Industrial Strategy Team
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

By email: industrial.strategy@beis.gov.uk

17 April 2017

Dear Sirs,

Re: Building our Industrial Strategy – Response to the Green Paper from UK Business Angels Association UKBAA

I am submitting this response on behalf of UK Business Angels Association (UKBAA), the trade body for angel and early-stage investment in the UK. UKBAA represents over 15,000 investors through 65 angel groups. Our membership community also includes 13 online platforms including equity crowdfunding; 25 early-stage VC and EIS/SEIS funds; over 20 accelerators and incubators; 40 associate members including professional advisors and other finance organisations, and a range of individual investor members.

Our main objectives as a trade body are to build a connected marketplace for angel and early-stage investors in order to back the UK's great entrepreneurs; act as the voice of the angel and early-stage community to government and key decision-makers; support access to quality investment opportunities; provide market intelligence on angel and early-stage investment; and support quality standards in angel investing including access to training and skills for effective angel investing.

Angel investing has been continuing to grow and represents a vital source of investment for small business across the UK. Unfortunately, it is not possible to have any accurate information on the size of the angel market since many private investors do not provide any data on their investing. However, angel investors have widely recognised the benefits of the EIS/SEIS tax breaks to support their investing and enable them to take risks in backing small businesses, with 8 out of 10 deals reported to be done under the EIS/SEIS scheme in our 2015 Nation of Angels Report[1]. We also know that angel investing is most effectively carried out in syndication, which enables angels to invest between £100k and £1.5m (in the first round) in small businesses, but often also co-investing alongside other sources such as grants, VCs, crowdfunding and banks.

We are notably very grateful to the British Business Bank for their support to UKBAA in carrying out a new piece of research on the market in 2017, to enable us to have some new data on angel investing and we look forward to sharing this information with Government once this becomes available to support further policy development.

[1] "Nation of Angels" January 2015 commissioned by UKBAA and CFE and carried out by ERC http://3pymgx13iq6338mm7t4caazw-wpengine.netdna-ssl.com/wp-content/uploads/2015/09/ERC_Nation_of_Angels_Full_Report.pdf

Response to the Green Paper:

We welcome the opportunity to comment on the Industrial Strategy Green Paper and to put forward our views on how angel and early-stage investment can support the Government's agenda for innovation, growth and productivity; notably in view of the extensive changes ahead for our economy and the political environment here in the UK now that the process for Brexit is underway.

Our response will focus on two pillars of the Industrial Strategy – Investing in science, research and innovation (Pillar 1), and Supporting businesses to start and grow (Pillar 4). We have also included comments on the importance of access to talent and skills (Pillar 2) as part of our response on these two pillars.

1. Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?

2. Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth?

UKBAA welcomes the clear focus on tackling challenges such as productivity and growth; and addressing the UK's long-standing structural imbalances. The Green Paper offers the opportunity to build consensus on the strategy and thus leading to a more sustainable long-term approach.

The Green Paper sets out a measured and evidence-based approach to identifying where government is best placed to act to enable the private sector to take the necessary steps to increase competitiveness and productivity.

We welcome the 10-pillar approach and feel overall that these cover all the main areas of policy, but it will be vital to ensure that this does not result in "silos" and that we can build on these different areas to ensure a connected overall framework that will ensure a coherent approach where all areas of both the public and private sector can successfully work together to build a vibrant and productive economy for the UK in the years ahead. On this basis, we are also pleased to note that the successful implementation of the strategy relies not just on the Department for Business, Energy and Industrial Strategy, but seeks to bring coherence on policymaking across other parts of government.

Pillar 1 – Investing in science, research and innovation

5. What should be the priority areas for science, research and innovation investment?
6. Which challenge areas should the Industrial Strategy Challenge Fund focus on to drive maximum economic impact?
7. What else can the UK do to create an environment that supports the commercialisation of ideas?
8. How can we best support the next generation of research leaders and entrepreneurs?
9. How can we best support research and innovation strengths in local areas?

1. Angel and early-stage investment plays a vital role in supporting the commercialisation of research. Many investors are prepared to go in early to back the first stages of commercialisation in the research and development process. However, it will be vital that the UK maintains an environment that is supportive of investing in R&D and intellectual property.

We therefore welcome the Government's statement that it is committed to pursuing a 'major upgrade' in the role of research and innovation across the country.

2. We recognise that the UK has to address some key challenges to ensure it can achieve a leading position in the promotion of research and innovation and in view of the OECD's identification of UK as having an average current R&D spending at 1.7% of GDP, below the OECD average of 2.4%.

3. There have been some important developments in the support of R&D over recent years including the introduction and incremental improvements to the R&D tax credit, the introduction of Catapult Centres and bringing a new role for universities in facilitating the growth of entrepreneurship and building stronger links with business. We welcomed the additional resources committed to science and innovation in the Autumn Statement 2016 and which offered an opportunity to build a more sustainable base for the UK to become a global leader in terms of its science and innovation performance.

4. We recommend that Government continues to support the key schemes already established including Innovate UK which has had a major impact on bringing both financial and direct support to the research and innovation community and in creating a strong interface with the private sector and sources of investment to support long term commercialisation. Innovate UK's competitive grants have been an important source of funding for companies introducing new technologies and innovations to the market. We welcome the Government's commitment to increase the level of Innovate UK's funding through the Industrial Strategy Challenge Fund and very much endorse a return to the grant-focused approach. These Innovate UK grants have been a very effective way of attracting co-investment from angels and early-stage investors. Our investment community has identified that Innovate UK grants provide a strong validation of potential and offers a strong driver for attracting further angel and early-stage investment alongside the grants to support further commercialisation. We recommend that this approach to financing research through grants, pre-proof of concept, is maintained.

5. We also support the opportunity to bring the innovation and research community and policy agenda closer together through the new combined body created as UKRI. The UK continues to perform poorly when it comes to the commercialisation of research and the UKRI presents a positive opportunity to create a more joined-up approach to R&D funding with sector expertise pooled, and opportunities to improve collaboration between researchers and business, including investors. However, we feel that it is vital to ensure that the focus going forward remains very much on ensuring the commercialisation of R&D and enabling innovating businesses to succeed through a strong interface with private investment and industry.

The role of Catapult Centres in supporting effective commercialisation

6. We especially support the opportunity to further develop the role of the Catapult Centres as key centres to support the effective commercialisation of emerging technologies and industry strengths here in the UK. They offer access to resources, expertise and an interface with industry and investment for innovating businesses to reduce the gap between research and commercial activity. Notably we should further develop the capability of the Catapults to

exploit the UK's sector and industry strengths by ensuring stronger linkages with the investment community.

7. At UKBAA we have identified that there is huge potential for the Catapults to be working more closely with the angel and early-stage community to enable the businesses that the Catapults are supporting to have more direct access to sources of risk capital to support their effective commercialisation and growth. The Digital Catapult Centre in London and the Manufacturing Technology Centre in Coventry have been effective in creating direct opportunities for the angel investment community to get involved with their activities, but much more could be done to increase the interface for all the Catapults. We recommend that Catapult Centres take action to work more closely with their local angel and early-stage investment community including such areas as: showcasing the Catapult-supported businesses to investors; inviting investors to informal sessions to meet the Catapult businesses; building more awareness-raising of the sectors they are supporting including access to market intelligence; opening up opportunities to develop Angel Hubs to enable more general linkages between angel investors and businesses supported at the Catapult Centres, including the potential of developing their own angel investment communities.

8. We also are supportive of the continuing role of the Knowledge Transfer Network (KTN) in creating an effective interface between research and innovation-based businesses and the wider business community and industrial partners, especially across the UK regions. At UKBAA we have been especially supportive of the role of KTN and Innovate UK in rolling out the Venturefest model to bring extensive awareness of the opportunities to back innovating small businesses across the UK's regions, bringing together universities, business, investors and the public sector to highlight local strengths and innovation potential. We recommend that these opportunities are continued and strengthened. Industry-university collaboration is further enhanced through Knowledge Transfer Partnerships (KTPs), which have supported many businesses in further developing their innovation capacity across a wide range of sectors.

Role of Universities: IP, spin-outs and entrepreneurship

9. We have one of the best environments for university and higher education in the world: a source of cutting-edge research and innovation. However, our universities need to take further steps to ensure that this research and innovation leads to commercial and economic opportunity for the UK, with easier access to the IP being created, whilst also supporting further opportunities for spin-out and entrepreneurship.

10. Many angel and early-stage investors are interested backing innovating businesses emerging from the universities and see the opportunity to provide early investment into exciting IP to support the next stage of commercialisation and growth. This has been further supported by the SEIS tax break to support businesses at this very early-stage of commercialisation. However, the current approach to ownership of Intellectual Property by the universities restricts most angel and early-stage investors from directly investing into university-based innovation. We therefore welcome the Government's commitments in the Green Paper to commission independent research into approaches to commercialisation, and a review of the incentives created by the current Intellectual Property system.

11. We are very supportive of universities' expansion of entrepreneurship courses both at undergraduate and post-graduate stage. We are especially supportive of universities that seek to develop active relationships with the investment community to ensure that students can gain awareness of the role and requirements of investors; and that encourage early interactions with investors as mentors and informal advisers as part of their entrepreneurial development and to support investment readiness. At UKBAA we have been delighted to support a wide range of activities at universities and business schools including business plan competitions and pitching events to enable regular dialogue with the investment community. We are aware that many of our angel investor groups around the country have been engaged with their local universities in this way. We recommend that universities ensure that strong relationships are built with their local investment community and create regular opportunities for interface between investors and the students on their entrepreneurship courses. We are also supportive of universities creating incubators and accelerator programmes and enabling regular showcases and interactions between businesses and investors.

12. A number of universities have built their own investor communities, frequently drawing on their own alumnae as a source of investors and also opening up to the wider community. Examples includeLondon Business School, Surrey University, Imperial University, Cambridge University, Oxford University, London School of Economics, Henley Business School with Reading University, and Warwick Business School. At UKBAA we have supported the establishment of several of these investor groupings and are supportive of many more universities exploiting the power of their own alumnae community and local business community to support the growth of angel investor groups that can invest in innovating businesses emerging from the university.

Access to R&D funding

13. We have welcomed the additional funding offered by Government to support innovation and R&D announced in the Autumn Statement and the Spring Budget. We are very supportive of the new Industrial Strategy Challenge Fund, bringing considerable new resources to build the UK's industry strengths. Nevertheless we are keen to ensure that the sectors and industries chosen for support by the Industrial Challenge Fund are those that will directly attract investment going forward. Indeed, these new Funds, which will mainly be offered by Innovate UK as grants to support the further commercialisation of research, are seen as co-investment funds to attract further private sector investment alongside. This means that there should be close alignment in the choice of sectors and activities to support to ensure that these are identified by the investment community as offering the greatest potential for commercial success and global growth. This will be vital to maximise the potential of these new Industrial Challenge funds, to ensure the availability of long-term investment to support the successful exploitation of these industrial strengths going forward.

14. Nevertheless, despite the Government's new funding proposals to support research and innovation and the new combined body for UK Research and Innovation, there remains ongoing uncertainty for those making use of EU Horizon 2020 funding for research and development. Whilst the Government has confirmed that it will underwrite Horizon 2020 grants made up until the UK leaves the EU, more clarity is required about the framework, if any, that will replace it. Horizon 2020 has enabled extensive collaboration across borders to

support new research and innovation and we hope that steps will be taken to maintain these opportunities going forward. The programme is not confined to EU members and many other countries around the world take advantage of Horizon 2020, so the UK may have the opportunity to continue with the programme. Whatever the decision, it is of utmost importance that current funding levels for UK R&D are not reduced beyond 2020. Such a loss of funding would likely prove highly damaging to the very sectors that the Government sees as the UK's global strengths post Brexit.

Access to skills and talent to support the growth of Innovation

15. We recognise the importance of the UK's universities and centres of research excellence (as well as the many innovating businesses and research teams emerging from these institutions) being able to access the skills and talent they need both from within and beyond the UK. This will also be vital to support the objectives of the Industrial Challenge Fund. We welcomed the announcement in the Spring Budget 2017 of the National Productivity Investment Fund ("NPIF") to support PhD places, research fellowships and that these qualifications will be directly linked to key sectors identified in the Industrial Strategy, also allocating specific funding to target international researchers.

16. However as we negotiate the outcome for the UK under Article 50, it will be vital for us to continue to attract the best international talent. Angel and early-stage investors find that one of the greatest challenges for the innovating growth-focused businesses that they back is finding the talent and skills that they need to support their successful scale-up. Drawing on a diverse pool of talent and skills from anywhere around the world and being able to access this in a timely manner will be vital for the success of these small, growth-focused businesses here in the UK. It is therefore vital that the Government urgently resolves the issue concerning access to international talent and skills, importantly in relation to EU nationals who are currently employed by such businesses here already, in order to provide the certainty that businesses need to ensure they can maximise their growth opportunities going forward.

17. It is also useful to mention here that UKBAA participated in the Migration Advisory Committee ("MAC") Review of the Tier 1 Entrepreneur and Graduate Entrepreneur visa routes in 2015. At that time, several of our recommendations were accepted by the MAC, including the recommendation that business angel investment is regarded as one of the core criteria for assessing eligibility. We also supported the creation of a 'start-up visa', whereby individuals could receive endorsement from business accelerators; and lowering the investment threshold to reflect funding requirements in some innovative sectors. We hope that the Home Office will now take the opportunity to implement these proposals to support an effective and flexible system for the flow of talent and skills post Brexit.

Pillar 4 – Supporting businesses to start and grow

20. Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?
21. How can we drive the adoption of new funding opportunities like crowdfunding across the country?

22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?

Building capacity for equity investment in the regions outside the South East

18. At UKBAA, we are aware that there is a significant lack of visible angel investment outside the London Cambridge Oxford triangle, where over 70% of angel investing currently takes place. This reflects the overall picture for equity investment as set out in the Green Paper and based on the British Business Bank's recent research. We are also aware that of the significant £1.5bn invested through the EIS/SEIS scheme in 2015-16, which was a record year for use of this scheme, over 60% of this private investment capital was deployed in London and the South East.

19. We welcome the role of the BBB in stimulating further availability of capital in the Northern regions through the support of the £400m Northern Powerhouse investment funds of which around £60m will be provided to support equity investment. We are also supportive of the £200m Midlands Engine Room Fund, of which a proportion will be available for equity investment. We very much hope that these new regional funds will focus on leveraging private investment alongside these public investments in growth businesses; and notably will seek to co invest alongside angel investors and act as a stimulant for more angel investment in these areas.

20. We are also supportive of the additional £400m capital available to BBB to support new Enterprise Capital Funds as a stimulant to private capital and have been pleased to see some valuable new funds come on stream during 2016-17 including the new £80m Seraphim Spacetech Ventures Fund, to stimulate new private capital into this exciting sector and the new Accelerated Digital Ventures fund bringing a further £150m to the marketplace to stimulate further local investment into digital economy, especially around the regions.

21. However, whilst we do have some active angel investment communities operating in the regions outside London and the South East, there is an insufficient critical mass of angel investors relevant to the needs of growing small businesses in these areas. Thus for many businesses seeking equity investment, they currently have to look to find investors in London and the South East.

22. At UKBAA, we have noted that there remains a lack of awareness in the regions among many individuals, who have financial capacity and experience, about the benefits and opportunities offered by angel investing to back growth potential businesses within their own local economies. We believe there is a need for significant further capacity building actions to be taken on a nationwide level to ensure that we can effectively deploy local private investment capacity and experience into small businesses across the regions and make effective use of the leverage potential of these new funds. Notably, we need to ensure there is an effective sustainable pool of angel investment to support the growth of small businesses post Brexit. With this in mind, at UKBAA we are proposing some key actions that can be taken at national and regional level. This includes:

23. ***Awareness and education for angel investing***: A key aspect of this is the need for a nationwide programme of education and awareness on angel investing. At UKBAA we are in the final stages of developing a new e-learning programme for angel investing, which will be available from June and will be the first national professional qualification in angel investing. The programme has six modules and includes extensive content drawn directly from experienced angel investors, offering an in-depth understanding of the process of angel investing, how to evaluate a small business deal and make effective investments, and how to bring support and experience post-investment. We intend to deploy this widely across the UK to bring much greater awareness, knowledge and skills to those with the financial and experiential capacity to become angel investors, and also advise on how to get involved in angel investing in their locality.

24. ***Local capacity-building for angel investing***: We believe that it is vital for all key players across the regions to work together to support local awareness raising, access to education and direct support to building angel syndicates, as well as linking to local businesses seeking investment. This should be supported by the LEPS, local Growth Hubs; local business networks; key business clusters; accelerators and innovation centres and across the range of finance providers, including VCs, the banks through their work with HNW clients, wealth advisers, professional intermediaries and advisers to create a connected framework to both build awareness and provide support and education. At UKBAA we are developing such a programme with Tech North and are seeking to work with other key players in the Northern regions to support such activities, but much more should be done to create a long-term programme of support for building angel investment.

25. ***Angel Hubs***: At UKBAA we are also developing the concept of Angel Hubs to provide a focal point for building awareness and opportunity for angel investment. We see that these can be physical locations where angels can have space to drop-in and access some shared workspace, meet other local angels or syndicates; gain access to sources of advice and information on angel investing (for example about EIS/SEIS tax breaks), but also as a key means to link with sources of deal flow such as local accelerators and incubators, including access to pitching events. These hubs will also offer access to a range of tools and support, including e-learning, and links to an online deal showcase for their locality. These should be in key locations in cities and linked to other key centres including local Growth Hubs, growth networks or innovation centres. We have currently identified the opportunity to launch an Angel Hub at the Birmingham Innovation centre iCentrum, working with Barclays Eagle Lab, and have identified the need to develop hubs in Manchester, Sheffield, Leeds, Bristol and other key centres.

26. ***Regional Angel Co-Investment Funds***: We have noted the success of the Scottish Investment Fund in building and leveraging the investment capacity of local angel syndicates across Scotland through its angel co-investment fund. At UKBAA we have been extremely supportive of the role of the £100m Angel CoFund, supported by the British Business Bank in deploying additional capital alongside angel syndicates. This has brought considerable firepower to angel groups, especially those with strong lead angels and has enabled several businesses across the UK to successfully increase their growth capacity by the addition of this finance also supporting further funding rounds. However, the CoFund

has been less successful in stimulating new angel syndicates to form, especially in regions, where angel investing is less developed.

27. Thus we are in favour of the opportunity to establish regional angel co-investment funds, potentially supported by BBB and the LEPs, but these should invariably be combined with an effective programme of angel capacity building and education as outlined above. This should be designed to encourage many new angel investors to come forward and should include: the provision of awareness raising and education, support for the development of new angel syndicates, support for the role of lead angels, and support for building sector-specific angel syndicates where relevant. We are also supportive of sector-specific co-investment funds where the sectors may be especially worthy of a strong focus and are potentially underserved in attracting angel investment, including for example the creative industries and life sciences. We are keen to bring UKBAA's support to implementing such capacity building programmes alongside any new angel co-investment funds being developed here at regional or sector level.

28. ***Building a bigger pool of women angel investors***: We also need to be much more effectively deploying the investment capacity of women with finance and business experience since the proportion of women business angel investors currently stands at only around 14% per our Nation of Angels research[2]. There is need for a diverse base of investors to back small businesses and bring a broader range of experience to support the growth of the businesses post-investment. At UKBAA we have begun an initiative to build further awareness among women with relevant capacity. This includes a short piece of research, working with Angel Academe (an active angel syndicate focused on investing in women in technology), supported by Cass Business School, to identify the barriers for women to become angel investors. We will also be carrying out further actions for awareness raising and education across the UK, but there is much more to be done to access this untapped pool of finance across the country.

29. Notably this will also increase the potential of many more women entrepreneurs to successfully access investment since currently there are significant barriers experienced by women seeking investment when the population of investors is largely male. Thus we hope that this will lead to many more women entrepreneurs coming forward to access the equity investment they need to grow their business.

30. We believe that there are not enough role models of women who are successfully angel investing and we very much support the work of the AllBright Fund for their work in raising awareness among women of the opportunity to invest in other women. We also hope that many more women who are successful in business and professions and who are investing, or intend to start investing, will come forward and make themselves known as role models and ambassadors. Thus there is an opportunity for government to support UKBAA in a

[2] "Nation of Angels" January 2015 commissioned by UKBAA and CFE and carried out by ERC http://3pymgx13iq6338mm7t4caazw-wpengine.netdna-ssl.com/wp-content/uploads/2015/09/ERC_Nation_of_Angels_Full_Report.pdf

national and regional effort to build this pool of women investors as a key part of a UK strategy to build further angel investment to support businesses post Brexit.

Building further access to crowdfunding, especially across the UK's regions:

31. We are supportive of ensuring access to a range of alternative investment opportunities across the UK. At UKBAA we are working with range of equity crowdfunding platforms as part of our member community. We are aware of the important role they play in bringing access to capital for many businesses and have encouraged many people to put their money behind small businesses. However as detailed above, we maintain that there is a need to deploy "smart" capital and decision-making on which businesses to back, and this requires knowledge and skills. We therefore see the opportunity to work with crowdfunding platforms to enable their investment communities to have access to e-learning to build skills and knowledge within the crowdfund investor base. This will be a key means to ensure the successful deployment of further regional private investment through these platforms and to support effective decision-making to identify the right businesses that can successfully achieve growth with the support of equity crowdfunding.

32. We are also extremely supportive of investor-led approaches to crowdfunding so that the wider community of crowdfund investors can follow the decision-making of experienced investors. This ensures that businesses have been selected based on a clear evaluation of their growth and investment potential. Thus, we would recommend that this model is pursued in promoting further growth of equity crowdfunding across the regions. Notably, any further development of equity crowdfunding across the regions should be part of a wider strategy for developing a connected supply chain of finance for entrepreneurs, ensuring linkages and co-investment with other sources of finance provision in the regions.

Addressing the barriers to scale-up:

33. At UKBAA we are immensely supportive of the work of the Scale-Up Institute in highlighting the core requirements for developing an effective policy and implementation framework to support the UK's capacity to build many more scale-up businesses across the UK regions.

34. We are also supportive of the Government's efforts to prioritise support for scale-up including the appointment of a new Minister for Scale-up, Margot James MP, and look forward to opportunities to work alongside the Minister and her team in ensuring the role of angel investment is integrated into policy for scale-ups.

35. **Access to talent and skills for scale-up**: In addition to our comments under skills to support innovation under Pillar 1, above, we are also acutely aware that one of the key challenges that fast-growing businesses face is reliable access to talent. This best talent needs to be drawn from wherever in the world it can be found to ensure that UK's businesses are not held back from achieving their full potential. We therefore endorse the Scale Up Institute's recommendation that a specific 'scaleup visa' is introduced that will allow companies with high-growth capacity to avoid the regulatory burden often associated with recruiting from overseas, by fast tracking essential talent acquisition.

Creating a connected supply of capital from start-up to scale-up:

36. At UKBAA we support the concept of a connected finance ecosystem from start-up to scale-up. With this in mind we are working with many other key players in the market including the Scale-Up Institute, BVCA, AIM, BGF and the British Business Bank to ensure that we can combine our efforts to support an effective environment for UK small businesses to access the finance they need to effectively scale their businesses. We have mutually identified a lack of sufficient relevant information on how to access the right source of finance to build and scale a business and we are working together with these partners and with the support of the British Business Bank to develop a new tool on access to finance for scale-up businesses, which we hope will be available later this year as a key resource.

37. **Angel investors bring vital finance and support to scale-up**. Angels have the capacity through syndication to bring considerable financial fire power to back the growth of small businesses from startup through to successful scale-up, including the ability to support several rounds of investment to support growth. There is also an increasing level of co-investment alongside other sources of finance including crowdfunding, VCs and loans. Angel investors also bring smart finance, including access to strategic advice, customers, markets and key contacts as well as support for the next stage of fund raising.

38. But to be effective, angel investors require access to a connected supply of capital so that the vital early-stage finance and nurturing they bring can then form the base for significant sources of scale-up finance to come on stream to take the business further in its journey to scale-up and high growth.

Addressing the challenges to the supply of equity capital post Brexit

39. **Loss of EIF/EIB funding for venture capital funds, including regional VC funds**. Currently over 40% of VC funding comes from the support of the European Investment Funds, which have played a vital role in leveraging private capital. We are very supportive of the role of British Business Bank and are pleased that the Government has provided further investment capacity to stimulate the growth of the UK venture capital market through its Enterprise Capital Funds and Venture Capital Catalyst Programme.

40. However, we are concerned that considerable further levels of finance will be needed by the British Business Bank to substitute for the level of finance currently available through the European Investment Fund ("EIF") because of the UK's departure from the EU. The EIF is an extremely important investor: between 2011 and 2015 the EIF directly invested €2.3 billion into UK venture capital and growth funds. This is significantly more than the amounts currently committed to funds by the British Business Bank. Importantly, the EIF acts as a cornerstone investor early in the fundraising process, and is able to draw in further private capital.

41. We therefore recommend that the Government gives the British Business Bank the necessary resources, both in terms of capital for investment and funding for operational needs, to reach the scale necessary to replace the EIF and indeed to stimulate further private sector investment in the UK's venture capital market. We also recommend that the Government provides long term support to the role of British Business Bank to ensure its stability and ongoing capability as a long-term investor in UK venture capital funds, to

provide certainty to the market and attract further private investment in these funds both from the UK and internationally.

42. ***Opportunity for EIS scheme to be reviewed***. The Venture Capital Schemes (EIS, SEIS and VCTs) have played an important role in providing early-stage funding for companies. One of the opportunities that will arise from the UK's departure from the European Union will be to improve the rules and better target the schemes—particularly the gap in scale-up funding.

43. It is vital that we move away from the current restrictions on the scheme to only supporting start-ups. They should be available to back scale-ups. Thus, it is important to recognise that scale-ups are not necessarily new companies and can take many years to fulfill their growth potential. The current restriction on the EIS scheme being only available to companies of 7 years old and younger should be removed at the earliest opportunity.

44. The restrictions on replacement capital are also a barrier to the schemes funding scale-up businesses. Many founders and entrepreneurs have the skills and experience to manage the process of scaling a business from startup to scale. Clearly, however, the skills required to found and run a small business are not the same as the skills required to run a larger, more mature business. It is therefore possible for the growth prospects of a business to be constrained if it grows faster than the capacities of its management team, particularly in the case of high-growth businesses. In these cases, flexibility to use replacement capital is needed to give founders the option of an exit, allowing a more experienced management team with capacity to bring the business to scale to be brought in.

45. The cap on the amounts that can be raised by firms under the Venture Capital Schemes are also an obstacle to funding scale-ups. At present a company may not receive more than £5m per annum, and no more than £12m in total, from the combined Venture Capital Schemes. However, later-stage funding rounds are likely to require significantly more than the £5m currently allowed in a single year – the Scale Up Institute has found that the average amount invested in Series B rounds in the UK was $17m. Finally, the "excluded activities" that are not eligible for tax relief should be re-examined to ensure sectors in which the UK enjoys a comparative advantage are not denied funding.

46. UKBAA welcomed the recent increase in the investment limit announced in the Autumn Statement 2016 for Social Investment Tax Relief ("SITR"). However, we feel that the relief should apply to social investments of up to £5m per annum and £12m in total, therefore aligning the SITR to the other tax-advantaged venture capital schemes. As SITR funds are currently in their initial uptake and only just beginning to build traction with investors, the scale and the size of the investment opportunity is vital to allow intermediaries and financial advisors to offer these opportunities to their clients.

47. ***New scale-up EIS scheme.*** In addition to revoking restrictions, we also support the opportunity to consider whether there can be a new Scale-up EIS scheme to mirror the Seed EIS scheme, where similar incentives are available to encourage private investors to back high-growth businesses and help them through the challenging phases of scale-up. We believe that with the removal of state aid restrictions the government has the opportunity to bring real innovation in to the EIS scheme to meet the UK's growth priorities.

Need for the development of more significant sized equity capital funds in the UK

48. As has already been identified, angel investors are keen to see that the businesses that they have backed through multiple rounds of investment can access the long-term capital they need to support their growth. Wherever possible, angels will seek to maintain their support through the often very lengthy journey from start-up through to scale-up. For many angel investors, this journey can last for up to 12 years to achieve significant growth and scale. However, it is key for angel investors to be able to recycle their capital back into further early-stage businesses and thus it is vital for angel investors to be able to pass on the baton to funds with much more extensive capability.

49. Thus it is vital to build more significant size funds, that can work alongside angel and early-stage investors to take the company through multiple scale-up rounds but which are prepared to offer partial or full liquidity to angel investors that wish to recycle their investments into next stage entrepreneurs. This is an urgent priority if we are to build a connected supply of long term risk capital that the UK's businesses need to fulfil their growth potential and that enables all parts of the finance supply chain to fulfil its role.

50. Recent comparative studies of the US and UK venture capital markets have evidenced the link between fund size and longer term investment. We also refer to the 2016 report published by the Scale Up Institute and supported by Barclays based on research carried out by the Cambridge Judge Business School and Oxford Said Business School. The research found that median UK fund size was $78m compared to $100m in the US, which fed through into the size and frequency of follow on funding rounds.[3] Only 15% of UK companies' investors invested for 3 rounds or more compared with 25% of US companies' investors. Research by the British Business Bank corroborates this finding, showing that only 9% of UK companies with series A funding received series D funding, compared to 23% of US companies (and the disparity widens further down the funding chain in later rounds).[4]

51. Currently, this means that many of the UK's angel and early-stage investor backed businesses that have achieved significant growth have to go over to the US to find the investment they need to fulfill their growth ambitions. We therefore recommend that Government takes further steps to support the UK's venture capital market to develop larger scale-up funds, which will enable the UK's high-growth businesses to stay in the UK to find the finance they need rather than seeking capital in the US or wider global markets.

52. ***Attracting further international investors and corporate investors to support the scale-up of UK businesses.*** We recommend that the Government creates a regulatory and fiscal environment to attract international investors into UK venture capital funds. We also recommend that further encouragement be given, including relevant tax incentives, to enable UK-based corporates to further develop venture capital funds that support innovation and market access for small innovating businesses and enable ongoing growth and scale-up.

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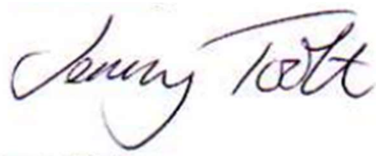
[3] http://www.scaleupinstitute.org.uk/wp-content/uploads/2016/05/Scale-up-UK_Growing-Businesses_Growing-our-Economy.pdf
[4] http://british-business-bank.co.uk/wp-content/uploads/2017/02/BBB-SBFM-REPORT-2016-17-web.pdf

53. ***Attracting institutional investment into UK venture capital:*** Specifically, there is a clear need for the Government to support the opportunity for more institutional investment into UK venture capital to ensure that the industry reaches sufficient scale to invest large amounts into companies over multiple funding rounds, thereby helping UK SMEs scale up into larger businesses.

54. We are aware that BVCA has made a significant study of the challenges and barriers to attracting institutional investors and endorse the evidence and recommendations that BVCA has contributed to this consultation. We also especially recommend that Government seeks to remove any regulatory barriers preventing institutional investors increasing their allocations to venture capital. We are particularly supportive of the further deployment of UK pension funds. This is an area that will need to be reviewed more closely by the Government and the industry to ensure pension funds and insurance can invest in private equity and venture capital.

I hope that this contribution from UKBAA on behalf of the angel and early-stage investment market will be useful in considering the implementation of the Government's Industrial Strategy and would be very pleased to discuss the contents of this response further. Please feel free to contact me to arrange a meeting.

Yours faithfully,



Jenny Tooth OBE
Chief Executive, UK Business Angels Association
jenny.tooth@ukbaa.org.uk