



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Harriett Baldwin, MP
Chair of the Treasury Committee
via email

30 June 2023

Dear Harriett,

Thank you for your letter of 21 June to the Financial Secretary to the Treasury and the Economic Secretary to the Treasury regarding evidence given at the Treasury Committee on Wednesday 14 June for the Tax Reliefs and Venture Capital inquiries. Please find below our responses to the questions you raised.

Umbrella companies

Since the Call for Evidence on the role of umbrella companies in the labour market closed in November 2021, the Government has carefully considered the evidence provided by over 400 respondents (including end clients, workers, and employment agencies).

It is right that we took time to consider every single response, and produce a detailed summary of responses, along with a comprehensive consultation document. This subsequent consultation is intended to address, holistically, the issues reported in the umbrella company market.

This consultation on tackling non-compliance in the umbrella company market continues the important dialogue between the Government and stakeholders, enabling the Government to make informed and effective decisions on any potential policy options. It includes options to improve tax compliance and proposals for regulating umbrella companies for employment rights purposes. The consultation will also allow the Government to understand the impacts of these options, iterate the design and consider their likely effectiveness in partnership with stakeholders.

The consultation was launched on 6 June and will close on 29 August 2023. After this, the Government will consider the responses in detail and provide a response in due course.

Tax policy design

HM Treasury along with their policy partners within HM Revenue & Customs use a number of tools in the design, amendment, and maintenance of tax reliefs. The questions

asked in these tools help frame thinking and feed into submissions to Ministers. Things the policy lead is invited to think about include:

- the rationale for a measure;
- what evidence is available;
- how the relief will be monitored and evaluated;
- whether the measure will increase/reduce the complexity of the tax system;
- economic, environmental, stakeholder and distributional impacts; and
- administrative considerations.

Stakeholder discussions about reliefs

Ministers take their decisions in line with paragraph 5.2 of the Ministerial Code giving them a duty to give fair consideration to informed and impartial advice from civil servants, as well as to other considerations and advice in reaching policy decisions.

Advice on tax reliefs provided by civil servants within HMRC and HMT is evidence-based, drawing upon public consultations and HMRC evaluations. Consultations are conducted as part of the policy-making process and the evidence gathered is presented to Ministers alongside options to take measures forward/not take them forward.

HMRC has published evaluations of 26 reliefs since 2015. This systematic approach to evaluation is set out in HMRC's evaluation strategy. All these components provide an evidence base (alongside other considerations) for Ministers when deciding on whether a relief's design needs to be changed.

The advice provided by civil servants is governed by the Civil Service Code, which is further informed by the Cabinet Office guidance on contact with lobbyists which builds on the 'principles of public life' set out by the Nolan Committee in its first report in 1995.

The guidance specifies that civil servants should consider whether meeting one group making representations on a particular issue should be balanced by offering other groups a similar opportunity to make representations. This exists among other principles addressing potential avenues for excess influence from lobbyists on civil servants.

University spin outs

The UK university sector is a world-leader, playing an integral role in supporting economic growth and fueling innovation across the country. The UK has been on an upward trajectory over the last decade in translating its world-leading research into commercial success. The Chancellor of the Exchequer and Secretary of State for Science, Innovation and Technology commissioned an independent review in March 2023 to build upon those strengths and boost the UK's global competitiveness with other leading spin-out regimes.

The review is being led by two leaders in the field of academia and venture capital – Professor Irene Tracey, Vice-Chancellor of Oxford University and Dr Andrew Williamson, Managing Partner of Cambridge Innovation Capital.

The review is exploring the performance of UK universities at spinning out companies, benchmarking against best practice at home and abroad. It will make recommendations to promote the continued growth of the sector and uphold the UK's role at the forefront

in seeding and growing innovative businesses of the future. The full terms of reference have been published on GOV.UK.

Officials will share the review report with the Committee when it is published in summer 2023.

Venture investment diversity data

The Government agrees that it is important to have a diverse and inclusive business ecosystem. That is why we have initiatives such as the Investing in Women Code, founded in 2019 in response to the government-commissioned Rose Review. The Code is designed to directly address the lack of investment going to female entrepreneurs from all corners of the financial services and investment landscape, from early stage and seed funding, to venture capital investment and bank loans. The British Business Bank is one of the partners of the Investing in Women Code alongside the UK Business Angels Association, the British Private Equity & Venture Capital Association and UK Finance.

Signatories are implementing a range of measures to improve their support for female entrepreneurs, including connecting them with female-focused networks, recruiting from a more diverse pool of candidates, providing mentoring and training for female founders and implementing diversity metrics and policies to achieve gender equity in the start-up ecosystem.

The 2022 data shows that venture capital firms that have signed up to the code represent a larger share of the market than ever before. The proportion of UK VC deals involving a signatory has risen from 24% in 2020 to 39% in 2022. Furthermore, 35% of all venture capital deals made by Investing in Women Code signatories were in female-founded companies, compared to the market average of 27%.

Additionally, the Government launched the Women in Finance Charter in 2016, which asks firms to commit to improve their gender balance at senior levels. Over 400 firms across financial services signed up to the commitments of the Charter, including a small number of venture capital firms. Data from venture capital firms is captured under the investment management sector group of the Women in Finance Charter's Annual Report. Our 2022 data shows that the average female representation in this sector group of signatories is 32%, up from 31% in 2021.

In addition to the Women in Finance Charter, there are industry-led initiatives such as the Race at Work Charter and the Black Talent Charter which aim to increase diversity in the financial services sector.

The British Business Bank's Enterprise Capital Funds programme is designed to support fund managers with networks beyond the norm and the Bank assesses approaches to diversity as an integrated part of its due diligence process. Particular highlights of this approach have been the Bank's cornerstone investments into Ada Ventures' Fund II and into Zinc's 2 Fund. Ada is aiming to build the most diverse pipeline in Venture Capital, to increase funding for underrepresented founders. The portfolio of Ada Ventures' Fund I was amongst the most diverse in Europe, with approximately 55% female founders and 30% ethnic minority founders. Zinc's new fund will back 500 diverse entrepreneurs to create brand-new ventures from scratch and invest in 100 of the ventures they create. In

Zinc's most recent venture builder programme, more than 50% of founders were women and 15% Black, with the cohort having a Founders average age of 38.

The Bank will also continue to address regional imbalances in finance through regionally targeted investment funds and its regional angel investment programme, and it will continue to offer Start Up Loans to entrepreneurs from a wide range of diverse backgrounds. Indeed, as of September 2022, 40% of all Start Up loans went to women, 21% went to Asian people, Black people or people from other ethnic minorities (excluding White minorities), and 5% went to people who were previously unemployed.

In addition, the British Business Bank undertakes research on diversity and inclusion. In 2020, Bank published the 'Alone, together: Entrepreneurship and diversity in the UK' report, which examines in detail the influence of ethnicity, gender, personal wealth, and geography, on entrepreneurship and business growth in the UK. The BBB will continue to perform and publish research in this area, and work with others to ensure that its research is as valuable and relevant as possible. With greater regularity, the BBB also publishes diversity and inclusion data in its Annual Report to ensure it continues to meet its strategic priority of breaking down barriers in access to finance.

On the venture capital tax reliefs, HMRC does not require companies which receive investment through the three tax-advantaged venture capital schemes to declare the personal characteristics, such as gender or ethnicity, of the individuals who are directors, shareholders or founders of those companies. No provision currently exists for recording this data and there is no statutory basis for its provision.

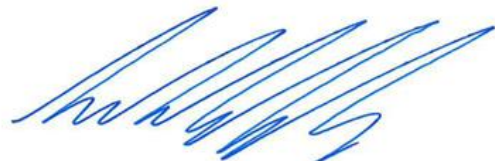
The schemes provide tax reliefs to individuals who invest in small, higher risk companies to support their growth and development. Introducing additional, voluntary reporting would place a further administrative burden on these small companies who face the biggest challenges in accessing growth capital.

We hope that these responses help the Committee with its work on reliefs and venture capital.

Yours sincerely,



VICTORIA ATKINS MP



ANDREW GRIFFITH MP