Written evidence submitted by The Coalition for a Digital Economy (COADEC) (PEG0080)

ABOUT COADEC

1. The Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scaleups. Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

2. In response to COVID-19, Coadec has been instrumental in building a coalition of 50+ investor & community groups and organising the Save Our Startups Campaign. We worked with departments across HMG to help design and implement the support package available for startups during this crisis.

LESSONS FROM THE PANDEMIC

3. The COVID crisis has highlighted the importance of technology for people, society and the economy. The solutions that our tech startups have provided have been at the heart of the response to the public health emergency and they have played a vital role in keeping businesses running and people connected through the lockdown. Across the country there is a growing recognition that digital technology has helped us respond and adapt to COVID-19. It is now time to focus on how we can build on this momentum to recover and thrive. By using technology with purpose we can build the future we need.

4. But to do so, the Government must first address the key challenges that have afflicted the UK's tech ecosystem during the COVID crisis.

5. The funding environment for early-stage tech companies has fundamentally changed. Venture Capital investment has fallen dramatically and Beauhurst data points to a 32% drop in investment into private companies in the first quarter of this year, as well as a 46% drop from this time last year.[1]

6. 53% of high-growth companies are in an 'at risk' category, and 17% are facing a high level of risk, falling into the severe or critical categories. Just under a third lie within the low impact group.[2]

7. 22% of jobs in the high-growth economy are immediately under threat, with 615k startup and scaleup jobs at severe or critical risk, and a further 1m jobs are at moderate risk.

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[1] Beauhurst (2020) 'The effect of coronavirus on UK investment: Q1 2020'
[2] Beauhurst (2020) 'Covid-19 Business Impact: Understanding the impact of COVID-19 on ambitious UK businesses'

8. This is not to say that some startups have seen a positive impact during the pandemic. Indeed, 15% of companies have experienced a positive outcome, with a new wave of customers and increased demand. But regional inequalities have been exacerbated by the pandemic with London housing the highest proportion of potentially positively impacted companies (17%), and the surrounding regions of the South East and East of England also doing well.

9. A significant proportion of companies in the South West region and devolved nations face a particularly difficult road ahead. Northern Ireland also features prominently on the map of severe and critically impacted companies, leaving few businesses in the low and moderate impact categories.

10. We need a levelled-up recovery that extends opportunity more widely. We need an innovation-led recovery to supercharge our economic bounceback. And we need a recovery that ensures the workforce has the necessary skills to secure the jobs of the future. By implementing policies that enable our tech startups to thrive, all of these objectives can be achieved.

11. This submission is based on feedback from startups, investors and wider members of the tech ecosystem. We have set a number of proposals that would help the economy bounce back and put the UK on a positive trajectory to building the future we need.

12. Our recommendations focus on: ensuring the workforce is fit for the future; unleashing pent-up private investment in startups; accelerating digital adoption to drive productivity and resilience; and ensuring innovation is at the centre of the recovery.

IMPROVING ACCESS TO CAPITAL

13. Britain's tech sector has been a huge success story. It is growing twice as fast as the rest of the economy and is securing the UK's position as a global capital for tech. Last year, the sector secured over £10bn of venture capital investment, third in the world after the US & China - and more than France and Germany combined. Whilst the tech sector as a whole employs over 2 million people, there are almost 30,000 startups and high-growth businesses in the UK who employ nearly 330,000 people.

14. Due to COVID-19, the funding environment for early-stage tech companies has fundamentally changed. Venture Capital (VC) investment has fallen dramatically as we enter the conditions of a recession — either because VCs do not know how long the crisis will last or because because their own investors ('Limited Partners' like pension funds) have taken huge hits in equity markets and may not honour commitments made or be interested in backing new or followup funds as they look to consolidate their own portfolios.

15. The Government has shown a great degree of flexibility and responsiveness to deal with the economic implications of the coronavirus crisis, and provide a support package for tech startups. The Department for Digital, Culture, Media & Sport (DCMS) were helpful in making representations to HM Treasury about the ineffectiveness of the Coronavirus Business Interruption Scheme (CBILS) for startups who are venture-backed and loss-making.

16. But whilst the Future Fund and the additional £750m for Innovate UK are extremely welcome, there are still a number of funding gaps for startups across the value chain.

17. For example, access to the Future Fund has been restricted to firms who have raised at least £250,000 from private investors over the past five years. This restricts a lot of viable startups from accessing funds. We continue to believe that this should be altered to £100,000, since it's still a substantial enough hurdle for due diligence purposes and it would allow another 2,302 of the most promising seed stage companies to participate.

18. Since the Fund does not cover the entire startup value chain, the Innovate UK funds and other Government schemes will be extremely important. The £750m allocated to Innovate UK to provide additional liquidity includes £550m of new funding to support R&D activity.

Bootstrapped startups

19. Most startups (by far) are bootstrapped, meaning that a founders' cash and savings represent a large chunk of a company's growth capital. This can be out of choice, if a founder does not have huge ambitions and is content with turning over a small profit, or it can denote the early stage of a company's development before they look for external finance.

20. Since these companies do not typically have much capital behind them from investors, they are unable to access cash from the Future Fund because they won't have raised at least £250,000 in the last five years.

21. Many profit-generating bootstrapped companies are eligible for the Government's Bounce Back Loans, but loss-making bootstrapped companies are not. More financial support needs to be given to these companies.

Super early-stage startups

22. Similar to bootstrapped startups, super early-stage startups are unable to access cash from the Future Fund because they will not meet the £250K raise threshold.

23. But unlike bootstrapped startups, these companies are extremely unlikely to be generating any profit because they are still focussed on turning their brilliant ideas into a product and undertaking R&D activities. As a result they will not be eligible for the Government's Bounce Back Loans because they are pre-revenue and fail the banks' 'viability' criteria.

24. This is why the £750m allocated to Innovate UK and the new small business grants from local authorities are so important. THe Government must make sure Innovate UK grants find their way to these startups.

Seed stage companies

25. Seed stage companies often rely on networks of investors to provide equity financing and investments range from anywhere between £100k to £1.5m. Most of the startups at pre-seed and seed stage are primarily funded by crowdfunders, angels, micro VCs and EIS funds. These investors do not have dedicated cash reserves (or very small amounts of reserve cash) to fund tech startups to overcome black swan events like the COVID-19.

26. As a consequence, the vast majority of UK seed stage startups will need to raise money (both to survive COVID-19 and to position them to grow once it is over) from new investors and its this new money into the market that has almost all dried up.

27. There are larger funds (especially those that fund larger scaling startups) that have large reserves and are able to continue to invest, but the vast majority of this money will be used to shore up existing portfolios rather than investing in seed stage companies. Beauhurst data shows a 50% fall in new deals from February to June 2020 and from now the situation will only get worse for tech startups needing new money from new investors.[3]

28. A sizable amount of pre-seed and seed stage companies are eligible for the Future Fund, and the Fund can potentially alleviate the financial pressures placed on these

[3] Beauhurst (2020) 'Covid-19 Business Impact: Understanding the impact of COVID-19 on ambitious UK businesses'

companies but the Government must be mindful and ensure that the Fund is sufficiently capitalised. It is critical that the Government does not withdraw support from the Future Fund without a concrete exit strategy.

Scaleups

29. Even well known tech companies that had pre-crisis good and growing incomes and were projected to become the UK's next wave of "unicorns" are struggling as their sales collapse to get new investment now. With recent Beauhurst data showing that UK scaleups are especially vulnerable at a time when £18.9bn of equity investment is identified as being at moderate to critical risk, there is a lot at stake.

30. Of the 116 scaling tech companies surveyed by Tech Nation, 77% reported that they have witnessed severe impacts to cashflow by recent events. 80% of companies said they are finding it hard to secure new customers, with 40% of companies saying they planned to lay off staff.[4]

31. Scaleups are able to access cash through the Future Fund's loan notes. Out of all the startups assessed across the value chain so far, scaleups are the most likely to be able to find matched-funding because their current investors are more likely to have the necessary reserves to get a deal done.

Unicorns

32. "Unicorns" are right at the top of the value chain. Britain's tech success has seen it become the "unicorn" capital of Europe, creating eight new $1bn companies last year - twice as many as Germany and three times as many as France.

33. At this stage of development, even the VC funds are thinning out and private equity companies, hedge funds and banks start to become much more common. Investments in these companies can reach multiple hundreds of millions.

34. The Government's current package of support doesn't apply to these companies. The Future Fund and Innovate UK funding is aimed at much smaller companies, and the maximum of £5m in matched-funding would be insufficient for their needs. At the same time, they find themselves locked out of the Coronavirus Business Interruption Scheme (CBILS) and the Coronavirus Large Business Interruption Loan Scheme (CLBILS), which would provide them with up to £50m in loans, because they are venture-backed and loss-making.

35. Given the unique circumstances, the Government should be mindful to provide bespoke assistance to our most valuable tech companies through Project Birch.

THE FUTURE FUND

[4] Tech Nation (2020) 'The Challenges Facing UK Tech in the Covid-19 Crisis - Scaleups surveyed'

36. The success of the Future Fund cannot be overstated. The British Business Bank has approved £419m worth of convertible loans for 429 companies (57% of all applications) since the Fund opened for applications in May.[5] This means that the scheme has successfully managed to attract £419m worth of private investment during a recession. It also means the Government has already had to top up the fund with an extra £170m from it's initial commitment, and it must continue to do so to match the demand for capital.

37. Coadec has been clear from the start that if the Fund is to be successful it must achieve a number of things: It needs to help the early-stage end of the market; it needs to support growth-stage companies; and it must also promote diversity and inclusion in terms of investment across regions, sectors, company size and ownership type (e.g. Women-led and minority-led startups).

38. The latest diversity data shows a promising start - 45% of all approved funding has gone to companies outside of London, 50% of companies which have been approved for funding have mixed ethnicity management teams, and 79% have mixed gender management teams. On the face of things, these figures appear to be better than the VC industry average but it is important to note that these statistics are skewed by including the senior management team and not just the founders.[6]

39. It would be a real missed opportunity if the Fund didn't spread the success of this next generation as widely as possible. But at the moment, access to the Future Fund has been restricted to firms who have raised at least £250,000 from private investors over the past five years. This restricts a lot of viable seed-stage startups from accessing the funds they desperately need. This floor should be altered to £150,000 (the ceiling for SEIS) which would provide a substantial enough hurdle for due diligence purposes. This change would allow another 2000+ of the most promising seed stage companies to participate.

40. Given the success of the scheme and the sheer scale of demand for Future Fund cash, the Government must continue the scheme until "normal" investment conditions return at the very least.

- **Recommendation:** The Future Fund must remain in operation until "normal" investment conditions return.
- **Recommendation:** The Government should consider lowering the investment threshold to £150,000 to allow more companies to access the scheme.
- **Recommendation:** The Government must provide more financial support for bootstrapped startups.

BOOST EQUITY FINANCING

[5] British Business Bank (2020) 'British Business Bank Business Support Schemes Deliver 46bn of Loans to Small Businesses'
[6] British Business Bank (2020) 'Future Fund Publishes Diversity Data of Companies Recieving Convertible Loans'

41. Prior to the COVID-19 pandemic, UK numbers were growing strong and UK venture investment saw it's biggest year in 2019. Despite this, VCs completed $116bn of deals in the US but just $13.2bn in the UK in 2019.[7]

42. One key reason for this is the role of institutional investors. In the United States, for example, 65% of venture capital funding comes from pension funds, whereas this figure stands at just 12% in the UK.[8] The government has spent several years examining how to release some of the cash held in Defined Contribution pension schemes for investment in fast-growing startups.

43. With assets in UK DC schemes expected to exceed £1 trillion by 2029, diverting just 5% of that to venture capital firms would equate to a £50bn funding boost for startups. Unfortunately DC funds are currently unable to invest in startups, through VCs, because of a statutory 0.75 per cent cap on annual fees. VC fees are significantly higher than passive asset classes with lower returns (equities) due to the costs of managing an unlisted portfolio of companies, which translates into a performance fee.

44. Previously, there have been issues raised about potential risks to savers, but a British Business Bank study has shown that a 5% portfolio allocation in startup investments appropriately balances against the risks of investing - protecting retirement savings.

45. By adjusting the annual fee cap, to account for performance fees, the Government can unleash this growth capital for startups and benefit savers at the same time. Research has shown that retirement savings for an average 22-year old could be increased by as much as 7-12 per cent, and the average 45-year old could see an increase of 6-7 per cent.[9] Other countries including the United States, Canada & China allow pension funds to invest in this manner and have seen their returns increase significantly.

46. Changing the pension charge cap would not only boost venture investment in Britain's fastest growing companies - but also ensure that a wider group of people reap the rewards from those businesses through their pensions. It would also provide the Government with an exit strategy from its Future Fund holdings.

- **Recommendation:** The Government should consider adjusting the pension charge cap which would release a huge pool of private capital.

AN INNOVATION-LED RECOVERY

[7] Stockill, T. (2019) "The ones that got away"
[8] British Business bank (2019) 'Analysis of UK VC Financial Returns'
[9] Oliver Wyman (2019) 'The Future of Defined Contribution Pensions Enabling Access to Venture Capital and Growth Equity'

47. Innovation will be vital to Britain's economic recovery. But unless we change the way innovation is funded, supported and diffused, recovery will leave too many people and places behind.

48. Despite record low unemployment rates, the British economy in 2019 was not one that unequivocally worked for most people. Productivity was low and stagnant by European standards (Ranking on 11th in the EU), and despite some recent growth, wages were still lower in real terms than before the 2008 financial crisis. Before COVID-19, wages were not expected to return to their pre-crash peak until 2025 – it is likely that this date will now be pushed back further.

49. The UK also had some of the highest levels of economic inequality in the developed world, along with some of the highest levels of regional inequality.

50. The UK's expenditure on Research and Development (R&D) has historically been low compared to other countries. This is extremely important because R&D leads to innovation, creating productive industries and well paid jobs.

51. In the longer term, improving the UK's productivity is vital to prosperity. But if the ultimate aim of increasing productivity is to raise wages and living standards broadly, innovation policy will not only have to pay attention to how productivity gains are achieved, but also how they can be distributed across the economy building economic and social resilience.

R&D TAX CREDITS

52. If we are to drive productivity and meet the 2.4 percent of GDP target we must increase the amount of R&D work carried out by startups. Yet, British startups are being held back from leading the charge towards recovery and a high-growth, high-wage economy because they are unable to claim R&D Tax Credit rebates for a range of technologies that are vital to their innovations.

53. The Government must build on its commitment to increase the rate of the Research & Development expenditure from 12% to 13% in the 2020 Budget by accelerating plans to allow investments in datasets and cloud computing to qualify for the credit.

54. In our previous work on the R&D tax credit, Coadec's research showed that 69% of startups saw the R&D tax credit cash as 'very important' to their early stage survival.[10] That's even more the case now.

55. With sales down and cash flow tighter than usual because of coronavirus, many startups are currently being prevented from benefiting from R&D tax credits because their latest public accounts list them as a 'going concern'. Since the majority of businesses will be classed as a 'going concern' for the foreseeable future, companies across different R&D intensive sectors will be unable to access these rebates.

[10] Coadec (2019) 'Credit Where Credit's Due: Improving the R&D Tax Credit'

56. The Government should also look to expedite payments of R&D tax credits. The Irish government has frontloaded its payments, bringing them forward by 6 months. This has provided immediate liquidity to companies across the startup to scaleup spectrum. We suggest that the UK government should do something similar.

57. This could be achieved by enabling R&D intensive startups to claim an advance payment based on their last approved claim or a projected R&D spend. Startups would be held liable for any underspend or overpayment, which HMRC could then claw back against corporation tax liabilities. This policy would be cost-neutral as it is only an advance, and it would help with important short-term cash flow issues (of course existing R&D should also be expedited).

- **Recommendation:** The Government must accelerate their plans to allow investments in datasets and cloud computing to qualify for the R&D Tax Credit.
- **Recommendation:** HMRC should suspend the 'going concern' criteria for R&D tax credits this current tax year to allow companies to continue their innovative work, and expedite payments of R&D tax credits.

SMALL BUSINESS DIGITAL ADOPTION FUND

58. The government has a clear focus on "levelling up" the regions and improving the productivity of SMEs will be key to achieving this. Both the Business Productivity Review and the Small Business Productivity Inquiry highlighted the need for SMEs to use more productivity boosting digital tools.

59. The coronavirus pandemic has also made clear the importance of digital tools for business resilience. It has been a reality check for small businesses that have been reluctant to embrace digital transformation and have found themselves woefully unprepared. With rare exception, operating digitally has been the only way to stay in business through restricted activity.

60. Where statistics are collected on digital adoption, the UK tends to be in the middle of the league table compared to its European competitors. For example, 42% of all UK enterprises buy cloud computing services; the equivalent figure in Finland is 65%, in Sweden 57%, and in Denmark 56%.[11] A digital adoption fund would help small businesses and first-time adopters receive relief on their first use of productivity-boosting digital services and technologies.

61. Although the vast majority (68%) of small business owners are aware of the upgrades and investments that would drive them forward in their digital transformation, one in three SMEs consider costs to be the biggest barrier for them to invest in productivity enhancing technology.[12]

62. Even though the coronavirus pandemic forced many SMEs to use more digital tools, the FSB has found that only 24 per cent of all small businesses adopted or increased

[11] Atos and WPI (2020) 'Unleashing Great British Enterprise'
[12] Institute of Directors (2018) 'Lifting the Long Tail'

their use of digital technologies (e.g. Zoom, Microsoft teams) to enable working from home. For those businesses that expect to 'remain open' this figure rises to 39 per cent.[13]

63. But even then, these are hardly the type of technologies (e.g. Zoom, Microsoft etc.) that are proven to be productivity boosting like cloud services, accountancy software, customer relationship management systems (CRM), supply change management and enterprise resource planning software.

64. The government can encourage SMEs to use more digital tools by establishing a Digital Adoption Fund which allows SMEs to reclaim 25% of their costs back. In much the same way that the Energy Technology List and Enhanced Capital Allowances were designed to incentivise energy-intensive industries to implement new technologies that cut their carbon emissions, this new scheme could consist of a list of approved productivity-boosting technologies which SMEs could reclaim against.

65. The adoption fund should run for an initial three-year period to provide a short-term boost. The fund should be evaluated to assess what digital services' businesses are buying and the impact these services have on performance.

66. There is international precedent for this scheme - with Singapore having previously developed a similar programme that supported local small businesses with tech adoption. A good starting point would be on technologies which the BEIS Business Basics Fund has already found to boost productivity - such as cloud computing, accountancy software, customer relationship management systems (CRM), supply change management and enterprise resource planning software.

- **Recommendation:** The Government should consider establishing a Small Business Digital Adoption Fund which would promote the diffusion of innovation and boost regional productivity.

BUILDING A WORKFORCE FIT FOR THE FUTURE

67. The COVID-19 crisis has made urgent what we already knew: the UK faces an enormous gap between the skills British businesses need to recover and compete, and the skills that workers have at the ready, particularly in digital and tech.

68. With a growing unemployment crisis, two problems have now come together as one: ensuring that Britain is poised to compete and lead in the economic recovery, and turning huge numbers of NEET individuals - many of them young people - into employable and productive workers. The Government has taken bold steps to shoulder furlough costs in order to keep people on payroll during the crisis, and now has the opportunity to turn costs into investment, and inject the economy with the talent that will grow it for years to come.

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[13] Federation of Small Businesses (2020) 'New Horizons: How Small Firms are Navigating the COVID-19 Crisis'

69. There will be many bad ideas in this space. Funnelling young people into pointless training or jobs that don't exist will be an expensive way to keep them off Universal Credit and do nothing to help employers create an economic recovery.

70. The UK has a long history of failed skills policies and the evidence base on which retraining interventions are most effective is not rich. British Governments have launched new skills policies roughly once a year for the last 40 years. Yet despite some limited successes, skills are still a major drag on productivity.

71. A National Retraining Scheme will only work if there is a clear link between available training and employer demand. It's no good funding people to do courses that are immediately appealing but have little prospect of leading to jobs. Likewise paying companies to host young people on temporary placements generates little useful economic activity.

TECH MUST BE AT THE HEART OF RETRAINING

72. When the Covid downturn struck it collided with a more persistent crisis in the British economy: a skills shortage that points to a £4.4 billion annual fee for businesses to backfill skills in technology and digital areas, in particular.

73. It's been promising to see strong demand for the digital skills courses in the DfE's Skills Toolkit, with more than 416,000 views of the toolkit and 136,000 starts of courses in a little over a month from its launch.[14] But it's important to note that there is a fundamental difference between supplying basic digital skills packages and fundamentally retraining or upskilling the workforce. Startups don't need people who can do basic digital marketing - they need workers who are skilled enough to provide these services to others.

74. With a substantial proportion of the working population on furlough, and many people in full-time employment who have noticeably less to do, the Government should leverage the success of our online coding and digital skills providers to retrain a large proportion of the population.

75. The Government could provide vouchers for furloughed workers, and those who are recently unemployed, to access the training schemes offered by private providers. Vouchers would only be provided for training opportunities where skills shortages persist and feature on the Shortage Occupation List. The funding for this is already available. The government has put £1.5 billion into a National Skills Fund where it sits ready to be put to use.

76. Apprenticeships should also be at the heart of the Government's retraining programme. They serve as an excellent route to deliver high quality training that is well understood and popular amongst employers. There are currently a number of

[14] D2N2 (2020) 'Government adds four new courses to the Skills Toolkit following initial success'

issues with the Apprenticeship Levy that is holding back employers from hiring more apprentices.

77. For example, employers repeatedly say that a block on hiring apprentices is that the money they pay through Levy can only be spent on the cost of training, which is only a small part of the total cost of hiring and employing an apprentice. The Government should look to fundamentally revamp the Levy and look to subsidise salary costs for new apprentices. This would significantly reduce the burden to businesses of new hires and stimulate demand.

78. Indeed, salary subsidies are an effective method for activating labour markets during times of recession. In France a 2009 scheme that removed employers' social security contributions for hires under the age of 25 in small firms delivered a marked increase in hiring in those companies. However, schemes focussed on training are less likely to suffer from substitution (where firms hire subsidised recruits instead of those they would have hired anyway), and will encourage better social outcomes.

- **Recommendation:** The Government should provide training vouchers for furloughed workers, and those recently unemployed, to upskill. These vouchers should only be valid for training opportunities where skills shortages persist and feature on the Shortage Occupation List.
- **Recommendation:** The Government should consider a fundamental revamp of the Apprenticeship Levy and look to subsidise salary costs for new apprentices.

PROVIDE LIFELONG LEARNING FOR ALL

79. Traditional loans for lifelong skills and training are expensive and offer poor value for learners. Learners often have poor credit rating (e.g. are young people with thin credit files), or may have been out of work for some time (e.g. due to Covid), or simply have had low paying jobs and want to earn more by getting a higher skilled job. This in turn makes loans expensive at APRs of more than 20%.

80. Not only this, but all of the risk is borne by the borrower - if they don't land the job they hoped, perhaps because the course was of poor quality, they are saddled with the whole debt and interest. As a result, a lack of finance options is constraining the personal private funding of education and skills in the UK at a time when it is needed most.

81. The Government could heed the advice in Onward's recent report, and extend the financial support available for university student loans to vocational courses and alternative academic study. In the report they recommend a £50,000 repayable loan, available to all adults without a degree at any stage of their career for full and part-time students.[15] This would allow people to use the value of the funding on different qualifications and at different stages of their life if they so wish.

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[15] Onward (2020: 'Bounce Back: How to put Britain on the path to prosperity after coronavirus'

82. Alternatively, there are innovative funding mechanisms that would unlock lifelong learning from the private sector in the form of Income Share Agreements (ISA). General Assembly and the Lambda School in the US are prime examples that use these mechanisms in order to expand access to high-paid jobs in software engineering and data science.

83. ISAs work a bit like the current public student loans system in the UK - nothing is paid up front for the course, and repayments are made once the earner has a job and earns above a certain salary (e.g. 7% of earnings above £25k). Those that never get a sufficiently high paying job don't need to pay back the ISA - unlike debt there is no 'millstone' around the neck of the learner. Those that do may end up paying back more than the cost of the course (i.e. the equivalent of interest, and to 'compensate' the finance provider for those who don't repay), but this amount is capped in total (either number of payments, or a multiple of the amount of finance), and also only ever a fixed proportion of salary above the threshold (e.g. 7% over £25k).

84. What makes this a great funding mechanism is the fact that the providers only get paid if their graduates secure good jobs after their training. This means these providers have a strong incentive to invest in after-graduation careers support, and build strong partnerships with large employers. By contrast, universities get paid regardless.

85. However, these funding mechanisms are prevented from operating in the UK due to lack of rules around income share agreements. In the UK, they would be treated as credit agreements, which they are not, meaning that the organisation offering the agreement has to state a representative APR. But this doesn't work because under an income share agreement, since the 'repayments' are dependent upon future income.

86. The Government should convene a joint HMT-FCA working group to design a new regulatory regime which recognises that ISAs are different to consumer credit products and need their own framework. This will allow the new finance to flourish, by bringing regulatory certainty and new capital into the sector. In turn, it will unlock education and skills for thousands of learners – without creating an additional burden for the Treasury.

- **Recommendation:** convene a joint HMT-FCA working group to design a new regulatory regime which recognises that ISAs are different to consumer credit products and need their own framework.

July 2020