

22/06/2020

Rt. Hon. Mel Stride MP
Chair
Treasury Committee
House of Commons
London
SW1A 0AA

Dear Mr Stride,

Following our discussion on the economic impact of coronavirus on 17th June 2020, you asked me to write to the committee with my thoughts on the Future Fund.

At this time, it seems imperative to prioritise the short term needs of the economy and especially to maintain employment.

Coronavirus has had a marked impact on revenues across the economy, however, early stage companies by nature have very small revenues relative to the employment they provide. A 10% temporary drop in revenues for most companies would be a big issue but if you are an early stage lossmaking business with little, if any, revenues it is really not significant.

Early stage businesses are amongst the least affected parts of the economy and therefore have a poor case for support.

Clearly more mature “innovative businesses” with greater revenues (and often larger financial needs) will be more affected but given the limit of £5m per company the Future Fund is targeted at the lower end.

And it’s not that early stage venture backed companies do not have ample access to funds. Venture capital funds in the UK have some £9bn (at least – there are large sources other than the funds shown in the appendix) of cash available to go into this sector – several years of annual investment in the small end of venture capital in the UK. Pricing of investments into this area is currently high reflecting the weight of “dry powder” seeking investment.

There is also abundant existing public sector support through directed grants, regional initiatives. R & D tax credits, EIS, SEIS, VCTs, and so on.

Generally, the actions taken to preserve jobs with the various Government initiatives seem to have been sensible. However, this one seems poorly justified and may well displace the willing private sector.

There are other issues with the Fund. It is unduly complex, has a curious and arbitrary design and is quite “gameable” but I am limiting this letter to the basic message.

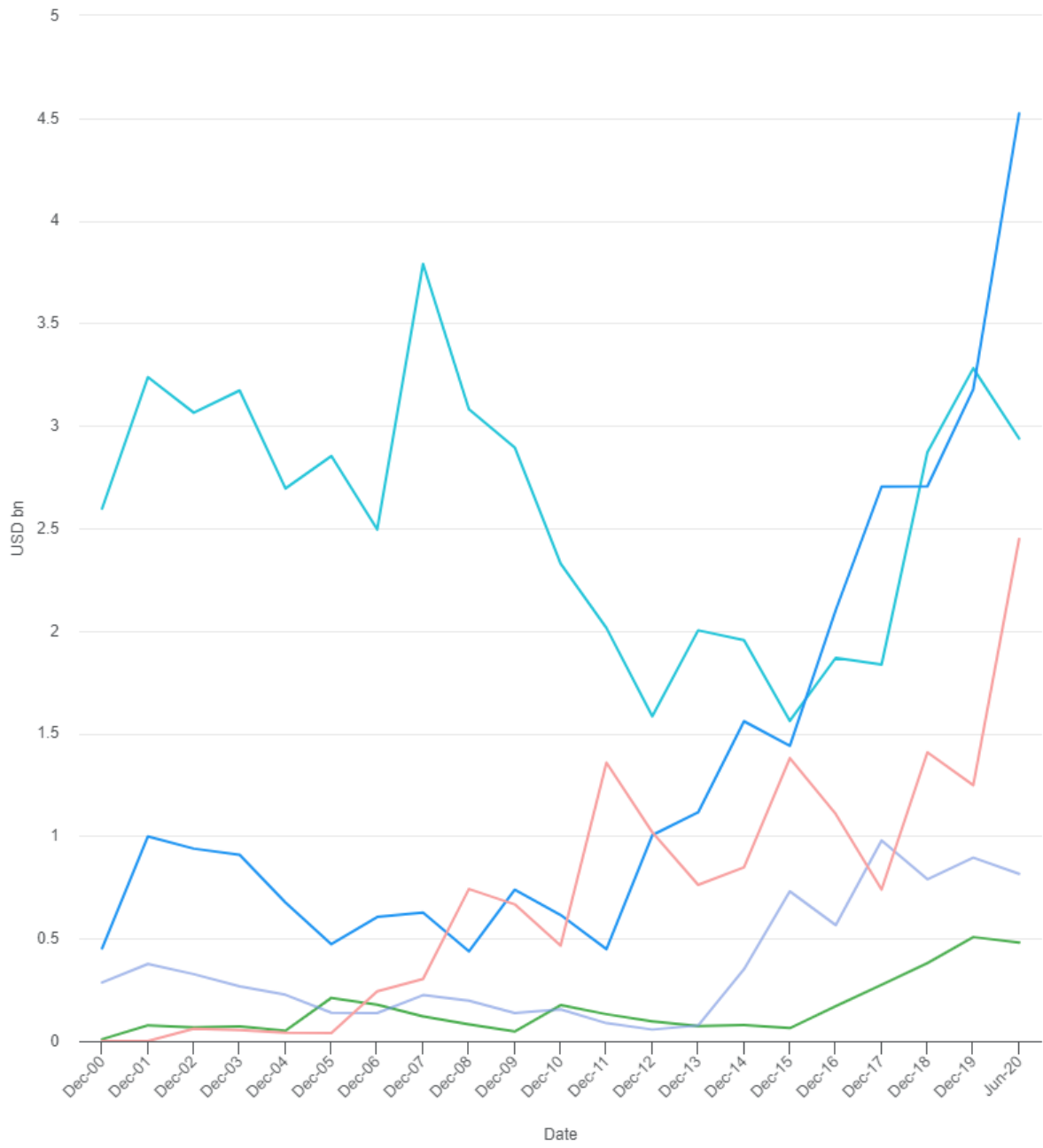
Not much need and no shortage of cash.

Your sincerely

Jon Moulton

Appendix

UK Venture Capital Dry Powder



Source: Preqin