as well. It comes up again and again. There does need to be a centralised view, particularly for start-ups in the defence sector, where there is a customer of one, if we get this right. There is a review going on. I am not familiar with the name, but I know there is a strategic review going on.

Q302 **Antonia Bance:** On that point, we all want to see British SMEs winning public procurement contracts. I was most perturbed—I wonder whether the Minister may want to comment—to read in the Sunday papers that it looks as though the constructional steel work for Net Zero Teesside is going to go to a Chinese-owned company. This was raised with me by Angle Ring, a constructional steel work company based in my constituency, which is not asking for a contract; it is asking for the intentions that were set out in the public procurement notice, published less than six months ago, about the priority placed on British-made steel products to be honoured in public procurement. Does the Minister have any comment to make?

Blair McDougall: You are a doughty fighter on these issues. It is not the first time that I have heard you make these arguments, and you are right to make them. The CCUS sector has a voluntary target for 50%-plus value to be local content. The scheme that you are particularly raising is not a public procurement.

Q303 **Antonia Bance:** It contains a significant amount of public money.

Blair McDougall: It does. That is certainly something that we can take away and talk about with the national wealth fund. My colleague in DBT, Minister McDonald, has been speaking to the project managers about this. They are clear that it is still their intention to have 50%-plus value from within the local and UK supply chains. It is something that we are working on.

Q304 **Antonia Bance:** I am glad to hear that because it is so very important that across the civil service, across Departments and across ministerial portfolios, people get the message totally clear: the priority is British suppliers, British jobs in the United Kingdom and investment to support that. That is the purpose.



Blair McDougall: Yes, absolutely.

Q305 **Sarah Edwards:** I have been quite interested in the conversation that we have had so far because I am not sure it has reflected a lot of the conversations that we have had with businesses up and down the country.

I want to move on to the focus that this Government are having, rightly, on pension investment and where that money is. I am looking at some figures here. In 2002 UK equities were 39% of investment allocation versus 6% in 2021. We know that many pension funds and DB funds have switched to less risky investment options.

This discussion about there not being a problem with access to finance, access to investment—we have certainly heard about all these different aspects along our journey and our tour—does not necessarily chime with where a significant proportion of our potential funds are. If we have £3 trillion in pension savings and it is the second-largest pensions ecosystem in the world, why do we have such a challenge? How are we going to address that?

We know that reforms have come in. We have Mansion House. We are encouraging much larger pools to take us to a minimum £25 billion threshold. What else are you doing to make sure that money is not being invested abroad? At the moment, there is a tax incentive to do so. You are paying tax on UK equities; you are not paying tax on equities abroad. Why have we not changed that? What are we doing? What does the road map look like?

Lord Stockwood: Again, you have mentioned the broad comments and feedback that you have had. I want to understand the specifics. I genuinely have had no evidence for the broad statement that it is hard to get capital. If there are specifics, I am happy to have those conversations about market sectors.

The Mansion House accords are something that we can be proud of as a Government. It is a combination of all the points that you make really eloquently there around access to capital. Pension systems have not been set up with the risk appetite to invest in the UK economy in the same way.

There is a process of legislating or at least encouraging those companies—I am thinking about legislation—but the best way to do it, in the first instance, is to bring them together. They are calling themselves the Sterling 20, even though there were 17 of them to start off with. It is making sure that there is a commitment to invest in the UK markets.

Again, in a similar way to the conversation around devolved power, there is a capability-building piece. A lot of the investors will invest in funds themselves. They will devolve their capability to find investments. While the initial meetings have been really positive, there needs to be capability-building now to ensure that that capital can then be released.



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It is on the right path. It could go faster. Ultimately, trying to get access to the £50 billion that has been earmarked for the UK will be a positive move. Again, I see it as the ultimate impact investing. It is our pension money coming back into our best growth sectors, which creates a return and we recycle again.

It is on course. It is a great policy. We want it to go faster, but there is a capability that is being built within those institutional investors to make sure they can deploy capital and bring their risk appetite along with it. They are risk-averse in many ways. In particular, trying to access the venture capital markets involves a hugely different skillset and tolerance for risk. All those organisations are recalibrating their own abilities to deploy that capital, but it is in train. It would be great if it went faster, but it is a fantastic initiative.

Q306 Sarah Edwards: If we have an issue with the speed, how are we going to move that along? What does that look like? If we look at other more successful pension ecosystems, it has taken them 20 years to get to this point. We are potentially on a very long-term path. The Sterling 20 is a good initiative that was announced at the regional investment summit in Birmingham, which Richard Parker helped to set up alongside the Chancellor.

What is the real plan of action around making sure that that money is getting into the economy as quickly as possible? There is a challenge here that, yes, many of these things are systemic and take a long time to move. Oil tankers take a long time to turn around. We need to see some really concerted efforts to be much more certain that we are going to see that going to the right places. In particular, we need to see growth in this country and not be supporting growth in other countries.

Lord Stockwood: They are voluntary arrangements. Again, Government legislating where people invest their capital would be challenging to say the least. I take your point. Coming from the private sector, things in Government do work at a different pace. Arguably, they should, in terms of the oversight that we want for these things as well.

There is a regular cadence of meetings. Those groups meet on a quarterly basis, as I understand it. We are putting pressure on them. One of the things that we are trying to do in the OfI is trying to get metrics and dates around deliverables. That is a programme of work that we have undertaken in the first three months, which will deliver next month. That is unusual in some Government Departments, I am understanding.

Partly it is trying to help them make their own decisions and partly it is trying to put the urgency and the pace in, but these are voluntary arrangements.

Blair McDougall: Just to add to that, you talk about an oil tanker turning around. I would perhaps say that we were previously stuck in the mud. Previous Governments have spoken about this. There is reason to



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be a little bit more hopeful. Just to look within the British Business Bank part of the landscape, we will shortly close the first round of the British Growth Partnership. That will involve £200 million coming in with the convening power of the British Business Bank.

In addition to that, speaking about the risk appetite part of it, there is also the Venture Link programme, which is about trying to share the insight, data and market information that the British Business Bank has as a resource to that institutional capital, to guide them and help them through that as a service. That is something that we are now working on as well.

Lord Stockwood: It should also be said that what we are trying to do is look at, within that 17, which institutions have a level of maturity in their investment decisions. Phoenix Group is an example that is fairly well advanced. It is developing and putting in money already. There is a Schroders LTAF fund that it has funded for £250 million. There are varying degrees of maturity.

We are also trying to make sure that we do not move them collectively. We are trying to indicate, but we are also trying to present deals to the ones that are already mature. Part of it is their own capability. Part of it is the OfI being able to present deals that are investable in the UK. Again, we are trying to systemise that approach and contact them on a quarterly basis.

Within the first three months, I have noticed that there are varying degrees of appetite and maturity within the whole group. As an example, Phoenix seems to be keen to go straightaway. We are trying to look at that. Although it is a group activity, we are trying to make sure we are not waiting for the whole tanker to turn; we are trying to work out which bits can move in a more agile way.

Q307 Sarah Edwards: If I could just pick up on this issue around the pipeline, the Government need to be managing and incentivising this and working on it with different Departments. For example, I met with Border to Coast, who is one of the local government pension schemes. Once they have consolidated, they are probably going to be the largest investor, with about £118 billion in assets.

I was asking them what a good investable project or company looks like and what that might be. They have a set of criteria. Who in Government is leading on getting that information out? That is not just to companies but to mayors, who we know have quite small teams. They could be giving advice ahead of time, saying, "These are the milestones that you need to meet. This is what you need to show". Typically, pension schemes receive back this notion of, "We did not realise that you wanted a return on your investment". It is like, "What do you think we do?"

What is it that you are doing to drive that forward? There seem to be some really obvious things around the knowledge of what is required for



them to say, "That is fantastic. We will invest".

Lord Stockwood: That is the OfI's responsibility. That is my responsibility, ultimately. We do not have well-developed prospectuses universally. There are certain projects that are well understood and developed. As an investor on the other side of that, we are too reactionary.

Part of the programme of work that we have put in over the first three months is about trying to find a rhythm of how we identify different areas. Again, that is the mayors' plans; it is the industrial strategy; it can also be projects in infrastructure or housing.

We are trying to use the team to have investable projects going into a prospectus, so that, when we talk to investors, we understand their appetite. We have a lot of conversations with people who are interested in investing alongside us or investing in the UK, but we do not have a portfolio of projects that are mapped to their individual appetite. That is what we are trying to develop now. It is not fully there.

There is enough tactically and reactively—we have had a fair degree of success over the last couple of years—but it needs to be systemised. That is the work that we are undertaking now. We are systemising it and making sure we are pushing investable opportunities based on individual investors' appetite.

Q308 **Sarah Edwards:** That is great. Finally, how are you ensuring that that is spread across the country? How are you going to be measuring whether that pipeline and that level of prospectus are meeting the objectives that we need to see across constituencies and across our different regions and nations, for that matter?

Lord Stockwood: To be entirely honest, the first lens, three months in, is where there is maturity in the system. The industry strategy is not well understood by the public, but we have a plan for long-term growth in this country around our key sectors where we have expertise. That is the first port of call.

We have our first OfI board tomorrow where the different sectors are coming and presenting their plans to us. We are holding the sector leads accountable and asking them to come to us and say, "These are the opportunities that we need capital for". We are setting up a system where those growth sectors, through the industrial strategy, have a system and a process of governance in coming to us.

The second port of call is the mayoral authorities, notwithstanding the capability and maturity. We are then trying to get out to the other regions that are not covered by mayoral authorities and ensure that, if there are individual projects, we know about them. That is less well developed at the moment, if I am honest. We are three months in. There is not a structure, apart from MPs who have access to the office. We are completely open to that.



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At the moment, we are focused on the industrial strategy and the combined authorities. We are trying to find a systemised way to do this. Giving access to the OfI to those people who do not fall within one of those categories is one of the next problems that we need to solve.

Blair McDougall: At the risk of stating the obvious, the starting point for what you described is making sure there is a pipeline of scalable businesses in the first place. The British Business Bank has a really good story to tell on that. Of the 180,000 businesses supported by the bank, 84% are outside of London. That is something that will continue over the course of the five-year strategy.

Q309 **Chair:** Let me just rattle through a couple of points to close off our questions here. We have about £3 trillion worth of UK pension savings. As Sarah Edwards has described, asset allocation to UK equities has fallen pretty precipitously. Is it your objective to turn that around so that more of that £3 trillion is invested in UK equities?

Lord Stockwood: Yes, absolutely. The pace of that and our ability to influence it through policy is limited at the moment, but yes, absolutely.

Q310 **Chair:** The Pensions Bill is going through. It is about to go to the House of Lords. That is going to drive the consolidation of pension funds. Is it your current expectation that that legislation will be enough to drive the consolidation of pension funds that is needed to build the capability required to invest more in the UK?

Lord Stockwood: I would have to come back with a detailed answer on that. I am not fully aware of all the detail of the legislation that is going through. I know the sentiment is to look at doing this in a voluntary way. That is the best way to get the capital deployed. I would have to come back with a more detailed answer on the particular legislation.

Q311 **Chair:** We have also heard that defined contribution schemes should be required to set a minimum UK investment weighting to retain their status as default schemes. Is that a move that should be made by the Government?

Lord Stockwood: Again, I would have to come back on the detail. In the first three months, I have been focusing on private capital and foreign direct investment. While I understand what is going on in the pension space at a high level, I have not got to that detail. I do not know whether Sean has any detail that he would like to bring in at this stage.

Sean Jones: I think we should write to you.

Q312 **Chair:** We have also been told that regulatory changes introduced by the FCA in 2013 created quite a risk-averse environment for retail investors to invest in UK equities. There is now a quite comprehensive FCA reform of that regulation under way. Is it the Government's view that that re-regulation goes far enough?



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Lord Stockwood: Again, I would have to come back with the detail on that. Ultimately, this Government are trying to cut regulation and encourage growth and participation in our markets. On that specific point, we will come back to you.

Q313 **John Cooper:** Pension tax relief and ISA tax relief are provided irrespective of where the investments are made. Why do the Government not incentivise investment in the UK, for instance by offering reliefs that would make it more attractive to invest in Aston Martin than in Volkswagen Group?

Sean Jones: I am not sure I understand the question. I am sorry.

John Cooper: I will try to reduce the number of syllables in it then. Currently, you get tax relief if you invest in stocks and shares. There is no incentive to make those investments in stocks and shares in the UK. It costs you no more or less to invest abroad, effectively. Would that not be something to look at? It would be a double-whammy, effectively. It would attract people to own UK shares and it would free up capital for those relevant companies.

Chair: We are spending £25 billion a year on pension tax relief. It is quite a big number. There is no incentive in that £25 billion of tax relief to invest in UK equities versus overseas equities. Why are we not bending the tax relief to incentivise investment in our own country rather than abroad?

Lord Stockwood: It is an interesting and complex question. When you look at Aston Martin, it is not fully British-owned. It has international investors. Where do you draw the line on what a British company is? It is an interesting suggestion. We could come back with an answer on this, but, when you get into the complexity of ownership, most of the companies listed on the UK stock exchange have international investors.

I am not trying to be obtuse. I am trying to understand what we are trying to solve for. How do you define a British equity? Is it an equity that is just traded in the UK? Does it only have British owners? It is incredibly complex.

Q314 **Chair:** Let us take, as a simple example, the health of the London Stock Exchange. The London Stock Exchange is an awful lot smaller than it used to be. It has been put to us that its impoverished size makes it much harder for UK entrepreneurs to exit on to a domestically domiciled equity market. One of the ways that we could make the London Stock Exchange bigger would be to ensure that more of the £3 trillion of pension savings in this country went into UK equities.

At the moment we spend £25 billion a year on tax relief that does not create any incentive for that money to go to the London Stock Exchange as opposed to the New York Stock Exchange. Why would we not change the structure of tax relief so that we are incentivising more investment in companies listed on the London Stock Exchange rather than the New York



Stock Exchange?

Lord Stockwood: I like the suggestion, by the way. Where my brain gears to is that there are a number of reasons why people list on different international markets. As part of the OfI, we have a listings taskforce, which is trying to look at encouraging businesses to list in the UK. Their decisions are not solely based on liquidity.

The point around taxation is interesting. We should reflect and come back with an answer on that. I agree with the sentiment about trying to invest in UK businesses, but it would be problematic to define what a UK business is and which market it accesses. Where are its companies domiciled? Do they have to be domestic?

To the actual point about UK listings, the London Stock Exchange is impoverished, and there are a number of things about liquidity in that market that we need to address through private capital and pension schemes. Again, companies list on foreign markets for a multitude of reasons beyond access to liquidity. For example, CEO pay is a big one that people are not talking about. You can 5x your salary as a CEO by listing on the NASDAQ. That is a cultural thing in our country. You can think about access to markets.

I took three companies to the US. At no point was that enforced, but having access to a US market through being domiciled in the US is attractive. That was not about liquidity. It was not about valuations. We are also trying to look at how we demystify some of the myths around valuations when listing. A lot of people think you get a higher valuation by the nature of going on to the US market.

There are a multitude of reasons. The point about tax benefits and incentives to create liquidity is an interesting one, but there are multiple reasons why people list in the UK or the US. That would be just one of them.

Chair: We look forward to your reflections on that point.

Q315 **John Cooper:** Just moving on to the listing relief that was announced in the Budget, which gives stamp duty relief for shares, it is only applicable to quite a narrow band of shares. It basically comes down to newly UK-listed companies. The Americans do not do that. The Americans have just swept away any taxes on share purchases. Why do we not follow that? We seem to have accepted the principle here, but we seem a little bit timid, frankly. We are not going the whole way. Why would that be?

Lord Stockwood: There are a bunch of initiatives that are trying to create liquidity and investment in the UK equity retail markets. I do not share the view that it is timid. The Government are trying to do a number of things around fairness in our tax system overall. It would be remiss of me to pick out one individual application to see whether it is good or bad. We are trying to create a view of fairness in our tax system across multiple different variants and be fiscally responsible at the same time.



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It was a step in the right direction, in the same way that our entrepreneurs programme was a step in the right direction and that the other tax policies are a step in the right direction. In that particular instance, trying to get more retail investors into our markets will be a helpful thing. If that does not work, maybe we need to go further.

- Q316 **Chair:** You would accept that there is an inequity at the moment. If my pension fund buys shares on the London Stock Exchange, it pays stamp duty. If it buys shares on the New York Stock Exchange, it does not. We have a structure where an enormous amount of taxpayers' money is going on tax incentives for pension savings, but there is a lower tax regime for my pension fund to invest in a foreign company on a foreign exchange rather than in a domestic company on a domestic exchange. If we are trying to grow the amount of investment here in the UK economy, that does not seem a wise policy architecture.

Lord Stockwood: I am not familiar with that.

Sean Jones: No, I am not either. All I would say is that there will be other aspects of our tax regime where we are more competitive than the US. There is going to be some variation in practice. You have picked out one where that is the case.

- Q317 **Chair:** Would you mind writing back to us on how you see the logic of that inequity, as I have described it today?

Lord Stockwood: We can write back on that particular tax policy.

Chair: Thank you.

- Q318 **Charlie Maynard:** Finally, on pension tax relief, you were asking what it would look like and what it would shape. We could apply it to listed companies in the UK with no net loss of tax by applying a higher tax relief to domestic companies and a lower tax relief to foreign ones. Those could net out against each other. You essentially have your thumb on the scales a bit. You are recognising that our public markets are really suffering and you do not want them to go to hell. You are trying to direct capital to stay here with no net loss to the Exchequer. That is what we are thinking about, as a team. I am curious as to what your thoughts are.

Lord Stockwood: It sounds reasonable. I did not want to react to it. It sounds like you have been hearing this evidence for a while. I would welcome anything that can help our markets be more competitive, but it has to be in the context of broader tax policy. I would be interested to hear that in more detail.

- Q319 **Chair:** There are just two other exchanges before we move on to the British Business Bank. Some evidence that has come to us has centred on the reform of the venture capital industry in the UK. Some significant moves forward were announced in the Budget, which looked pretty welcome to us. The British Venture Capital Association is amongst those who have put to us this idea of a NOVA scheme, modelled on the French



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Tibi scheme, involving the creation of an approved fund list, which would allow institutional investors to speed up investments into private markets. Is that something that the Treasury has looked at? Have you come to an opinion about its virtues?

Lord Stockwood: Yes, I must admit it was news to me when I read this yesterday. The scheme through the BBB to accredit people is a step in the right direction.

Q320 **Chair:** Is there going to be a full evaluation of the idea's merits?

Lord Stockwood: Last year, there was £13 billion of venture capital in the UK, which is larger than France, Spain and Switzerland combined. We are the third-largest market globally. Any initiatives that would encourage further investment should be looked at. I was not familiar with that. I understand that the BBB is acting as the accreditor. Again, if there are policies internationally that can help improve our markets, we should definitely look at those.

Q321 **Chair:** If we push through the Mansion House reforms and we drive through the consolidation of UK pension funds, we will open the possibility of pension funds routing more money into unlisted securities and venture capital-like investments. Do we currently have all the mechanisms that we need for that ambition to unfold smoothly?

Lord Stockwood: It feels like the BBB, as the body responsible for government policy in this sector and for investing our capital through funds, would be the right place to start. I would have to look into whether it goes far enough, but it feels like the right place initially.

Q322 **Chair:** We have also taken evidence on the AIM market, which is currently struggling. One of the challenges that has been put to us is that the listing costs are too high and the regulatory burdens are too big. Is there a case for lightening the audit regime and the regulatory costs of listing on AIM?

Lord Stockwood: Yes. I would probably not get into the regulatory frameworks for listed markets. It probably falls back into the category of the overall markets. We need to make them competitive. Is lowering the regulatory barriers the right way to do that? I would need to come back with a fuller answer on that. I have not looked at it in detail.

Q323 **Charlie Maynard:** Just following up on that, the Lord Mayor and the BVCA have been looking over at the US and the venture capital market over there. They have exempt reporting advisers, which go up to \$150 million. If it is going primarily into VC, there is a much lower level of regulation. That is one thing. The other aspect is that you need umbrella corps or whatever. There is so much regulation in the VC market in the UK that you employ these middlemen to handle the regulation. Is that an area to look into? Currently, our costs are five to 10 times greater than the equivalent in the US. It seems like a sensible place to be looking at. That is one aspect, but it is more of a point than a question.



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This is my question. No additional funding has been announced for the BBB's growth guarantee scheme. Will you be replacing the scheme at the end of this financial year?

Blair McDougall: The growth guarantee scheme has been extended throughout the five-year period of the British Business Bank's strategy.

Q324 **Chair:** It was due to end in March 2026. It has now been extended.

Blair McDougall: The five-year strategy that was published extends it throughout the course of that and expands other guarantee schemes.

Q325 **Charlie Maynard:** Minister, when does that get us to?

Blair McDougall: That is five years from this year.

Sean Jones: It is to 2030.

Q326 **Charlie Maynard:** That is good. We did not know that. I have another question. Could the national wealth fund be better directed to co-invest along private capital into UK growth funds? Looking at that question, the question is, "Who is directing?" I will put it another way. Where is there room for improvement in terms of how the national wealth fund works with private capital to achieve its goals? What works well? If you are being brave, what could be done better?

Lord Stockwood: I only met the new CEO yesterday. He is five weeks into his role as well. As a new idea with a new CEO, it has deployed over £1 billion in the last couple of months. It is going to work.

We agreed to have closer collaboration around those particular projects that the OfI has identified and is working on, to ensure that the NWF can act as a real catalyst to signal to private investors. That is about trying to make the money go further, quite frankly, by saying, "If there is a £1 billion project, such as the one in Manchester, as an example, do we need to put in £150 million or £50 million to send a signal from Government to the private market?"

We are going to work and collaborate on that. Our teams are already working well together, but we said that it would be great to really align on industrial projects to take the burden away from the taxpayer. The signal that we give as a Government about the certainty of the delivery of projects is really powerful.

It is probably too early to tell. That is the honest answer. I was really encouraged by, first, the fact that we have such a strategy, and, secondly, that we have such high-calibre people running the organisation now. The alignment and pace of delivery is going to be important.

Q327 **Chair:** When we heard from the chief exec of the British Business Bank, he said that the growth guarantee scheme was working extremely well and that, if there was one thing that he would wish for, it was for the growth guarantee scheme to be much bigger. How did you calculate the



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size of the growth guarantee scheme that the bank can deliver? Is it your assessment that it is now at the right size?

Blair McDougall: The growth guarantee scheme has been extended. The ENABLE guarantee scheme has been expanded as well. The judgment is about which of the two different models gives you more bang for your buck between guaranteeing loans and guaranteeing an element of the portfolio. That is something that we have been going back and forth on through the process of the strategy with the bank and taking their advice on. Paula, I do not know whether you want to add anything to that.

Paula Crofts: I am just going to echo what the Minister said. We have £10 billion of guarantees in this spending review period. We think that is a big increase. Therefore, we are going to see how that goes. We do not think there is a constraint on GGS. As the Minister said, they work in slightly different ways. We need to evaluate how those are going to work.

Q328 **Chair:** The national wealth fund has a much bigger war chest than the British Business Bank. It is almost £30 billion compared to about £5 billion of assets in the British Business Bank. As a Committee, we have called for the national wealth fund and the British Business Bank to come together. In its wisdom the Government rejected that recommendation earlier in the year. How did you calculate why the national wealth fund should be an order of magnitude bigger than the British Business Bank?

Lord Stockwood: I am not familiar with the decision process. My personal view is that they operate in very different markets. As Blair said earlier, the BBB invests through a fund of funds. It assesses the capability of the funds that it invests through and deploys that way. At the moment, 10% of their capital goes direct. It is supposed to rise to 20% over the next couple of years. They write different cheque sizes as well. The expertise to write A-round cheques up to £25 million, as I understand it, broadly, is different to the larger scaling capital that is required largely in equity positions.

My understanding is that the mandate and the skillsets vary, but that is a personal view. In terms of how the decision was made, that feels right to me in terms of the different skillsets. I am not familiar with how the decision was made, but, in terms of their different mandates, they solve slightly different problems in terms of scale and capability.

Q329 **Chair:** I understand that. We are trying to become the fastest-growing economy in the G7 and the British business community is saying to this Committee that one of their top five priorities is improving access to finance. How did you come to a judgment that putting most of the money in the national wealth fund was going to help solve the problem rather than striking a more equal balance between the money in the national wealth fund and the British Business Bank?

Lord Stockwood: I do not know how that decision was made, if I am honest. It does feel natural to me. The cheque size and the different sector of the market that the NWF is operating in would justifiably mean



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that it would have more capital in play. Its low-end capital cheque on equity would be £50 million-plus, and it would go up to several hundred million. In the early-stage investments that BBB is making, £25 million is the top end of where they invest. We may need to come back with a detailed response.

Sean Jones: We did increase the financial capacity of the BBB quite significantly in the spending review. Some of that was for the industrial strategy.

Paula Crofts: We have actually increased it by £13 billion for the next five years, which is double what they spent over the last two years. They now have a total capitalisation of £25 billion. It is much closer to the national wealth fund. We are increasing it in this period to try to give it some of the capacity that you are talking about. We are trying to work with the market. As we were saying earlier, there is a process for the market to go through. We have set it at a level that we think is really challenging to get out of the door, but that is what we have done. We have kept them separate to make sure we do keep delivering. They have separate mandates. That is what I would say.

Blair McDougall: That increase in financial firepower delivers a two-thirds rise in annual funded commitments, a doubling of the investment business, a doubling of the investment into funds for growth-stage companies, the ability to write bigger checks of £100 million-plus and a doubling of the direct equity investment in order to help scale-ups stay in the UK. This is a really significant and substantial increase in the scale of what the BBB does.

Q330 **Chair:** What is unclear from the public record is the timeframe over which that financial capacity becomes available and the way in which Government are fiscally supporting it. That is not very clear from the British Business Bank's accounts and it is not very clear from the work that the scrutiny unit has done on the Government's accounts. If you do not mind, it would be great if you could set out for the Committee exactly how that is all being financed and paid for.

Blair McDougall: Would you like that in writing?

Chair: Yes, please.

Blair McDougall: Yes, certainly.

Chair: That brings us to the end of our questions. Thank you very much indeed for the candour and clarity of your evidence. That has been a really helpful session to help wrap up this inquiry. That concludes this panel and this session.