



Treasury Committee

House of Commons, Committee Office, London SW1A 0AA

Tel 020 7219 5769 Email treascom@parliament.uk Website www.parliament.uk/treascom

Victoria Atkins MP
Financial Secretary to the Treasury
Andrew Griffith MP
Economic Secretary to the Treasury
HM Treasury
via email

20 October 2023

Dear Victoria and Andrew,

Venture Capital Government Response – 22 September 2023

Thank you for providing the Government response to the Treasury Committee's Report on Venture Capital. The Committee is pleased to hear that HM Treasury shares our overall priorities with regards to the UK venture capital market and look forward to the development of your policy in the coming months.

We welcome HM Treasury's reiteration of the Government's desire to extend the Enterprise Investment Scheme and Venture Capital Trust sunset clauses. We also note your commitment to 'provide further details on the schemes beyond 2025 at a future fiscal event.' The Committee looks forward to this substantive update, and we urge you to not delay providing certainty to the market.

On gender and ethnic diversity in venture capital, we were pleased that you shared our concern around the low level of diversity present in the market, both in relation to the entrepreneurs receiving funding and the staff within investment firms themselves. We note that you consider our recommendations around transparency and disclosure would result in "legal complexity as well as further administrative burdens". We await the results of HM Treasury and the British Business Bank's work to explore further solutions to this issue. We look forward to receiving HM Treasury's alternative policy solutions.

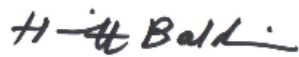
On scale-up capital and regional inequality, we note HM Treasury's view that extending the EIS and VCT company age and funding limits "would risk displacing investment away from the smaller companies". However, our evidence has shown that it takes firms outside of London much longer to grow to a comparable point where they might receive venture capital funding. In 2021, the Government's own Taskforce on Innovation, Growth and Regulatory Reform found that businesses in Greater London received "subsequent investments sooner with the average age of business being 6.01 years vs. 9.01 years for Rest of UK".¹ As the current age limit is 7 years, this effectively locks out some regional firms from accessing investment on a level playing field. Regional targeted funds under the British Business Bank will not be enough alone whilst the current rules remain in place. The Government must come forward with a solution to this imbalance in provision, including reconsidering changing the age at which support can be provided, even on a regional basis.

¹ Taskforce on Innovation, Growth and Regulatory Reform, 2021 report, para 150

We acknowledge the announcements made by the Chancellor in his Mansion House speech in July. Should the Mansion House Compact prove successful in its aim of 5% fund allocation to unlisted equities by 2030, this could go a long way in easing the scale up challenges faced by growing businesses – provided that this money finds its way to UK firms.

In line with the Committee's usual practice, I will be placing this letter and your response in the public domain. I would be grateful for a reply by 17 November 2023.

With best wishes,

A handwritten signature in black ink, appearing to read 'H-Baldwin'.

Harriett Baldwin MP
Chair of the Treasury Committee