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Summary

Venture capital is a form of investment in early-stage companies, typically in return for an equity share of the business. This type of financing is risky: a high proportion of firms that receive venture capital will fail. But it is a crucial form of investment for innovative companies with high growth potential. A dynamic venture capital sector can be an engine of economic modernisation and growth.

The UK venture capital sector receives state support in the form of three tax reliefs (targeted reductions in tax liability). These are the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). The sector also receives support via British Business Bank (BBB) funding schemes.

We heard that the venture capital tax reliefs are globally competitive and a key draw for investors. The reliefs have made a positive contribution to the venture capital market and investment in small, high-potential businesses, but there are areas of concern.

The EIS and VCTs have statutory sunset clauses that will cause them to expire in April 2025. The Government has signalled an intention to extend the schemes but has not said when it will do so or for how long. This uncertainty is a risk to investment. We call on HM Treasury to detail and implement an extension urgently.

This renewal of the EIS and VCT schemes is an opportunity to improve them to address current shortcomings. These chiefly comprise diversity, regional inequality and scale-up capital.

Diversity in the sector is extremely poor, both in terms of the characteristics of business founders that receive venture capital funding and the people who make venture capital funding decisions. Women and people from ethnic minorities are highly underrepresented in both groups. This holds the sector back.

We recommend that the provision of statistics relating to diversity in staffing and funding decisions should be a condition of receiving tacit taxpayer support in the form of the EIS and VCT tax reliefs. We also recommend that venture capital firms be required to comply with the industry standard Investing in Women Code or explain why they are not. Finally, we recommend the Government and BBB consult on the creation of venture capital funds targeted at women and ethnic minority founders, in the same vein as the BBB's regional fund programmes.

Venture capital investment is disproportionately allocated to London and the surrounding areas. High-potential firms in other UK regions and nations struggle for access to capital. We heard that firms outside London tend to take longer to get established, which means they are disproportionately penalised by the upper age limits of businesses that can benefit from investment supported by the EIS and VCT schemes. We recommend that HM Treasury consult on extended age limits from 2025 with the objective of alleviating regional inequality.

We heard that relatively mature high-potential businesses struggle to 'scale-up' to the next level. We find that limits to funding that may be provided through the EIS and VCT schemes inhibits this crucial process. We recommend that HM Treasury consult on revised limits from 2025 with the objective of supporting scale-up business growth.

More generally, the dearth in UK domestic capital leads to businesses seeking investment elsewhere: being acquired by foreign investors or choosing to list on overseas exchanges. UK pension funds offer a vast pool of potential funding, but such assets are not invested in innovative businesses to the extent seen in international competitors. We welcome the Government's plans to bring forward proposals to facilitate defined contribution pension fund consolidation, which should promote higher risk, higher potential investment. We will scrutinise the details of those proposals closely. Any change must pay due regard to the balance between risk and reward for pension investors.

Introduction

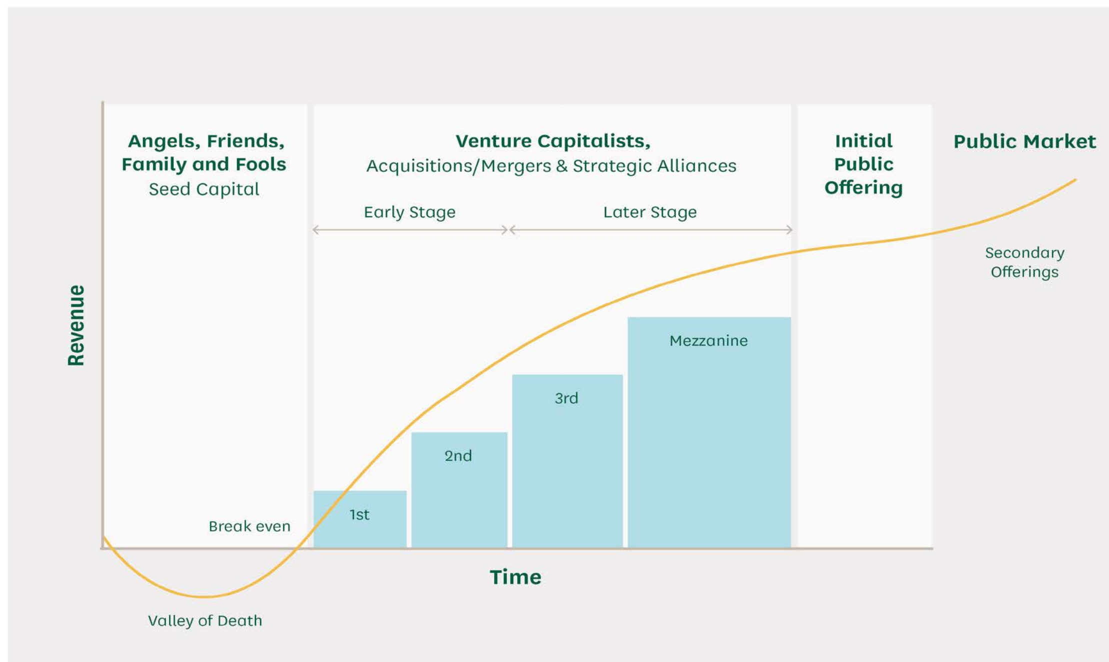
The Venture Capital Market

1. Venture capital is a form of financing that investors provide to early-stage companies in the belief they have long-term growth potential. Venture capital is generally equity-based, meaning that investors support entrepreneurs (both financially and otherwise) in return for a share of ownership of their business.

2. This type of financing is risky, and many firms who receive intensive funding do not go on to be successful. Investors in this market make assessments based on the likely growth and profitability of each company, in the hope that the success of some will offset the failure of others in a portfolio. The venture capital market is comprised of wealthy individuals (often termed "angel" investors), banks, venture capital-focused investment firms and government-affiliated institutions like the British Business Bank (BBB).[1]

3. Venture capital funding occurs in stages, relating to the maturity of the business seeking investment. Earliest stage funding tends to rely on personal contacts and wealthy individuals, whilst latter stages incorporate venture capital firms and eventually public investors.

Figure 1: What is Venture Capital?



Source: BGF[2]

1 Staff Summary based on British Business Bank, BVCA
2 BGF, 'What is Venture Capital and when is it right for your early-stage business?', accessed 30 June 2023.

4. The UK venture capital market is substantial—in 2020, UK venture capital investment totalled £11.9 billion, more than that in France and Germany combined.[3] The British Venture Capital Association (BVCA) noted that 96 per cent of companies backed by venture capital in its 2020 report were start-ups employing 50 people or fewer.[4]

5. Venture capital is an important driver of economic growth and modernisation, through its ability to support innovative companies. The BVCA told us that the venture capital industry "fosters innovation, creates jobs, drives growth and generates long-term value for pension savers, entrepreneurs, universities and communities in all regions and nations of the UK."[5] The BVCA pointed in particular to venture capital firms' investments in innovative green technologies such as "sustainable aviation fuel investments in North East England, hydrogen batteries in South East England and biodegradable alternatives to plastic in Cambridge".[6]

6. The Government supports the venture capital market through both tax-advantaged schemes (discussed below), and interventions and programmes delivered through the British Business Bank.[7] The British Business Bank (BBB) is a government-owned economic development bank, established in 2014. Its aim is to "drive sustainable growth and prosperity across the UK, and to enable the transition to a net zero economy, by supporting access to finance for smaller businesses".[8,9]

7. Venture capital is only part of the funding environment for small businesses. Our new small and medium-sized enterprise (SME) finance inquiry will examine a wider range of issues.[10]

3 HM Treasury (VCM0035) p.1
4 BVCA (VCM0039) p.1
5 BVCA (VCM0039) p.1
6 BVCA (VCM0039) p.1
7 HM Treasury (VCM0035) p.1
8 British Business Bank (VCM0041) p.1
9 HM Treasury outlined the programmes the BBB operates in its written evidence: (VCM0035) p.2
10 Treasury Committee, 'MPs launch inquiry into the financing of small and medium-sized enterprises', 3 July 2023

1 Venture capital tax reliefs

Current tax relief framework

8. Government policies to support the UK venture capital market include three tax reliefs, which are targeted reductions in tax liability. HM Treasury said these schemes are designed to "tackle market failures", identified by HM Treasury as the "information asymmetry [which is] broadly agreed to be most pronounced in companies at an early stage of development, small business within the broader small and medium enterprise (SME) grouping and innovative companies that are often associated with higher levels of risk and/or intangible assets".[11] As a result of this market failure, high-potential businesses are often underfunded relative to their potential economic benefits.

9. The schemes are as follows:

i) **The Enterprise Investment Scheme (EIS)**—Established in 1994, EIS allows a company to raise up to £5 million each year through the Scheme, up to a maximum of £12 million in the company's lifetime. For "knowledge intensive" companies, this increases to £10 million per year, up to a maximum of £20 million in the company's lifetime.[12] For the investor, investing in an EIS provides up to 30 per cent income tax relief on up to £1 million invested per year (up to £2 million if at least £1 million of that is invested in knowledge-intensive companies), deferral of capital gains, and loss relief on losses made if EIS shares are sold at a loss, less any Income Tax relief already given.[13] HMRC estimated in 2021 that since the EIS was launched, over 32,000 companies had received investment and over £24 billion of funds had been raised.[14] In the tax year 2021–22, around £584 million of new investment was raised by 1,755 new EIS companies.[15]

ii) **The Seed Enterprise Investment Scheme (SEIS)**—Established in 2012, SEIS encourages investors to invest in start-ups. It allows companies to receive up to £250,000 in investments, subject to state aid limits. It is available for investments in companies which are less than 3 years old, have no more than £350,000 in gross assets and have fewer than 25 employees. For the investor, SEIS provides up to 50 per cent income tax relief on up to £200,000 invested per year, or relief from Capital Gains Tax on 50 per cent of investment, capped at £50,000, where an asset was sold and the gain used to invest in shares that qualify for SEIS.[16] Since the SEIS was launched

11 HM Treasury (VCM0035) p.1

12 Government defines "Knowledge Intensive" companies as those carrying out work to create intellectual property and conducting research. See HMRC, 'Use a venture capital scheme to raise money for your knowledge intensive company', accessed 30 June 2023

13 Staff Summary drawing on HMRC, Apply to use the Enterprise Investment Scheme to raise money for your company, 31 January 2023; HM Treasury (VCM0035)

14 HMRC, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief: Commentary 2021, 27 May 2021

15 HMRC, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2023, 17 May 2023

16 Staff summary drawing on HMRC, 'Apply to use the Seed Enterprise Investment Scheme to raise money for your company', 25 May 2023; HM Treasury (VCM0035)

in 2012, over 13,000 companies have received investment and around £1.4 billion of funds have been raised.[17] In the tax year 2021–22, 1,815 companies raised funds for the first time, representing £179 million of investment.[18]

iii) **Venture Capital Trusts (VCTs)**—Established in 1995, VCTs encourage individuals to invest indirectly in a range of unquoted smaller, higher risk trading companies, by investing through VCTs. VCTs are managed by fund managers who are usually members of larger investment groups. Investors subscribe for shares in a VCT, which then invests in qualifying trading companies, providing them with funds to help them develop and grow. For individual investors in VCTs, Income Tax relief is available at the rate of 30 per cent on up to £200,000 per annual investment, provided their shares are held for at least five years.[19] In addition, investments in a VCT do not attract Capital Gains Tax on any profits when an individual sells their shares. HMRC estimated that VCTs raised approximately £7.7 billion between 1995 and 2018[20]. In the tax year 2021–22, VCTs issued shares to the value of £1.12 Billion.[21]

10. HM Revenue and Customs (HMRC) estimates that the cost (in foregone tax) of the EIS was £520 million in 2022–23, whilst VCTs cost £330 million, and SEIS £95 million.[22]

The impact of venture capital tax reliefs

11. The Coalition for a Digital Economy (Coadec, now the Startup Coalition), a body representing technology start-ups, told us that the tax relief schemes had contributed to making UK venture capital competitive internationally.[23] The Wealth Club (an investment service for high net worth individuals) echoed this, stressing that the tax reliefs are a big draw to the venture capital market for investors:

> Tax relief is essential. A recent survey of Wealth Club clients demonstrated that for 88 per cent of clients, the tax benefits were the main reason for investing. This is in line with research from the Association of Investment Companies (AIC) last year which also demonstrates that 88 per cent of private investors used VCTs for tax relief. Furthermore, 72 per cent of investors stated that tax relief is the primary motivation for investing and 63 per cent say the upfront income tax relief is the most important benefit. Whereas the tax-free dividends were the most important element for 19 per cent of investors, and for 18 per cent it was the tax-exempt capital gains.[24]

12. Will Fraser-Allen, Chair, Venture Capital Trust Association (VCTA), the trade body representing VCT managers told us that the tax reliefs were important drivers of investor behaviour:

17 HMRC, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief: Commentary 2021
18 HMRC, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2023
19 Staff summary drawing on HMRC, Octopus Investments, HM Treasury (VCM0035)
20 HMRC, Venture Capital Trusts Statistics: 2018 p.5
21 HMRC, Venture Capital Trusts Statistics: 2022
22 HMRC, Estimated costs of non-structural tax reliefs (January 2023)
23 The Coalition for a Digital Economy (Coadec) (VCM0015) p.2
24 Wealth Club (VCM0021) p.3

> … There is an absolute recognition that what we do is high risk. We back young companies without a track record, and a significant number will fail. What the tax incentives are designed to do is unlock the pool of capital from retail investors.[25]

Christiana Stewart-Lockhart, Director General of the Enterprise Investment Scheme Association (EISA) concurred,[26] pointing to a survey by the UK Business Angels Association (UKBAA) which found that 90 per cent of angel investors would "materially change their capacity to back high-risk start-ups without EIS and other tax reliefs".[27]

13. We asked Dr Amrit Chandan, co-founder and CEO of Aceleron Energy, a sustainable battery manufacturer, how we verify that the tax relief schemes actually work. His response was that his business would not be functioning without them.[28]

14. Andrew Griffith MP, Economic Secretary to the Treasury, stated that HM Treasury considered the schemes a success.[29] However, when we pressed the Economic Secretary on whether the effectiveness of these schemes versus the costs to the Treasury had been effectively calculated over time he suggested this was uncertain:

> [it is difficult] to construct what the counterfactual is in terms of what is going on in the wider economy. In the absence of the reliefs or Government interventions […] would many of those businesses have been able to attract capital themselves? Many of them say that that would not have been the case.[30]

15. Jane Whittaker, Director of Knowledge, Analysis and Intelligence, HMRC, noted that they had conducted evaluations into the schemes. She said that venture capital reliefs improved business performance and bridged a funding gap that would otherwise emerge:

> We did qualitative and quantitative research […] We found that [the tax relief] schemes led to increases in sales, jobs and productivity as well as greater innovation across the products and services provided.[31]

Following this evidence, HMRC wrote to confirm that the results of their evaluations into EIS and VCTs will be published in late summer or early autumn of 2023 and provided to the Committee.[32]

16. **Industry and government are aligned in their assessment that venture capital tax reliefs have had a positive impact on UK small businesses. They argue that the EIS, SEIS and VCTs are internationally competitive schemes that attract investors, which in turn has provided billions in financial support to start-ups and growing businesses since their inception. It is a consistently held view in our evidence that the removal of these schemes would negatively impact the UK venture capital market, materially limiting the support to entrepreneurs to help establish and grow their businesses.**

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25 Q9
26 Q9
27 UK Business Angels Association (VCM0037) para 3.2
28 Q160
29 Q322
30 Q325
31 Oral evidence taken on 17 May, HC723, Q243
32 Correspondence from the Director General, Customer Strategy and Tax Design, HM Revenue and Customs, relating to tax relief evaluation, dated 31 May

2 Sunset clauses on venture capital reliefs

The sunset clauses

17. Under the Income Tax Act 2007, both EIS and VCTs have statutory expiry dates (or 'sunset clauses'[33]) of April 2025.[34] SEIS is a permanent tax relief and has no such sunset clause.

18. Octopus Group (an investment fund) told us that the most urgent intervention the Government should make relating to venture capital was the extension of the sunset clause on VCT tax relief.[35] Octopus added that "The sunset clause on VCTs and EIS is set to destroy an entire asset class in 2025, massively narrowing channels to capital for UK early-stage businesses".[36] This was a widespread industry view.[37]

19. Christiana Stewart-Lockhart told us that uncertainty about the future of the reliefs would affect founder and investor behaviour:

> That has an impact, not only on their [the entrepreneurs] plans […] but from knowing that investors who invest now might not be able to invest later with followon funding.[38]

20. We explored why the Government had not yet extended the reliefs. Richard Stone, Chief Executive of the Association of Investment Companies (AIC), said that that EU rules around state aid had made extending the venture capital reliefs more complicated:

> there is an overlay here with Northern Ireland Protocol […] You either do something separately for Northern Ireland from the rest of the UK, or you go back to the EU for state aid approval, which we are confident you could potentially get.[39]

21. The Government said that it "remains supportive of the Enterprise Investment Scheme and Venture Capital Trusts and sees the value of extending them in the future" in the 2022 Autumn Statement, but no formal proposals were brought forward then.[40] Our Chair wrote to the Chancellor, Rt Hon Jeremy Hunt MP, in February 2023, urging him to provide clarity on the Government's intentions. She asked whether it was the Government's firm intention to renew the schemes, what reason there was for delay and whether HM Treasury recognised the Northern Ireland Protocol as a barrier.[41]

33 UK Parliament, Sunset Clause
34 Income Tax Act 2007, sections 157 and 261
35 Octopus Group (VCM0007) Overview
36 Octopus Group (VCM0007) Section 2
37 Mercia Asset Management (VCM0010); Shoosmiths LLP (VCM0011); Parkwalk Advisors Ltd (VCM0004); Association of Investment Companies (VCM0019)
38 Q17
39 Q20
40 HM Treasury, Autumn Statement 2022, November 2022, part 3, para 3.31
41 Correspondence from the Chair to the Chancellor, relating to the sunset clause on EIS/VCT, dated 14 February

22. The Chancellor replied in March 2023:

> You asked whether the Northern Ireland Protocol represented a “barrier” to the extension of the two schemes. The government does not recognise this characterisation. It is the government’s firm intention to extend them beyond the current sunset on 6 April 2025 […] Further details on the schemes beyond 2025 will be provided to stakeholders in due course and good time.[42]

No specific confirmation of extension, nor details, followed this reply. We subsequently pressed with the Economic Secretary to the Treasury but he could not provide further detail:

> As Economic Secretary, I am happy to advocate for the continuation of this relief […] I do not have anything to say to the Committee today beyond what the Chancellor previously said.[43]

23. **The Treasury continues to express the importance of the EIS and VCT schemes and a desire to extend their sunset clauses. The Chancellor has told us he does not see a barrier to doing so. However, despite our raising concerns repeatedly, the Treasury has not provided a clear plan and timeframe for this extension. As the April 2025 deadline draws closer, this lack of firm action is damaging given that investment relies on the certainty of such support.**

24. ***We recommend that HM Treasury extend the EIS and VCT sunset clauses beyond April 2025 at the earliest opportunity. HM Treasury should provide more certainty for founders and investors alike by announcing the length of the extension and a clear timeline for implementing it as soon as possible.***

42 Correspondence from the Chancellor, relating to the sunset clause on EIC/VCT, dated 7 March
43 Q364

3 Diversity in venture capital

The scale of the problem

25. We received evidence that the venture capital market was highly unrepresentative of the gender and ethnic diversity of the UK.

26. According to British Patient Capital, under five per cent of total venture capital investment was in companies with female founders.[44] The British Business Bank (BBB) told us that:

> For every £1 of equity investment in the UK in 2021, all-female founder teams received 2p, all-male founder teams received 84p, and mixed-gender teams 14p. This is lower than the 4 per cent received by all-female teams in 2020, reflecting yearly volatility.[45]

27. Catherine Lewis La Torre, CEO of British Patient Capital (BPC, a subsidiary of the BBB), explained that progress in providing venture capital to female-led businesses had been very slow:

> […] we did a piece of research pre-covid, back in 2019, that looked at the proportion of funding from the venture capital community that went to all-female founded firms. The very dispiriting result of that research was that, in effect, 1p in every £1 was channelled through to female entrepreneurs. Since then, things have been improving […] In our equity tracker research that we did last year, the proportion going to all female founded teams was 2 per cent, rather than 1 per cent. It is an improvement, but nowhere near where we need to be.[46]

28. According to the available data, the representation of founders from ethnic minority backgrounds is also very poor. Extend Venture's (an organisation that supports diverse entrepreneurs) 2020 market report showed that in 2019, less than 2 per cent of venture funding went to black and ethnic minority-led business (against the 18.3 per cent of the population who identify as ethnicities other than white according to the 2021 census).[47]

29. There is also a lack of diversity among the investors themselves. The UKBAA's data showed that only 15–18 per cent of angel investors are women and only about 11 per cent of the existing angel community are from ethnic minorities.[48]

44 British Patient Capital, Driving diversity in UK venture capital
45 British Business Bank (VCM0042) para 5
46 Q138
47 Extend Ventures, Diversity beyond gender, p.4
48 UK Business Angels Association (VCM0037) section 2.2

30. Michael Moore, Director General of the BVCA, the industry body representing venture capital and private equity in the UK, said that the lack of diversity in the venture capital industry was unacceptable:

> I am afraid the figures are really poor […] Certainly from what we can see in our bit of financial services, I believe it will indicate that there are some very small steps being taken, but such a long way to go.[49]

Will Fraser-Allen, Chair of the VCTA, concurred, saying "There is a great deal to be done, and this is a very important area in which we need to do better."[50]

31. **The diversity statistics in the venture capital market are unacceptable. Venture capital firms are dominated overwhelmingly by white men, and the recipients of venture capital funding are even more unrepresentative of the wider UK population in terms of gender and ethnicity. While there has been some improvement, it is happening far too slowly, and affecting rapid change should be viewed as a priority by government and industry.**

Transparency and the lack of effective data

32. We heard that the venture capital market does not have a consistent policy on diversity statistics. Venture capital firms are not legally required to report either their own employee demographics, nor the demographic breakdown of the founders in whom they invest. The Investing in Women Code (IWC), for example, is an initiative designed to encourage investment in female entrepreneurs, but only around 40 per cent of venture capital deals involve signatories in 2023.[51]

33. The incomplete data is nevertheless not encouraging - signatories to the IWC report an average of 32 per cent female representation in their investment teams and 24 per cent on their investment committees, while 35 per cent of their venture capital deals involved at least one female founder.[52] We note the IWC is an "opt in" initiative, and its signatories may represent the more enlightened parts of the industry.

34. A contributing factor to this lack of transparency is the size and structure of most venture capital firms. Diversity VC's 2017 market survey found that the average size of a venture capital fund was just nine people, noting:

> Venture capitalists are often thinly stretched and work semi-autonomously, which leaves little room for high-level strategic thinking on D&I [diversity and inclusion]. It is unsurprising, therefore, that very few VCs have clear initiatives to promote diversity in their firms.[53]

35. We heard evidence that the fragmented nature of the venture capital market may limit firms' ability and willingness to address diversity. The Council for Investing in Female Entrepreneurs (CIFE) pointed to "poor understanding of the resources available

49 Q38
50 Q38
51 Investing in Women Code, Annual report 2023, p.3
52 Investing in Women Code, Annual report 2023, p.4
53 Diversity VC, "Diversity in Venture Capital, a practical toolkit for VC funds" p.5

to help fix the problem, in some cases a lack of data and tooling, and in many cases a hyper-sensitivity to the consequences of doing or saying the wrong thing". CIFE went on to suggest that ultimately the outcome was firms not taking action on their own.[54]

36. If firms are mostly staffed by white men, this may also contribute to a further lack of diversity in the business connections they make (that ultimately lead to funding allocation). 'we are radikl' (now obu, an organisation that advocates for investment in women founders) noted that awareness of investment channels and access to networks were "cited globally as the key systemic barriers to women securing investment."[55] Christina Stewart-Lockhart agreed that access to networks for women and people from an ethnic minority seeking investment was a limiting factor:

> Something EISA has been looking at is democratising the information about investment. Sometimes it will be quite hard for an entrepreneur to know where they should go.[56]

37. **It is difficult to understand comprehensively the diversity breakdown of staffing and investment decisions across the venture capital market and its many small organisations. These firms do not have consistent policies on diversity or associated reporting, and a heavy emphasis on personal networks means that the true scale of the problem remains unseen. The most urgent course of action is to improve the transparency and consistency of data. This will allow more informed action to be taken by Government, arm's-length bodies and industry. Disclosure will also shine a light upon firms which are both best and worst in class, providing a reputational incentive to address diversity in the sector.**

Using tax reliefs to improve diversity reporting

38. Ladi Greenstreet, CEO of Diversity VC, suggested that the attractiveness of the venture capital tax relief schemes could be utilised to achieve better diversity and inclusion outcomes in venture capital:

> As a recommendation, particularly as the Government are an allocator of capital themselves, the Government should be taking a lead … as an allocator of capital through the EIS and SEIS schemes, inclusivity should be embedded within finance.[57]

Mr Greenstreet went on to argue that a wide reporting policy, tied to the incentives of EIS and VCTs, could start to shift behaviour:

> There is a significant amount of power in reporting. Simply measuring the problem creates momentum for change. If you are making sure the people who are allocating capital through the EIS and SEIS schemes are reporting on how diverse their investments are, it creates behavioural change.[58]

54 Council for Investing in Female Entrepreneurs (VCM0025) section 2
55 we are radikl (VCM0029) p.2
56 Q39
57 Q89
58 Q98

39. We put this proposal to the Economic Secretary and he committed to considering what further reporting requirements may be possible:

> What I am absolutely happy to do—because I think this is a much bigger issue—is to take away and look at what enhanced reporting is practical, sensible and commercial for the British Business Bank.[59]

40. **Venture capital tax reliefs are uses of public funds. It is only right and proper that their use is open to public scrutiny, including whether such funds are deployed fairly to women and people from ethnic minorities. At the moment, their use is unacceptably opaque.**

41. ***HM Treasury should make provision of diversity statistics a requirement for eligibility to receive EIS, SEIS and VCT tax reliefs. Firms should be required to disclose the gender and ethnic breakdown of both recipients of their funding and their own staff. This should take effect from the renewal of the sunset clauses in April 2025.***

The Women in Finance Charter and Investing in Women Code

42. HM Treasury launched the Women in Finance Charter in 2016. Signatory firms commit to supporting the progression of women into senior roles in financial services, and to providing open reporting on progress to deliver on internal targets.[60] Firms are not obliged to sign up to the charter, though in our 2018 "Women in Finance" report, we encouraged all firms within the sector to sign the charter.[61]

43. In a letter to us, Treasury Ministers said that over 400 firms across financial services have signed up to the charter since 2016, "including a small number of venture capital firms". They also noted that HM Treasury's 2022 data shows that the average female representation in the sector group of signatories is 32 per cent, up slightly from 31 per cent in 2021.[62]

44. Following the initial publication of the Alison Rose Review of Female Entrepreneurship in 2019,[63] the Investing in Women Code (IWC)[64] was launched to, in the words of CIFE, "increase transparency on funding decisions, investment in female founders, and showcase the actions taken to create long-term and meaningful change".[65] The IWC is administered by the British Business Bank and commits financial institutions to the principles of gender equality and transparent reporting of gender funding data.

59 Q384
60 HM Treasury, The Women in Finance Charter
61 Treasury Committee, Women in Finance, 2018, para 115
62 Letter from the Financial Secretary and Economic Secretary to the Treasury to the Chair, relating to Tax Reliefs, dated 30 June
63 HM Treasury, Rose Review 2019
64 BBB, Investing in Women Code
65 Council for Investing in Female Entrepreneurs (VCM0025) section 3

45. Membership of the IWC has steadily increased over time, moving from 143 signatories in 2022 to 204 in 2023.[66] The BBB outlined to us its role in the code:

> We lead engagement with VC firms and run the data collection process, which includes data on both the gender of members of investment committees and investment teams, as well as data on the gender diversity of the management teams of the companies in their portfolios.[67]

46. Alexandra Daly, Co-chair of the Council for Investing in Female Entrepreneurs (CIFE), told us that the IWC demonstrated a desire in the venture capital industry to tackle diversity issues:

> The Investing in Women Code is also pivotal here. That code was spun out of the Rose review. 189 organisations have signed up to it, of which 134 are from the VC community. That is a direct result of us being a community that wants to do something but needs the guidance to do it.[68]

47. Venture capital firms that sign up to the Charter and IWC are likely to tend to be those most committed to addressing diversity. A higher percentage of deals made by IWC signatories feature at least one female founder (35 per cent) as compared to the wider market (27 per cent)[69]. Take up of the IWC is low however: as previously highlighted, only 40 per cent of venture capital deals involve signatories to the IWC.[70] While both initiatives remain opt-in, progress across the wider industry will be limited, as observed by Ladi Greenstreet:

> Based on the data in the Investing in Women Code, they are showing better data than the sector generally … There is an element, we have to admit, of selection bias. The willing are taking those actions.[71]

48. The subject of women in finance will be explored further in our *Sexism in the City* inquiry.[72]

49. **We support the Women in Finance Charter and the Investing in Women Code. However, we are concerned that as a voluntary initiative with a low rate of take up, progress in improving diversity in venture capital is too slow and restricted to the more enlightened firms.**

50. ***All relevant organisations in the venture capital industry ought to become signatories to both the Women in Finance Charter and Investing in Women Code, if they have not done so already. We have not determined that compulsory membership is appropriate at this time but recommend that HM Treasury and the BBB adopt a "comply or explain" policy with regards to both. Organisations ought to comply with the Charter or Code or explain why they are not, as a condition of EIS, SEIS and VCT***

66 Investing in women code, annual report: 2023 p.3
67 British Business Bank (VCM0041) p.3
68 Q59
69 Investing in women code, annual report: 2023 p.4
70 Investing in Women Code, "Annual report 2023", p.3
71 Q78
72 Treasury Committee, 'MPs launch inquiry into barriers faced by women in finance', 14 July 2023

eligibility. This approach will communicate to the market that the default expectation is that firms become signatories. Should diversity statistics and reporting not improve quickly enough, we will instead consider calling for compulsory membership.

British Business Bank and diversity

51. The BBB's role in promoting diversity in the venture capital market is not restricted to administering the Investing in Women Code.[73] BPC also actively considers diversity and inclusion in its overall assessment of funding applicants, and their teams. Applicants whose organisations score highly, and teams comprised of individuals from diverse backgrounds, are viewed positively.[74]

52. However, the BBB does not have any dedicated funds designed to address the lack of diversity in venture capital investment. We asked the Economic Secretary to the Treasury whether specific money should be set aside for investment in diverse founders. He was resistant to the proposal:

> What I want to do is to address the underlying causes. I do not want to segregate individual funds, based on people's race, background, sex or gender preference.[75]

53. Catherine Lewis La Torre, CEO of the BPC, said that her organisation was open to the idea:

> That is something we can already do; that is not ruled out [...] What we do not have at the bank is a dedicated pool of capital for that. We are set up to address certain market failures, and we do not have that. I think it is something that we should explore.[76]

54. **The British Business Bank has active funds designed to target specific market failures in venture capital, such as its regional funds. Representatives from the BBB have suggested that diversity-focused funds could theoretically be used in the same way, if there were provision set aside for them. The woeful diversity record of venture capital, which is failing to invest in high potential female and ethnic-minority-owned businesses, makes for a strong case for such intervention.**

55. ***We recommend that the Government and British Business Bank consult on the creation of one or more venture capital funds with the specific purpose of promoting greater diversity in venture capital allocation.***

73 British Business Bank (VCM0041) para 16
74 British Business Bank (VCM0041) para 15
75 Q383
76 Q140

4 Regional inequality in venture capital

Overview

56. Our evidence shows uneven levels of venture capital investment across the UK regions and nations. London, Oxford and Cambridge, often referred to as the "Golden Triangle", receive around 80 per cent of venture capital investment.[77] The British Business Bank's nations and regions tracker found that in 2020, London accounted for 19 per cent of all small and medium-sized enterprises (SMEs), but received 47 per cent of equity deals and 66 per cent of the total equity value provided.[78]

57. In 2021, the tracker did note a shift—seed stage investment increased by 88 per cent outside of London, whereas in London it fell by 22 per cent.[79] However, this shift was from a low level—London still accounted for 66 per cent of overall UK SME equity investment in 2021, and 49 per cent of deals.[80]

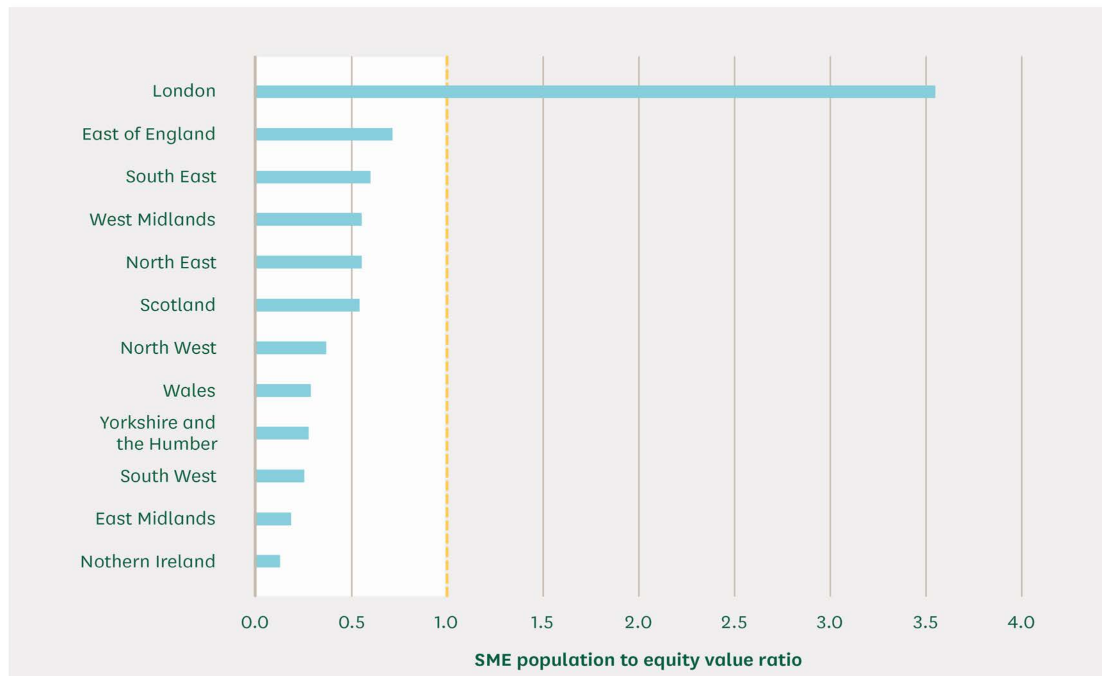
58. The Federation of Small Businesses (FSB) commented on the BBB's 2020 data of the proportion of venture capital equity investment relative to the proportion of SMEs based in each region. An equitable allocation across regions would, all other things being equal, be represented by a ratio of one. But in London the proportion of equity value was 3.49 times its proportion of the SME population. The FSB stressed that no other region or nation in the UK has an equity value representative of its SME population:

> the East of England comes in at second with a SME to equity value ratio of 0.68. At the far end of the spectrum, Northern Ireland's ratio is just 0.08. Excluding London, the average SME proportion to SME equity value ratio is just 0.37–this highlights the extent to which non-London SMEs will struggle to acquire equity funding.[81]

If the available capital in most UK regions is not proportionate to the SME population, the concern must be that opportunities to invest in successful companies are being missed. UKBAA highlighted that angel investment levels were distributed in a disproportionate way amongst most regions.[82]

77 Midven (VCM0034) 49.4
78 British Business Bank, Regions and Nations Tracker: Small Business Finance Markets 2021 p.64
79 British Business Bank, Regions and Nations Tracker: Small Business Finance Markets 2022 p.7
80 British Business Bank, Regions and Nations Tracker: Small Business Finance Markets 2022 p.8
81 Federation of Small Businesses (VCM0020) p.9
82 UK Business Angels Association (VCM0037) para 2.1

Figure 2: SME equity deals and value by region and nation, 2020



Source: FSB83

59. Dr Mark Payton, CEO, Mercia Asset Management, a regional focused venture capital fund, laid out the stark reality in oral evidence:

> I think London is a really good place to start a business. If you are in Preston, it is harder. If you are in Preston and you want to get scale-up capital to build your business, it is close to impossible.[84]

60. **The evidence we have received suggests that venture capital investment is concentrated in London, strongly disproportionately to its share of the UK SME population. This means that throughout most of the UK regions and nations, opportunities for investment in high-growth businesses are more limited than they ought to be. This may be undercutting the potential for economic growth across the UK regions and nations.**

Tax reliefs and regional firms

61. The EIS and VCT tax relief schemes are available to businesses across the country. However, both schemes have certain conditions that qualifying firms must meet. One such condition is the so-called 'age limit': to be eligible for EIS and VCTs, firms must be no older than 7 years from their first commercial sale, or 10 years for "knowledge intensive companies".[85]

83 Federation of Small Businesses (VCM0020) p.9
84 Q118
85 HMRC, Venture Capital Schemes Manual, VCM8150 - Venture Capital Schemes: the changes in detail: maximum age limit for companies receiving risk finance investments

62. HMRC provide the following justification for the existence of the age limits:

> Together, the rules ensure that tax relief is targeted on investments in earlier-stage companies, companies that need several rounds of tax-advantaged funding before the market will invest in them and, in certain specific circumstances, companies whose activities are changing so substantially as to constitute a new business activity.[86]

63. We were told, however, that this age limit has led to unintended consequences for firms outside of prime investment areas in London and the "Golden Triangle".[87] Dr Mark Payton stressed that London allocated capital very efficiently, and that "It is a lot less efficient out in the regions because, frankly, there are a lot fewer sources of capital in the first place".[88] He concluded that that as regional firms tend to take longer to get established due to lower available resources, this system was "disproportionately punishing" for regional businesses.[89]

64. Douglas Hansen-Luke, Executive Chair, Future Planet Capital (a venture capital fund with regionally-focused investments) gave a specific example of this occurring:

> just last week we had a company in the midlands that had had a partner walk away [...] because they were seven years and half a month, we were not able to invest in them.[90]

65. In 2021, the Government's Taskforce on Innovation, Growth and Regulatory Reform found that that age limits on reliefs were "exaggerating regional disparities in access to capital".[91] This was due to the average time taken to grow businesses outside of London, where lower access to capital and networks results in them receiving support and funding much slower. The report noted that "businesses in Greater London appear to [...] Receive subsequent investments sooner with the average age of business being 6.01 years vs. 9.01 years for Rest of UK".[92] The consequence of this disparity would be many regional firms falling outside of the time window for EIS and VCT eligibility.

66. We received numerous calls for the company age limits on EIS and VCTs to be lifted to encourage investment outside of London.[93] The Enterprise Investment Scheme Association (EISA) argued that lifting the age limits would ultimately facilitate job creation, investment and economic growth that would in turn improve regional imbalances as part of the Government's levelling-up agenda.[94] Dr Mark Payton said:

> Just get rid of the age cap—please just get rid of the age cap on businesses. It is really hamstringing the regional businesses, in particular.[95]

86 HMRC, from the Venture Capital Schemes Manual
87 Shoosmiths LLP (VCM0011) p.2, Wealth Club (VCM0021) p.5, Mercia Asset Management (VCM0010) p.2
88 Q127
89 Q127
90 Q162
91 Taskforce on Innovation, Growth and Regulatory Reform, 2021 report, para 150
92 Taskforce on Innovation, Growth and Regulatory Reform, 2021 report, para 150
93 Shoosmiths LLP (VCM0011) p.2, Wealth Club (VCM0021) p.5, Mercia Asset Management (VCM0010) p.2
94 Enterprise Investment Scheme Association (EISA) (VCM0022) p.2
95 Q178

67. **The 7 and 10 year company age limits on EIS and VCTs serve to disadvantage businesses outside prime investment zones in London and the "Golden Triangle". Firms from other regions can take longer to become established and therefore may miss out on venture capital support through no fault of their own. This risks holding back economic growth and innovation in areas that would most benefit from it.**

68. ***The Government should extend the 7 and 10 year company age limits for support through the EIS and VCT schemes. HM Treasury should consult on revised limits, with the objective of not disadvantaging regional businesses. This revised limit should take effect from the renewal of the sunset clauses in April 2025.***

5 Scale-up capital

69. 'Scale-up businesses' are relatively established and mature companies seeking high growth. The Organisation for Economic Co-operation and Development (OECD) defines such firms as starting with ten or more employees and growing at 20 per cent or more in turnover every year, for three years.[96] The evidence we have taken suggests that these companies struggle to access the capital necessary for them to progress to the next level.

70. We heard that tax relief schemes such as the SEIS, EIS and VCTs tend to be more geared to the earlier stages of a company's life cycle. Parkwalk advisors (a UK fund manager) argued that "whilst there are a significant number of early-stage investors (as a result of EIS and other tax advantaged schemes), the UK continues to lack scale-up financial investors (especially from the UK itself) who are able to invest £10 million and over into investment rounds".[97]

71. Lakestar (a venture capital firm), has observed that the US has been more successful in scaling up businesses than the UK in recent years. They noted that none of the top ten largest UK companies today were founded or scaled in the last 20 years, whilst seven of the top ten companies in the US were created in the last 20 years.[98]

EIS and VCT funding limits

72. A prominent theme of our evidence was that funding limits on venture capital tax reliefs hamper their ability to help scale-up firms attract investment. The maximum amount of funding that can benefit from EIS and VCT tax relief is £12 million per company, or £20 million for knowledge-intensive companies.[99]

73. Octopus Group criticised these funding limits:

> While the scale-up funding environment may feel robust from the standpoint of the small number of high-profile, rapidly growing tech companies […] this isn't the case for those that have become too large and mature to be eligible for VCT and EIS funding, particularly those outside London and the South East.[100]

74. Brown Rudnick LLP (a financial law firm) concurred with that assessment, arguing that the investment limits had become outdated, particularly considering "current inflationary pressures", and thus should be reviewed.[101] This view was widely held in our evidence.[102] The Enterprise Investment Scheme Association (EISA) argued simply that "the lifetime limit of £20 million of EIS investment for KICs [knowledge intensive companies] is not sufficient to support businesses in life sciences".[103]

96 OECD, Manual on Business Demography Statistics
97 Parkwalk Advisors Ltd (VCM0004)
98 Lakestar (VCM0038) P.3
99 HMRC, Venture Capital Schemes Manual, VCM8123, Venture Capital Schemes: funding limits for investee companies: lifetime limit on risk finance investments
100 Octopus Group (VCM0007) p.5
101 Brown Rudnick LLP (VCM0012) p.1
102 Mercia Asset Management (VCM0010), Midven (VCM0034)
103 Enterprise Investment Scheme Association (EISA) (VCM0022) p.14

75. Mercia CEO Dr Mark Payton reiterated that the funding limits were too low. The limits led to founders constantly seeking new funding, holding back their efforts to scale-up

> The problem is that when you are deploying small amounts and you have this max of £20 million, you are not giving the business enough money to move from A to B. So [scale-up business operators] are forever raising money.[104]

76. **The funding limits on tax-beneficial venture capital funding through the EIS and VCTs schemes limit their utility in helping companies grow and scale-up in today's economy. Altering these limits presents an opportunity to support domestic business growth through established policy routes.**

77. ***HM Treasury should consult on higher funding limits on the EIS and VCT schemes with the objective of better supporting scale-up businesses. These revised limits should take effect from the renewal of the sunset clauses in April 2025.***

Availability of domestic capital

78. A key factor holding back scale-up businesses is the limited capital available for venture capital investment in the UK. HM Treasury told us that venture capital investment in the UK, whilst larger than in comparable European countries, is lower than in the US, where venture capital investment is around 1.4x that of the UK as a proportion of GDP.[105]

79. Venture capital funds in the US also tend to be larger on average. Dr Keith Arundale, senior visiting fellow at the International Capital Market Association Centre, presented data that US funds had an average size of $282m, considerably larger than UK ($168m) and continental European ($128m) funds.[106] Large funds are better able to support the demands for scale-up capital, and one result of the UK's position is, as the BVCA noted, that "UK companies often look overseas for expansion and growth capital".[107]

80. A consistent theme in our evidence was that an additional source of domestic capital for venture capital investment is in defined contribution (DC) pension funds, which have tended not to invest substantially in equities. DC pension fund assets are around £550 billion in 2023 and are expected to grow to £1 trillion by 2030.[108] We discussed this issue with Julia Hoggett, CEO, London Stock Exchange (LSE) and Nicholas Lyons, Lord Mayor of London, in an oral evidence session on stock market listing. Julia Hoggett stressed that overseas investors were dramatically outmatching UK pension funds when it came to investment in equities:

> A single Canadian pension fund invested more in one UK private company in 2021 than all of our pension funds did in private companies in the UK in the same year.[109]

104 Q159
105 HM Treasury (VCM0035) p.1 (in 2021, total UK VC investment in 2020 amounted to £11.9 billion, more than France and Germany combined)
106 Dr Keith Arundale (Senior Visiting Fellow at Henley Business School) (VCM0002) p.2
107 BVCA (VCM0039) p.7
108 Oral evidence taken on 26 April, HC1300 Q30
109 Oral evidence taken on 26 April, HC1300 Q30

The Lord Mayor further emphasised that investment in high-growth assets by UK pensions was disproportionately low relative to competitors of their size. He noted that Canadian and Australian schemes had around 35 per cent of their assets invested in unlisted securities, which include infrastructure, private debt, private equity and real estate. Of the £4 trillion UK pension fund assets (the second biggest in the world), only 7 per cent were invested in the same asset classes.[110]

81. Sir Jonathan Symonds, Chair of GSK, told us that pension funds tended to be risk-averse in their investments, partly due to "dispersion, fragmentation and non-critical mass of our pension assets", and that this ultimately resulted in them allocating less capital to equities and other high growth investments.[111] The BBB similarly told us that "defined contribution pension schemes are not investing in the UK's fastest growing and most innovative companies". Their research concluded that, in the case of a 22 year old, their retirement savings could be increased by 7–12 per cent if their DC pension scheme made 5 per cent of its investments in the UK's "fastest growing and most innovative companies".[112]

82. The consolidation of pension fund assets is a potential counter to this risk aversion. The Resolution Foundation argued in its 2023 report that DC schemes "are fragmented and almost exclusively invest passively through pooled investments", and that consolidation would form part of a solution that "would help drive scale in the active pension market and will over the medium term create a set of large funds […] to invest directly in unlisted, productive assets".[113] UKBAA similarly argued that a solution to increasing investment in venture capital was to "exploit opportunities for new pools of capital including DC Pension funds".[114] This view was echoed in our other evidence.[115]

83. When pressed on the pooling of pension fund assets to encourage greater investment in equities (and more listings on the LSE), Sir Jonathan Symonds reiterated the need for consolidation:

> The most important issue to begin with is to create the capital pool that can be allocated, and that comes from pension consolidation.[116]

All panellists of the stock market listing session agreed with this assessment.[117]

84. In the 2023 Spring Budget, the Government announced that work would begin on pension fund consolidation:

> To develop the next generation of globally-competitive companies that grow and list in the UK, and to bolster the retirement incomes of millions of ordinary people, it will be critical to unlock defined contribution (DC) pension fund investment into the UK's innovative firms […] The Government will work closely with industry and regulators to bring forward an ambitious package of measures by the autumn.[118]

110 Oral evidence taken on 26 April, HC1300 Q30
111 Oral evidence taken on 26 April, HC1300 Q21
112 British Business Bank (VCM0041) para 35
113 Resolution Foundation, Beyond Boosterism, 2023, p.9–11
114 UK Business Angels Association (VCM0037) p.8
115 BVCA (VCM0039), Longwall Venture Partners LLP (VCM0043)
116 Oral evidence taken on 26 April, HC1300 Q16
117 Oral evidence taken on 26 April, HC1300 Q13
118 HM Treasury, Spring budget 2023 3.82

The government also announced in the interim that they would be:

> Leading by example by pursuing accelerated transfer of the £364 billion Local Government Pension Scheme assets into pools to support increased investment in innovative companies and other productive assets. The Government will shortly come forward with a consultation.[119]

85. Scale-up capital, business growth and stock listings will be examined in further detail in our upcoming small and medium-sized enterprise (SME) finance inquiry.[120]

86. **Our evidence suggests that UK pension funds may be an untapped source for a deeper domestic capital market more inclined to risk investment in high-potential businesses. We welcome the Government's announcement of work on pension fund consolidation in the autumn. We will scrutinise the details of those proposals closely. Any change must pay due regard to the balance between risk and reward for pension investors. We also look forward to the forthcoming consultation on the pooling of Local Government Pension Scheme assets and encourage the government to progress this work with urgency.**

87. **Access to UK domestic capital has been a barrier for British businesses wishing to grow their operations beyond early venture capital funding stages. The US has deeper pools of capital for venture capital investment, and this has often led to UK firms looking overseas for funding. It is imperative that the UK makes best use of its pools of capital to make UK ownership an attractive option for the innovative and dynamic businesses which are the future of a successful UK economy.**

119 HM Treasury, Spring budget 2023 3.82
120 Treasury Committee, 'MPs launch inquiry into the financing of small and medium-sized enterprises', 3 July 2023

Conclusions and recommendations

Venture capital tax reliefs

1. Industry and government are aligned in their assessment that venture capital tax reliefs have had a positive impact on UK small businesses. They argue that the EIS, SEIS and VCTs are internationally competitive schemes that attract investors, which in turn has provided billions in financial support to start-ups and growing businesses since their inception. It is a consistently held view in our evidence that the removal of these schemes would negatively impact the UK venture capital market, materially limiting the support to entrepreneurs to help establish and grow their businesses. (Paragraph 16)

Sunset clauses on venture capital reliefs

2. The Treasury continues to express the importance of the EIS and VCT schemes and a desire to extend their sunset clauses. The Chancellor has told us he does not see a barrier to doing so. However, despite our raising concerns repeatedly, the Treasury has not provided a clear plan and timeframe for this extension. As the April 2025 deadline draws closer, this lack of firm action is damaging given that investment relies on the certainty of such support. (Paragraph 23)

3. *We recommend that HM Treasury extend the EIS and VCT sunset clauses beyond April 2025 at the earliest opportunity. HM Treasury should provide more certainty for founders and investors alike by announcing the length of the extension and a clear timeline for implementing it as soon as possible.* (Paragraph 24)

Diversity in venture capital

4. The diversity statistics in the venture capital market are unacceptable. Venture capital firms are dominated overwhelmingly by white men, and the recipients of venture capital funding are even more unrepresentative of the wider UK population in terms of gender and ethnicity. While there has been some improvement, it is happening far too slowly, and affecting rapid change should be viewed as a priority by government and industry. (Paragraph 31)

5. It is difficult to understand comprehensively the diversity breakdown of staffing and investment decisions across the venture capital market and its many small organisations. These firms do not have consistent policies on diversity or associated reporting, and a heavy emphasis on personal networks means that the true scale of the problem remains unseen. The most urgent course of action is to improve the transparency and consistency of data. This will allow more informed action to be taken by Government, arm's-length bodies and industry. Disclosure will also shine a light upon firms which are both best and worst in class, providing a reputational incentive to address diversity in the sector. (Paragraph 37)

6. Venture capital tax reliefs are uses of public funds. It is only right and proper that their use is open to public scrutiny, including whether such funds are deployed fairly to women and people from ethnic minorities. At the moment, their use is unacceptably opaque. (Paragraph 40)

7. *HM Treasury should make provision of diversity statistics a requirement for eligibility to receive EIS, SEIS and VCT tax reliefs. Firms should be required to disclose the gender and ethnic breakdown of both recipients of their funding and their own staff. This should take effect from the renewal of the sunset clauses in April 2025.* (Paragraph 41)

8. We support the Women in Finance Charter and the Investing in Women Code. However, we are concerned that as a voluntary initiative with a low rate of take up, progress in improving diversity in venture capital is too slow and restricted to the more enlightened firms. (Paragraph 49)

9. *All relevant organisations in the venture capital industry ought to become signatories to both the Women in Finance Charter and Investing in Women Code, if they have not done so already. We have not determined that compulsory membership is appropriate at this time but recommend that HM Treasury and the BBB adopt a "comply or explain" policy with regards to both. Organisations ought to comply with the Charter or Code or explain why they are not, as a condition of EIS, SEIS and VCT eligibility. This approach will communicate to the market that the default expectation is that firms become signatories. Should diversity statistics and reporting not improve quickly enough, we will instead consider calling for compulsory membership.* (Paragraph 50)

10. The British Business Bank has active funds designed to target specific market failures in venture capital, such as its regional funds. Representatives from the BBB have suggested that diversity-focused funds could theoretically be used in the same way, if there were provision set aside for them. The woeful diversity record of venture capital, which is failing to invest in high potential female and ethnic-minority-owned businesses, makes for a strong case for such intervention. (Paragraph 54)

11. *We recommend that the Government and British Business Bank consult on the creation of one or more venture capital funds with the specific purpose of promoting greater diversity in venture capital allocation.* (Paragraph 55)

Regional inequality in venture capital

12. The evidence we have received suggests that venture capital investment is concentrated in London, strongly disproportionately to its share of the UK SME population. This means that throughout most of the UK regions and nations, opportunities for investment in high-growth businesses are more limited than they ought to be. This may be undercutting the potential for economic growth across the UK regions and nations. (Paragraph 60)

13. The 7 and 10 year company age limits on EIS and VCTs serve to disadvantage businesses outside prime investment zones in London and the "Golden Triangle". Firms from other regions can take longer to become established and therefore may

miss out on venture capital support through no fault of their own. This risks holding back economic growth and innovation in areas that would most benefit from it. (Paragraph 67)

14. *The Government should extend the 7 and 10 year company age limits for support through the EIS and VCT schemes. HM Treasury should consult on revised limits, with the objective of not disadvantaging regional businesses. This revised limit should take effect from the renewal of the sunset clauses in April 2025.* (Paragraph 68)

Scale-up capital

15. The funding limits on tax-beneficial venture capital funding through the EIS and VCTs schemes limit their utility in helping companies grow and scale-up in today's economy. Altering these limits presents an opportunity to support domestic business growth through established policy routes. (Paragraph 76)

16. *HM Treasury should consult on higher funding limits on the EIS and VCT schemes with the objective of better supporting scale-up businesses. These revised limits should take effect from the renewal of the sunset clauses in April 2025.* (Paragraph 77)

17. Our evidence suggests that UK pension funds may be an untapped source for a deeper domestic capital market more inclined to risk investment in high-potential businesses. We welcome the Government's announcement of work on pension fund consolidation in the autumn. We will scrutinise the details of those proposals closely. Any change must pay due regard to the balance between risk and reward for pension investors. We also look forward to the forthcoming consultation on the pooling of Local Government Pension Scheme assets and encourage the government to progress this work with urgency. (Paragraph 86)

18. Access to UK domestic capital has been a barrier for British businesses wishing to grow their operations beyond early venture capital funding stages. The US has deeper pools of capital for venture capital investment, and this has often led to UK firms looking overseas for funding. It is imperative that the UK makes best use of its pools of capital to make UK ownership an attractive option for the innovative and dynamic businesses which are the future of a successful UK economy. (Paragraph 87)

Formal minutes

Venture capital – formal minutes

Members present:

Harriett Baldwin, in the Chair

Dame Angela Eagle

Emma Hardy

Andrea Leadsom

Anne Marie Morris

Draft Report (*Venture Capital*), proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 87 agreed to.

Summary agreed to.

Resolved, That the Report be the Nineteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Wednesday 19 July at 2.00 pm.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 27 June 2022

Will Fraser-Allen, Chair designate, The Venture Capital Trust Association (VCTA); **Michael Moore**, Director General, British Private Equity and Venture Capital Association (BVCA); **Christiana Stewart-Lockhart**, Director General, Enterprise Investment Scheme Association (EISA); **Richard Stone**, Chief Executive, Association of Investment Companies (AIC) Q1–57

Tuesday 31 January 2023

Alexandra Daly, Co-chair, Council for Investing in Female Entrepreneurs (CIFE); **Ladi Greenstreet**, CEO, Diversity VC Q58–115

Wednesday 24 May 2023

Dr Mark Payton, CEO, Mercia Asset Management; **Catherine Lewis La Torre**, CEO, British Patient Capital; **Douglas Hansen-Luke**, Executive Chair, Future Planet Capital; **Dr Amrit Chandan**, Co-Founder & CEO, Aceleron Energy Q116–182

Wednesday 14 June 2023

Andrew Griffith MP, Economic Secretary, HM Treasury; **Victoria Atkins MP**, Financial Secretary, HM Treasury; **Joanna Key**, Director Growth and Infrastructure, HM Treasury; **Helen Dickinson**, Director Business and International Tax, HM Treasury Q298–386

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

VCM numbers are generated by the evidence processing system and so may not be complete.

1 Arundale, Dr Keith (Senior Visiting Fellow, Henley Business School) (VCM0002)

2 Association of Investment Companies (VCM0019)

3 BGF (VCM0028)

4 BVCA (VCM0039)

5 Baronsmead Venture Trust plc and Baronsmead Second Venture Trust plc (VCM0024)

6 Big Society Capital (VCM0017)

7 British Business Bank (VCM0042)

8 British Business Bank (VCM0041)

9 British Screen Forum (VCM0036)

10 Brown Rudnick LLP (VCM0012)

11 Chilcomb (VCM0006)

12 Council for Investing in Female Entrepreneurs (VCM0025)

13 Enterprise Investment Scheme Association (EISA) (VCM0044)

14 Enterprise Investment Scheme Association (EISA) (VCM0022)

15 Federation of Small Businesses (VCM0020)

16 Form Ventures (VCM0030)

17 Gray, Mr Nelson (Senior Risk Finance Expert, World Bank) (VCM0013)

18 HM Treasury (VCM0035)

19 Innovate Finance (VCM0014)

20 Institute of Chartered Accountants in England and Wales (ICAEW) (VCM0032)

21 KPMG (VCM0023)

22 Lakestar (VCM0038)

23 Lawson, Mr Roger (Director, Roliscon Ltd) (VCM0001)

24 Longwall Venture Partners LLP (VCM0043)

25 Mercia Asset Management (VCM0010)

26 Midven (VCM0034)

27 NCC Group (VCM0026)

28 Octopus Group (VCM0007)

29 Parkwalk Advisors Ltd (VCM0004)

30 Pensions and Lifetime Savings Association (VCM0018)

31 Royal Society of Edinburgh (VCM0031)

32 SFC Capital (VCM0008)

33 ScaleUp Institute (VCM0040)

34 Shoosmiths LLP (VCM0011)

35 Station 12 Limited (VCM0009)

36 The Association of Investment Companies (VCM0045)

37 The Coalition for a Digital Economy (Coadec) (VCM0015)

38 UK BioIndustry Association (VCM0003)

39 UK Business Angels Association (VCM0037)

40 UK Research and Innovation (UKRI) (VCM0033)

41 VCTA (VCM0027)

42 Wealth Club (VCM0021)

43 we are radikl (VCM0029)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Future of financial services regulation	HC 141
2nd	Future Parliamentary scrutiny of financial services regulations	HC 394
3rd	The appointment of Dr Swati Dhingra to the Monetary Policy Committee	HC 460
4th	Jobs, growth and productivity after coronavirus	HC 139
5th	Appointment of Marjorie Ngwenya to the Prudential Regulation Committee	HC 461
6th	Appointment of David Roberts as Chair of Court, Bank of England	HC 784
7th	Re-appointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking, Bank of England	HC 785
8th	Autumn Statement 2022 – Cost of living payments	HC 740
9th	Appointment of Ashley Alder as Chair of the Financial Conduct Authority	HC 786
10th	The work of the Sub-Committee on Financial Services Regulations	HC 952
11th	Fuel Duty: Fiscal forecast fiction	HC 783
12th	Appointment of Professor Randall Kroszner to the Financial Policy Committee	HC 1029
13th	Scam reimbursement: pushing for a better solution	HC 939
14th	The work of the Sub-Committee on Financial Services Regulations	HC 952-i
15th	Regulating Crypto	HC 615
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17th	The appointment of Megan Greene to the Monetary Policy Committee	HC 1395
18th	The work of the Sub- Committee on Financial Services Regulations	HC 952-ii
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4th Special	Autumn Statement 2022 – Cost of living payments: Government response to the Committee's Eighth Report	HC 1166
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2nd	The appointment of Tanya Castell to the Prudential Regulation Committee	HC 308
3rd	The appointment of Carolyn Wilkins to the Financial Policy Committee	HC 307
4th	The Financial Conduct Authority's Regulation of London Capital & Finance plc	HC 149
5th	The Future Framework for Regulation of Financial Services	HC 147
6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breeden to the Financial Policy Committee	HC 571
8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
9th	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility	HC 966
10th	Autumn Budget and Spending Review 2021	HC 825
11th	Economic crime	HC 145
12th	Defeating Putin: the development, implementation and impact of economic sanctions on Russia	HC 1186
1st Special	Net Zero and the Future of Green Finance: Responses to the Committee's Thirteenth Report of Session 2019–21	HC 576
2nd Special	The Financial Conduct Authority's Regulation of London Capital & Finance plc: responses to the Committee's Fourth Report of Session 2021–22	HC 700
3rd Special	Tax after coronavirus: response to the Committee's First Report of Session 2021–22	HC 701
4th Special	The Future Framework for Regulation of Financial Services: Responses to the Committee's Fifth Report	HC 709
5th Special	Lessons from Greensill Capital: Responses to the Committee's Sixth Report of Session 2021–22	HC 723

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6th Special	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility: Government response to the Committee's Ninth Report	HC 1184
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8th Special	Economic Crime: responses to the Committee's Eleventh Report	HC 1261

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2nd	Economic impact of coronavirus: Gaps in support	HC 454
3rd	Appointment of Richard Hughes as the Chair of the Office for Budget Responsibility	HC 618
4th	Appointment of Jonathan Hall to the Financial Policy Committee	HC 621
5th	Reappointment of Andy Haldane to the Monetary Policy Committee	HC 620
6th	Reappointment of Professor Silvana Tenreyro to the Monetary Policy Committee	HC 619
7th	Appointment of Nikhil Rathi as Chief Executive of the Financial Conduct Authority	HC 622
8th	Economic impact of coronavirus: the challenges of recovery	HC 271
9th	The appointment of John Taylor to the Prudential Regulation Committee	HC 1132
10th	The appointment of Antony Jenkins to the Prudential Regulation Committee	HC 1157
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13th	Net zero and the Future of Green Finance	HC 147
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5th Special	Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee's Eighth Report	HC 999
6th Special	Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee's Eleventh Report	HC 1383