Written evidence submitted by the Octopus Group

1. Introduction

1.1 Founded in 2000, Octopus is a group of companies which invests in the people, ideas and industries that will help to change the world. We want everything we do, whether in financial services or energy supply, to have a positive impact on the people it touches.

1.2 Octopus manages more than £10bn on behalf of retail and institutional investors, specialising in renewable energy, real estate (such as care homes and retirement villages), infrastructure (such as fibre networks), and smaller company and venture capital investing.

1.3 Our energy business, Octopus Energy is one of the fastest growing companies in the UK. It has grown from start-up to more than 2m customers over the last four years and is now the top-rated UK energy supply business, and the only one to be recommended by Which? four years in a row.

1.4 Octopus Group also invests in critical infrastructure in the UK economy, including renewable energy and real estate. We are the largest solar investor in the UK and our renewable energy assets generate enough electricity to power 730,000 homes. We have also invested £50m into two fibre broadband businesses – Swish Fibre Limited and Jurassic Fibre Limited - which aim to bring full-fibre broadband to underserved homes and businesses in the UK.

1.5 Octopus Real Estate, part of Octopus Group, is a leading specialist real estate investor, with over £2bn under management and a highly experienced team of over 110 professionals. We focus on the property lending and healthcare sectors.

1.6 We share the Government's ambition to make the UK the best place in the world to set up, scale, and list a company. To help achieve this, it is vital that that there is a "conveyor belt" of support for businesses from starting up to listing - one that is accessible to as many entrepreneurs as possible.

1.7 Lack of access to capital is a major barrier to starting and growing a UK business. As the economy recovers from the pandemic, ensuring businesses have sufficient opportunities to start up, scale up, and list should be a major priority for the Government.

1.8 This representation seeks to highlight ways to support businesses from start up to listing, focusing on the importance of protecting and improving the UK's balanced tax-relief ecosystem in a way that brings economic benefit to businesses across all regions of the UK – scaling up to level up.

2. How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?

2.1 The Government has implemented strong measures during the pandemic to support existing jobs and companies. To strengthen economic recovery after the pandemic, we believe that the Government should focus its attention on how best to create as many new jobs as possible.

2.2 Octopus supports measures taken by the Government to support business through the COVID-19 pandemic, including loan schemes and measures to support employee furloughing. While these have worked well, many businesses will need support if they are to reopen successfully and contribute to the UK's economic recovery.

2.3 In particular, providing small and medium-sized businesses with equity will be vital. While larger companies with an AIM listing will be able to raise funds when needed, unlisted firms – including in the high growth tech sector – are likely to struggle.

2.4 With this in mind, we particularly welcome the Government's Future Fund: Breakthrough, announced in the Budget in March. The money invested through this scheme will go some way in helping to address the scale up funding gap and, in doing so, boost innovation in the UK's small business ecosystem.

3. What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?

3.1 The Government should seek to empower people to take advantage of new opportunities. In particular, starting a business is something many people aspire to do, and rightly so. Starting a business teaches business owners a host of new skills, as well as being a route to financial success. Sadly, too many people lack the resources to pursue these opportunities, which has only been exacerbated by the pandemic.

3.2 We should also look to High Growth Small Businesses (HGSBs) for economic growth. Entrepreneurs can move quickly, come up with solutions, spot opportunities and evolve their business models. This nimbleness will be very powerful during the coming months and – subject to the right support from Government - can help the UK recover both quickly and sustainably.

3.3 Whilst the UK has developed a strong reputation in recent years as a good place to start a company, we believe that there is an opportunity to create new initiatives that would help to make setting up a company something that anyone could have a chance to do, no matter their background, gender, ethnicity, location in the country, or personal financial situation.

3.4 Recent research carried out by Octopus showed that setting up a company is something many people aspire to do. However, that research also revealed that 80% of people who are interested in starting a company would not be able to take that leap because they lack the financial resources to do so.

3.5 To address this issue, the Government should democratise the process of setting up a company, so that it is accessible to anyone, regardless of their existing savings. This is particularly important for areas of the country where it has been historically difficult to start a business.

3.6 **Recommendation: To support economic recovery and democratise the first stage of building a business for entrepreneurs, Octopus proposes a national Springboard programme. This programme will help to deliver economic regeneration across the country, particularly in areas which have been historically left behind.**

3.7 Octopus recognises the pressure on the Government finances as a result of the pandemic. At a time when public money is short, policy solutions must provide significant economic returns for their investment. A £500m commitment by HMT to a Springboard programme would be money well spent – it could create 100,000 new businesses, turbocharging and unleashing the entrepreneurial spirits of the British people.

3.8 The Springboard programme would include:

- financial support from HMT, potentially in the form of a grant of up to £5,000 per applicant, to support prospective entrepreneurs for a few months (so that they do not have to jump back into the first job that they can find, and can instead focus on getting their new company up and running)

- access to peer-to-peer mentoring, involving participation of people in local communities who have already taken the leap to set up their own business; and

- access to online training designed to equip people with the basic skills across areas like digital marketing, financial skills and understanding, how to prepare a simple budget and business plan, etc, as well as information on how to seek further funding (such as is available from the successful Start Up Loan Scheme once entrepreneurs have developed their thinking and have prepared a detailed business plan).

3.9 Octopus recognises the power of Local Enterprise Partnerships to act as a conduit into their local regions. Springboard grants could therefore be awarded through Local Enterprise Partnerships, ensuring that there is a fair pro rata allocation around the country to all regions.

3.10 The Springboard programme could also be piloted in parts of the country where historically there have been low rates of new business creation, to focus Government efforts on making a difference to those communities.

4. Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?

4.1 It is important that the UK helps its entrepreneurs to fulfil their potential once they've established their businesses. This will be a vital component of promoting long-term productivity growth and create new high-quality jobs

4.2 Too many entrepreneurs sell up too soon, often because they have not been able to access the capital they need to scale up and take their business to the next level. We share the concern of the Government about this issue.

4.3 The UK already has an existing funding "conveyor belt" that works well – this involves many early-stage companies benefiting from SEIS and/or EIS funding, followed by securing Venture Capital Trust (VCT) investment as they grow and progress. Existing reliefs encourage private investors to take more risk with their wealth by rewarding them through tax reliefs to invest into high risk early and growing companies.

4.4 Octopus has been managing VCTs since 2001. In that time, we have backed hundreds of companies, including several businesses that have gone on to be worth more than £1bn. VCTs in particular have been an effective way for small, growing companies to access the expertise and networks that they need to succeed.

4.5 **Recommendation: We recommend that the Government maintains the Seed EIS and EIS programmes, which provide essential and invaluable funding to many hundreds of early-stage companies each year.**

Scale up ISAs

4.6 The next step is to ensure start-ups are able access the capital required to scale their businesses. Despite the success of existing support mechanisms such as VCTs and in particular BPR, there is still a significant funding gap for scale-ups. There are already existing deep pools of private sector capital that could play an important role in supporting scale-ups; there is approximately £300bn held by 20m investors in ISAs that is invested at present in shares in companies quoted on the main market of the London Stock Exchange.

4.7 In 2013, HMT made a highly successful decision to extend the rules to allow ISAs to invest into companies listed on the Alternative Investment Market (AIM). Octopus now manages more than £1bn in AIM through ISA portfolios. Many thousands of investors have utilised the investment flexibility permitted by this rule change, and it has allowed roughly £5bn to be channelled through ISAs into companies listed on AIM.

4.8 **Recommendation: We now recommend a further expansion of the rules in order to allow ISAs to invest into unquoted companies.**

4.9 This can be done in a way that provides appropriate investor protection, such as by requiring investors to take advice from a regulated financial adviser before permitting any monies to flow into investments in unquoted companies. This is already how the industry operates in practice; 98% of our investments into AIM ISA are made based on advice from a regulated adviser.

4.10 From our analysis of the relevant rules and legislation, we believe that this would be a relatively quick and easy change to implement, and it would have the potential to result in a significant and rapid expansion in available capital for scale-ups, helping to ensure that the UK fulfils its goal of becoming the best place in the world to scale a company.

The Scale up "Conveyor Belt"

4.11 Whilst the UK has a strong "conveyor belt" of access to capital, there remain critical gaps. The Patient Capital Review of 2017 noted that while the UK entrepreneurial ecosystem provides significant financial support at the earliest stages of starting a business, the country's scale-up performance is not as strong - particularly in comparison to the US. As the Patient Capital Review noted, there is a lack of capital availability for scale-ups, particularly at the boundary of the existing EIS and VCT threshold.

4.12 The August 2020 Future of Growth Capital Report from the Institute of Innovative Finance and Deloitte also estimated a growth capital gap of around £15bn per annum, consisting of a structural gap of £3-6bn and an additional gap of £5-10bn due to COVID-19.

4.13 Fortunately, there is a solution that helps bridge this gap. Many unquoted and AIM listed trading companies benefit from the long-term patient capital that is provided by shareholders who intend to maintain their holdings until death in order to receive Business Property Relief (BPR).

4.14 BPR is a vital, but less well understood form of investment incentive that exists to encourage long term investment into unlisted companies at the next stage of their growth journey. As BPR incentivises investments to be held until death, it represents the most patient and stable form of capital available to a company and is often a key and valuable part of its investor base, enabling companies to plan for growth over the long term.

4.15 This stable, supportive capital has helped companies to survive during the pandemic and the stability and availability of this relief going forward will play a key role in allowing unquoted companies to resume their growth as we look to rebuild the economy as we emerge from the pandemic.

4.16 Throughout the pandemic, investment in AIM companies through BPR has protected companies across the country. Young & Co's Brewery plc is a family-owned business, with a large BPR investor base, that had to shut all its managed houses and pubs in March 2020 as a result of Covid-19. The company raised £88.4 million in equity capital in June 2020.

4.17 Mike Owen, Young's CFO, said, *'When lockdown began it was imperative that we took measures to improve the resilience of the balance sheet. BPR investment managers are not usually able to directly help with capital raises at short notice, but their support comes in other ways. Their long-term support of the business attracted large institutional investors who we were able to raise capital from, particularly in this crisis. Having BPR investment managers who understand our equity story builds long-term confidence from the wider investment community.'*

4.18 The economic benefit of these reliefs is felt across the whole of the UK. No matter where early-stage companies benefitting from EIS and VCT funding are based, as those companies grow and scale, they create jobs and industry that is spread across different regions.

4.19 A July 2020 report on AIM published by Grant Thornton is clear that AIM listed businesses – as generally more productive and scaling businesses – can play an important role in helping balance regional disparities.[1] The report noted this is particularly the case where there are clusters of AIM companies in certain regions where productivity is lower, such as the Midlands, Yorkshire and the North East. It added: "at that local level, many of these businesses will not only be important local employers and economic contributors but they will also contribute positively to the perception of the particular 'place' and be regarded as an important economic asset by those stakeholders responsible for economic development and place-based growth." BPR, therefore, is about scaling up to level up.

4.20 BPR investments are particularly attractive to older investors and will be an important relief in supporting the post-coronavirus recovery. It provides incentives for individuals who held their capital through successive low-expenditure lockdowns (and who will have been protected to a large degree from the economic consequences of the pandemic) to take risks with some of this accumulated capital, investing in growing British businesses and helping to unlock productivity.

4.21 This is a point that applies across UK nations and regions. Older investors capital has been historically underutilized and a relief like BPR helps encourage and stimulate investment in those areas that the Government is looking to level up in the coming years. It also means that this wealth serves the benefit of younger entrepreneurs as well as the older investors who have accumulated it.

4.22 The longevity afforded by BPR is particularly valuable across volatile market cycles and crises like the coronavirus pandemic, with BPR qualifying investors having no incentive to sell in fear of a market downturn. Octopus has seen no uplift in outflows from BPR qualifying investors since the start of lockdown.

4.23 The investment in smaller companies that comes from BPR hinges on investor confidence. Reassuring investors that the Government has no plans to change existing BPR structures will strengthen investor confidence. In turn, this increased confidence will drive further investment in these companies from investors that may otherwise use their capital unproductively.

4.24 **Recommendation: We believe that the BPR legislation underpins an important part of the funding landscape for scale-ups. The Government should reaffirm its support for the existing investor reliefs so that investors and their advisers can continue to be confident in recommending these vital investments to their clients.**

5. Is the Government doing enough to encourage corporate investment?

[1] Grant Thornton, Celebrating the contribution of AIM to the UK

Ensuring the UK is a great place to list a company

5.1 To encourage corporate investment, the Government needs to ensure UK entrepreneurs are able to list their companies here, rather than selling their companies too soon, or listing overseas. This will help UK companies to capitalise on their breakthroughs, driving economic growth and job creation. Octopus welcomes the Government's vision to make the UK an attractive location to list a company.

5.2 Whilst there are opportunities to make changes to the London Stock Exchange rules to facilitate listings of high growth companies from the UK and overseas, the AIM market is already a very successful market serving high growth companies. Octopus has been investing into AIM-listed companies for nearly 20 years and has deployed £2bn into this market.

5.3 Last year marked the 25th anniversary of the AIM market, which as the London Stock Exchange has noted, is among the most successful growth markets in the world. AIM is the envy of many other countries and is a significant UK success story. No other country in Europe has a market of any comparable stature for high growth companies.

5.4 Last year, AIM companies contributed £33.5bn GVA to UK GDP and directly supported more than 43,000 jobs. Over the past 5 years direct economic contribution made by AIM companies has grown by 35%, highlighting the thriving strength of this market. On top of this, AIM companies are more productive than the national average - £77,700 GVA per job vs £56,387.

5.5 This is in no small part due to the existence of the successful investment incentives we have discussed in this submission. The AIM market has consistently benefitted from the support of these reliefs, which is likely to have played a key role in making it so much more successful than other junior markets.

5.6 BPR qualifying investors are a vital component of AIM's success, and frequently represent more than 15% of a company's shareholders. They form a stable and long-term shareholder base that allows management to take a long-term growth outlook for the company. The AIM has never existed without BPR.

5.7 Tax incentives like BPR are an effective way of stimulating investment in small but high potential new businesses on AIM because they can compensate for some of the additional risks associated with investing in such companies. These incentives form a core part of the Octopus business model and the business models of many investors in the UK economy. They are also the foundation for AIM as a critical growth platform for smaller companies.

5.8 Providing patient capital to AIM-listed companies has several stabilising effects. Generally, knowing that the company has access to equity when needed and that its current capital providers are less likely to sell during economic downturns enables executives to focus more attention on the medium-term management of their business and executing growth plans rather than hitting quarterly targets at all costs.

5.9 CEOs of AIM listed businesses are clear about the role that BPR has played in providing stability and fundraising opportunities:

5.10 Nichols plc is a producer of beverage products such as Vimto. Marnie Millard, CEO, explained '*BPR funds make up 30% of our shareholder register and having long standing relationships with our BPR investment managers means that they are very familiar with our equity story. This allows them to take a long-term view and helps our business build resilience in the stock market*.'

5.11 Scapa Group plc, based in Stockport, is a healthcare and industrial group driving analytical insights to clients in these sectors. It raised £30m in May 2020. CEO Heejae Chae explained there are a couple of important ways in which patient capital from BPR investment managers has supported the business: *'The benefits of having patient capital from BPR investment managers are two-fold. Firstly, it helps reduce share price volatility and keep valuations steady – very important for raising capital. Secondly, the presence of respected BPR investment managers helps to attract large institutional investors who are able to deploy capital at short notice. It is more efficient for a business to raise capital from a handful of large institutional investors, particularly when looking to make an acquisition.'*

5.12 Going forward, we expect the UK to benefit from ensuring that the capital owned by wealthier older investors, continues to be directed towards supporting the growth of unlisted and AIM listed companies. These investors are likely to have suffered the least negative financial impact from the pandemic. Their investment in BPR helps to support many who have been more adversely impacted, ensuring fairness between different generations.

5.13 The AIM experienced uncertain years in 2019 and 2020 following significant political uncertainty, as well as the Office for Tax Simplification's review of Inheritance Tax which questioned the rationale of AIM shares qualifying for BPR. This came despite the clear intention of policymakers to extend BPR to unquoted shares in qualifying business assets in 1996, a major factor behind the extension of ISAs to hold AIM shares in 2013.

5.14 The AIM reaction to uncertainty around developments like the OTS review of Inheritance Tax shows the importance not only of maintaining reliefs by BPR but of firmly endorsing the current system of reliefs and incentives that many businesses listed on AIM rely on.

5.15 **Recommendation: We ask that the Government reiterates its intention to continue supporting BPR for qualifying shares listed on AIM, restoring long-term investor confidence in the market. Having been the most successful junior stock market in the world and accelerated the growth story of countless UK businesses, the outset of an economic recovery would be the worst time to damage market confidence.**

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