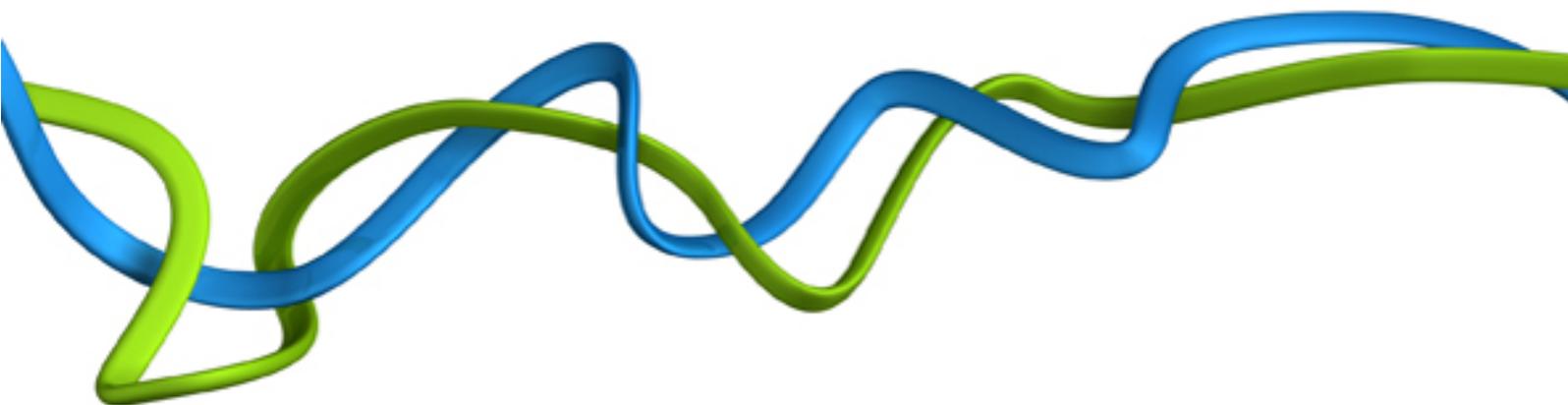


# Access to finance

House of Commons Select Committee on Business, Innovation and Skills

Submission from the Royal Academy of Engineering

10 February 2016



***About the Royal Academy of Engineering***

*As the UK's national academy for engineering, we bring together the most successful and talented engineers for a shared purpose: to advance and promote excellence in engineering.*

## Access to finance

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### Introduction

The Royal Academy of Engineering welcomes the opportunity to submit evidence to the House of Commons Select Committee on Business, Innovation and Skills Access to Finance inquiry. The Academy's response has been informed by the expertise of its Fellowship, which represents the nation's best practising engineers, including leading researchers, innovators, entrepreneurs, and investors.

### 1. How has the landscape for access to finance evolved since the end of the financial crisis?

- 1.1. The major changes to the access to finance landscape during, and following, the financial crisis are outlined below. The implication of these changes on engineering and technology companies from start-ups to established SMEs will be addressed in the answers to other questions. We will also identify where improvements could be made to increase access to and provision of suitable finance.
- 1.2. During the financial crisis bank lending to businesses fell significantly, and although this trend appears to have lessened following the end of the crisis, lending conditions are perceived by many to still be prohibitively restrictive.<sup>1</sup> The restricted availability of traditional bank loans means that in practice these do not represent a suitable source of finance for many high-tech innovative companies that utilise intangible assets, or companies in the early-stage of growth that have yet to demonstrate consistent profitability.
- 1.3. The overall perception by the engineering community is that since the end of the financial crisis in 2011 the UK has seen an increase in equity investment. This perception is supported by data collected by Beauhurst that shows an increase in equity investment both by deal number and amount, with 1214 fast-growth UK companies raising £4.06bn from 1295 deals in 2015, up from £1bn in 2011 raised by 363 companies in 372 deals.<sup>2</sup> Furthermore, growth has occurred in seed, venture and growth stages, leading to some optimism that the environment for high-growth technology companies seeking early-stage funding is improving in the UK.<sup>3</sup> It should be noted that this positivity is not shared by all sectors or regions across the UK. Furthermore it is difficult to obtain a detailed and complete snapshot of the access to finance landscape across the UK due to the absence of required reporting of equity investment deals.
- 1.4. During the financial crisis the difficulties of obtaining finance through traditional methods, combined with an increased confidence in online platforms and low interest rates encouraging individuals to think creatively about their savings, resulted in the growth of

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<sup>1</sup> [Conduct and competition in SME lending](#), House of Commons, Treasury Committee, Eleventh Report of Session 2014-15

<sup>2</sup> [The Deal 2015/16](#), Beauhurst; [The Deal 2014/15](#), Beauhurst; and direct communication with Beauhurst

<sup>3</sup> [The Deal 2015/16](#), Beauhurst; and direct communication with Beauhurst. Total amount invested increased at all three stages: seed, venture and growth between 2014 to 2015. Deal number also increased for seed and venture between 2014 and 2015, but fell by 2 for growth.

new financing models, which has continued apace following the end of the financial crisis.<sup>4</sup> Alternative financing covers a wide variety of new financing models, including equity-based crowd-funding, peer-to-peer lending for debt finance and invoice trading. The speed with which companies can obtain funding from such mechanisms is considered to be a major contributing factor to their growth and appeal: for example the average invoice finance auction takes just eight hours.<sup>5</sup>

## **2. What have been the most successful Government policies to assist growing companies access private finance and where is there room for improvement?**

2.1. Prior to the financial crisis the government was taking action to help ensure companies were ready for investment. Gateway to investment (g2i) was a successful investment readiness programme which was launched in 2005 with the intention to help hone small and growing businesses for funding by training owner-managers and helping them improve their propositions. Following the closure of g2i, the government launched the GrowthAccelerator in 2012, a partnership between government and the private sector, with the aim of helping companies to secure finance. In 2014 the GrowthAccelerator became part of the government's newly established Business Growth Service (BGS) which was intended to act as one stop shop to provide support, advice and inspiration for growing SMEs. However, following the Autumn Statement 2015 the BGS was closed. In the absence of the BGS, government needs to ensure that there is suitable provision to support companies to become investment ready. Without such support the government risks UK investors increasing their overseas investments instead of investing within the UK.

2.2. Furthermore, the BGS was intended to provide a relatively simple first port of call for businesses to find out about the support available to them, including funding sources.<sup>6</sup> While there was a range of views regarding the effectiveness of the BGS, there is nevertheless a risk that businesses will now face an increased struggle to identify suitable funding sources. With over 600 publicly funded schemes to support businesses, many of which are targeted at specific industry sectors or locations, there is a clear need for simplification.<sup>7</sup> As detailed in the Dowling Review of Business-University Research Collaborations, businesses, especially SMEs, could be deterred from applying for support due to the sheer complexity of the funding and support landscape.<sup>8</sup> Other reviews looking at access to finance for SMEs have reached similar conclusions.<sup>9</sup>

2.3. Although Local Enterprise Partnerships (LEPs) and Growth Hubs, which are local public private sector partnerships often led by a LEP, have been tasked with playing a strategic role in signposting and coordinating national and local business support it is unclear how successful this approach will be. In particular, there are concerns whether all LEPs are adequately equipped to provide effective support at the local level.

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<sup>4</sup> [Understanding Alternative Finance](#), Nesta, 2014

<sup>5</sup> [Understanding Alternative Finance](#), Nesta, 2014

<sup>6</sup> [Government Support for Business](#), House of Commons Business, Innovation and Skills Committee, Eighth Report of Session 2014-15

<sup>7</sup> [Government Support for Business](#), House of Commons Business, Innovation and Skills Committee, Eighth Report of Session 2014-15

<sup>8</sup> [The Dowling Review of Business-University Research Collaborations](#), 2015

<sup>9</sup> [Conduct and competition in SME lending](#), House of Commons, Treasury Committee, Eleventh Report of Session 2014-15

2.4. R&D tax credits are regarded by the engineering community as a relatively simple and accessible fiscal measure which effectively incentivises private investment in R&D and stimulates innovation. Government analysis of the impact of R&D tax credits indicates that up to £3 of spending on R&D is stimulated for each £1 of tax forgone, with companies stating that these tax credits have contributed to an increase in R&D overall.<sup>10</sup> Over 15,000 companies claim around £1.4bn in R&D tax credits each year;<sup>11</sup> in 2012-13, the SME scheme accounted for over 80% of these claims by number and 44% by value.<sup>12</sup> Such incentives encourage companies to seek finance for R&D which they otherwise might not have done. Nevertheless, as was highlighted in the Dowling Review, much clearer guidance from HMRC and BIS is needed for businesses on how they can make best use of R&D tax credits and how these interplay with State Aid restrictions.<sup>13</sup>

2.5. A wide range of government policies may impact the ability of high growth companies to access finance. Important policy areas include immigration, which can affect the ability of companies to recruit the individuals with the specific skills they require, the wider tax and fiscal environment, and policies targeting research, innovation and higher education. In addition, there is a growing recognition of the importance of supporting entrepreneurs to gain the appropriate skills and experiences to enable them to attract investment. The Academy, for example, through its Enterprise Hub harnesses the expertise and networks of its Fellows to provide bespoke mentoring and training to build the capabilities of the next generation of engineering entrepreneurs, and to connect them more effectively with potential investors and routes to markets. The early-stage Enterprise Hub members have gone on to secure £19m in third party investment in the first three years of the Hub's operation. Activities such as the Enterprise Hub, along with flagship government initiatives such as Tech City, are helping to create greater confidence in the UK's ability to foster successful entrepreneurs and innovators.

### **3. Does the UK have globally competitive markets / suppliers for financing (and debt financing) at 1) seed 2) venture and 3) growth stages? What steps could Government take to strengthen these systems?**

3.1. The overall perception is that the further a company wishes to progress along the investment spectrum, the harder it becomes to access finance in the UK, particularly at the growth and large scale up stages. Anecdotal evidence from Fellows and others with relevant experience suggests that many UK companies go overseas to access suitable growth and scale-up funding, often resulting in the relocation of their headquarters, with the West coast of the USA one of the most common destinations.<sup>14</sup> However, the lack of data collection on the relocation of companies headquarters or R&D operations makes it difficult to ascertain the extent to which the UK may be losing successful home grown companies.

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<sup>10</sup> [Evaluation of Research and Development Tax Credits](#), HMRC, 2010

<sup>11</sup> [Improving access to R&D tax credits for small business: consultation summary](#), HMRC, 2015

<sup>12</sup> [Evaluation of Research and Development Tax Credit](#), Fowkes, Sousa & Duncan, HMRC, 2015

<sup>13</sup> [The Dowling Review of Business-University Research Collaborations](#), 2015

<sup>14</sup> [The Scale-Up Report](#), Sherry Coutu, 2014

3.2. It should be noted that perceptions relating to the access to and provision of finance at each stage of investment and growth vary considerably by sector. Currently it is suggested that access to equity finance for technology companies, especially digital technology, in the UK is in very good health in the UK, with technology companies taking 41% of all equity investment recorded for 2015 according to data collect by Beauhurst.<sup>15</sup> By contrast, sectors such as manufacturing, energy and CleanTech appear to have a more limited pool of appropriate finance. For example, the amount invested in CleanTech companies has dramatically decreased from £210m in 2012 to just £70m in 2014, despite the creation of the government backed Green Investment Bank in 2012.<sup>16</sup>

### **(Pre-) Seed**

3.3. It is well established that while the UK has a world-class research base, further work is needed to ensure that the full value of research is captured through commercialisation and translation.<sup>17</sup> Of particular importance is the need for sufficient and appropriate (pre-)seed stage funding, which can help to fund 'proof-of-concept' activities and bridge the 'valley of death' between the development of a prototype and a product or service that is an investable proposition. Direct public support to help bridge the 'valley of death' for innovations associated with risky, emerging, or disruptive technologies can be crucial for both enabling the UK to secure an early foothold in a potentially important future market and preventing UK companies from losing their competitive advantage as other countries take a lead.

3.4. The Higher Education Innovation Fund (HEIF) is an important and much valued funding mechanism available to universities in England to 'support and develop a broad range of knowledge-based interactions between universities and colleges and the wider world, which result in economic and social benefit to the UK'.<sup>18</sup> The Academy would like to see HEIF maintained despite the proposed abolition of its administering body the Higher Education Funding Council for England.<sup>19</sup> The Research Councils' Impact Acceleration Accounts (IAA) are another important funding source to help academics pursue knowledge exchange work. Both schemes are particularly valued for the speed and flexibility with which the funding can be mobilised and deployed and are regarded as vital means of stimulating translation activity.<sup>20</sup>

3.5. Universities, through their Technology Transfer Offices (TTOs), play an important role in facilitating and supporting the commercialisation and translation of research generated in their organisations. TTOs can provide advice and expertise in areas including: business development, contracting, IP protection, spinning out and technology licensing. While the UK TTO system is argued to be world-leading in many respects, there are concerns within the engineering community that competing missions mean that effective knowledge exchange is not always prioritised and academic founders are not adequately supported or incentivised.<sup>21</sup> When assisting the formation of spin out companies, TTOs frequently bring in investment groups as

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<sup>15</sup> [The Deal 2015/16](#), Beauhurst

<sup>16</sup> [The Deal 2014/15](#), Beauhurst

<sup>17</sup> [Bridging the valley of death: improving the commercialisation of research](#), House of Commons Science and Technology Committee, Eighth Report of Session 2012-13

<sup>18</sup> University HEIF strategies, <http://www.hefce.ac.uk/kess/heif/strategies/>

<sup>19</sup> [Royal Academy of Engineering's submission to the Department for Business, Innovation and Skills consultation on higher education: teaching excellence, social mobility and student choice](#), 2016

<sup>20</sup> [The Dowling Review of Business-University Research Collaborations](#), 2015

<sup>21</sup> [The Dowling Review of Business-University Research Collaborations](#), 2015

partners. While the attractiveness of such arrangements to universities is understandable, it is not clear that these arrangements deliver best value for the UK public purse, which funds much of the research undertaken in universities, or for the academic funder.

### **Innovate UK**

- 3.6. Innovate UK incentivises business-led technology innovation through funding, supporting and connecting innovative business via a mix of expertise, facilities, networks and programmes.<sup>22</sup> Innovate UK administers several different types of competitive grants, each targeted at different stages of the innovation process, including Launchpads, which offer up to £100,000 to turn an innovative idea into a commercial project, to Feasibility Studies, which offer up to £400,000 to test the feasibility of a business idea. The vast majority of Innovate UK grants are accompanied by co-investment by the recipient or other funders. Returns from Innovate UK schemes show substantial leverage with an average £6 returned to the economy in gross value added for every £1 invested.<sup>23</sup>
- 3.7. Innovate UK also oversees the network of Catapult Centres, which offer facilities and expertise to enable business and researchers to collaboratively solve key problems and develop new products and services on a commercial scale.<sup>24</sup> Catapults are also making valuable contributions through providing an infrastructure for sector-based innovation. Returns from the more established Catapults are already being seen, with the High Value Manufacturing Catapult generating net benefits of £15 from £1 of core public funding.<sup>25</sup> The support that Innovate UK and the Catapult Centres provide is considered to be broad-based and critical by the community, from funding small proof-of-concept activities, to large facilities to assist with scale-up activities. or support to help a company compete in a new sector.
- 3.8. Despite the welcome announcement in the Autumn Statement 2015 that support for both Innovate UK and the Catapult Centres would be continued, the Academy remains concerned about the proposal to convert a proportion of Innovate UK's grants to new-financial products by 2020, which are assumed to include loans. Loans tend to be used when there is a reasonable degree of certainty of financial returns, and therefore are generally not considered suitable for early-stage funding of innovative companies. While there is an established evidence base regarding the effectiveness of grants for encouraging applicants to engage in various stages of innovation, we are not aware that comparable evidence exists to support the effectiveness of loans in stimulating and supporting the type of high-risk and disruptive innovation that has previously been part of Innovate UK's portfolio.<sup>26</sup> Furthermore there are concerns that accepting a loan rather than a grant may make the company less attractive to downstream investors.
- 3.9. The Small Business Research Initiative (SBRI) run by Innovate UK uses procurement as a mechanism to pull through new products or services of benefit to the public

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<sup>22</sup> [Innovate UK's strategy Concept to commercialisation](#), 2011-2015

<sup>23</sup> GVA and jobs figures calculated by Innovate UK from their published evaluations of Collaborative R&D ([Evaluation of the Collaborative Research and Development Programmes](#), PACEC, 2011), Feasibility Studies Programme (TSB [Feasibility Studies Programme](#), WECD, 2013), Smart Awards ([Evaluation of Grant or Research and Development & Smart](#), PACEC, 2009) and KTPs ([Knowledge Transfer Partnerships Strategic Review](#), Regeneris Consulting, 2010)

<sup>24</sup> Catapult website

<sup>25</sup> [High Value Manufacturing Catapult, Pathways to Impact](#), WECD, 2015

<sup>26</sup> [Estimating the effect of UK direct public support for innovation](#), BIS, 2014,

sector. Successful applicants are awarded initial funding of £50,000 to £100,000 to test an idea, with the possibility of a further £1m contract (or more) to develop it.<sup>27</sup> The SBRI has not yet met the expectations placed on it by government and is widely perceived to be less successful than the US Small Business Innovation Research model. Nevertheless, as outlined in the Dowling Review, government should endeavour to maximise the opportunities provided by SBRI, as procurement can be a critical means for relevant businesses to access finance as well supporting the development of innovative solutions to problems.<sup>28</sup>

### **Debt Financing**

3.10. There is a perception in the engineering community that following the financial crisis debt financing has become harder to access due to stricter regulations and conditions, particularly to fund working capital. There is also a perception that debt financing is not a particularly suitable source of finance for high-tech companies. The actions taken to try to stimulate debt financing have met with mixed success. The British Business Bank (BBB) aims 'to make finance work better for small businesses in the UK at all stages of their development', by working with over 80 financial partners to increase the supply of finance to smaller businesses, through both lending and equity investment.<sup>29</sup> The Enterprise Finance Guarantee (EFG), launched by the government in 2008, and overseen by the BBB, is intended to facilitate lending to viable businesses that have previously been refused debt financing. Concerns persist that the EFG may encourage lenders to seek liquidation earlier than is always necessary, although the government has refuted this.<sup>30</sup> The BBB is also in the process of implementing the Small and Medium Sized Business (Credit Information) Regulation, which, through the sharing of SME data with credit reference agencies, will enable alternative finance providers to make better informed decisions about finance provisions to smaller businesses.

3.11. Discussions about access to finance often focus on relatively new high-tech businesses with the potential for fast growth. However it is also important to ensure that appropriate support and financial incentives, for both lenders and potential recipients, are in place for more established companies who wish to innovate, scale up or access new markets, especially for companies who may not have undertaken such activities previously.

### **Equity Investment**

3.12. Several government backed schemes have been created during or following the financial crisis that are designed to increase equity investment at various stages of growth. The Seed Enterprise Investment Scheme (SEIS) introduced in 2012, Entrepreneurs' Relief introduced in 2008, and Enterprise Capital Funds (ECF) which, although launched prior to the financial crisis, have seen a notable increase in participation since the end of the crisis (e.g. Passion Capital and Longwall), have all made significant contributions to improving access to equity investments. In addition the creation of the independent Business Growth Fund (BGF) in 2011 to deliver long-term equity investments has also made a significant impact. The European Investment Bank (EIB) and the European Investment Fund (EIF) also contribute to the UK's access

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<sup>27</sup> SBRI website

<sup>28</sup> [The Dowling Review of Business-University Research Collaborations](#), 2015

<sup>29</sup> BBB website

<sup>30</sup> [Government Support for Business](#), House of Commons Business, Innovation and Skills Committee, Eighth Report of Session 2014-15; [Government response](#) to Government Support for Business, 2015

to finance landscape, with the former investing €7.8bn in the UK economy in 2015 through a broad range of infrastructure projects, and the latter operating through the UK Futures Technologies Fund.

- 3.13. Unsurprisingly the distribution of investment does not appear to be equally spread across the UK, with London-based companies receiving just over half of all investment recorded for the whole of 2015 and 46% of all deals.<sup>31</sup> Furthermore, London ranks sixth out of 20 global start-up ecosystems, capturing 10.2% of the value of all start-up exits in 2013 and 2014, second only to Silicon Valley.<sup>32</sup> Meanwhile, the East of England, the South West, Wales and Northern Ireland all experienced a fall in deal number and amount invested between 2014 and 2015.<sup>33</sup>
- 3.14. Feedback from the Academy's Fellows suggests that the unequal distribution of investment is, in part, due to the unequal distribution of investors; while Oxford, Cambridge and London may have a concentrated presence of angel investors and venture capitalists, it is unclear to what extent these investors consider, and are courted, by potential investees from around the rest of the UK. Furthermore, industries which are concentrated in geographical regions where there is not a significant number or culture of angel investors and venture capitalists, such as manufacturing in the Midlands, may be at a further disadvantage.

#### **Corporate Venture Capital**

- 3.15. Through Corporate Venture Capital (CVC) large companies invest in small or start-up firms who are developing and innovating in areas of interest. Although the corporate investor may be investing with the long-term intention to gain a competitive advantage, their investments can be of particular importance to relatively high risk engineering and industrial based start-ups, who may find it difficult to access finance otherwise.
- 3.16. However, depending on the size of the shareholding held by the corporate, CVC equity investment carries a number of implications which can result in disincentives for participation by both the SME and the corporate investor. The disincentives include the imposition of 'equity accounting' for SMEs if the corporate shareholding exceeds 20%, which requires a significant level of accounting processes and governance. The SME may also become ineligible for R&D tax credits and other significant tax breaks. If the shareholding was to exceed 50% the SME would have to be redefined as a subsidiary of the investing corporation.
- 3.17. The changes to accounting processes and ineligibility for tax relief depend only on the shareholding threshold, and are implemented irrespective of the size or stage of the investment. It has been suggested that there would be benefits if the requirement for equity and subsidiary accounting rules was only enforced once companies start creating material revenue streams. For a more detailed discussion and analysis of the situation see 'The Missing Piece' by the British Private Equity and Venture Capital Association.<sup>34</sup>

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<sup>31</sup> [The Deal 2015/16](#), Beauhurst

<sup>32</sup> The Global Startup Ecosystem Ranking 2015, Compass, 2015

<sup>33</sup> [The Deal 2015/16](#), Beauhurst

<sup>34</sup> [The Missing Piece](#), James Clark, BVCA, 2013

### **Long-term investment**

- 3.18. Of particular importance to the engineering sector is the need for long-term patient capital, where quick returns are not expected by investors. Such funding enables companies to embark on ambitious projects, often to address complex challenges. Consideration needs to be given to the different long-term investment requirements of businesses. For example, an equipment and energy intensive high-value manufacturing company is likely to require investment of a greater value than an app-based company. Although the creation of the BGF was a useful first step, the engineering community believes much more should be done by government to incentivise such investment, both for individuals and institutions.
- 3.19. Currently, as the question reinforces, there is an expectation for companies to progress through multiple different funding stages as their company grows. At the transition between each stage, there is often an opportunity for investors to see a return on their investment as part of the refinancing process. It could therefore be perceived that there is an incentive for fund managers to support refinancing, potentially to the detriment of the company. The refinancing and transition process can be quite challenging and destabilising for the company and its investors, e.g. due to changes in board membership and company strategy. The provision of more long-term investment, as well as the removal of any perverse incentives that discourage growth from both an investor's and investee's perspective would be welcomed.
- 3.20. The Academy has heard concerns that floating a company on a public market, which is typically regarded as an activity a highly successful company should undertake, is not necessarily the most appropriate or appealing proposition for high-growth technology companies. Given that many high-growth technology companies are funded through equity investments, those investors often wish to retain their stakes, yet flotation on the London Stock Exchange requires a minimum free float of 25%. Despite the introduction of the Higher Growth Segment in 2013, which requires only a minimum free float of 10%, and is intended to assist companies with the longer term aspiration of joining the main market, there has not been substantial uptake. Flotation on the US NASDAQ stock exchange is frequently considered to be a more favourable option by technology companies, as it is perceived that the valuation is more sophisticated. Given the perceived lack of appetite of high-growth technology companies to float on public markets, innovative approaches may be required to help successful large technology companies continue to access capital for their growth.

### **International markets**

- 3.21. For many businesses accessing international markets is an essential part of their growth strategy, however, as has been recognised by government, it is not always an easy or simple process. UK Trade and Investment (UKTI) plays a critical role in supporting UK businesses in understanding how to trade successfully in international markets. In addition, UK Export Finance (UKEF) assumes financial risks associated with exporting on behalf of British businesses, including through the provision of insurance, loans or loan guarantees for commercial banks. More could be done to increase awareness of the support available.

#### **4. Are alternative methods of raising finance (such as crowd-funding and peer-to-peer) sufficiently well-regulated and monitored for companies to be confident in utilising them?**

- 4.1. Alternative finance covers a wide variety of new financing models that have arisen outside of traditional financial institutions and which have more than doubled year on year from 2012 to 2014.<sup>35</sup> Peer-to-peer lending (debt financing), equity-based crowd-funding and invoice trading are the most relevant in relation to the engineering community and also hold the largest share of the alternative funding market, at £1.3bn (£749m business lending and £546m consumer lending), £270m and £84m respectively in 2014.<sup>36</sup> In addition, the increase in alternative finance has also had a wider impact on behaviours. For example, it has been suggested that it has encouraged entrepreneurs' and companies' to present their enterprises in an accessible and compelling way to non-specialist audiences with confidence and clarity.
- 4.2. Given the dramatic growth seen in the alternative finance sector it is clear that many investors and investees have confidence in the system. However, despite the recent introduction of regulation of crowd-funding and peer-to-peer lending, reservations remain that there is not sufficient protection for inexperienced investors, nor sufficient awareness by companies of potential downstream implications.
- 4.3. The Academy has heard concerns from investors that companies which have received funding from alternative finance models may struggle to secure later-stage funding from venture capitalists, private equity firms and corporations. Currently it is perceived that there is insufficient regulation and a lack of successful examples of how initial crowd-funding investors will be dealt with at later-stage financing events when they are likely to face significant dilution. Analysis of crowd-funded equity deals showed that the average deal involved 125 investors and had a value of £199,025.<sup>37</sup>
- 4.4. The consensus in the engineering community is that alternative finance models are particularly useful for modest propositions that are quite close to market. However, alternative finance models are unlikely to be suitable for larger scale engineering activities which will require longer development time scales and large amounts of capital, such as manufacturing and the energy sector. Consequently alternative finance models are unlikely to address the need for more long-term patient capital in the UK.

#### **5. What are the main improvements or interventions, in terms of finance, that the Government should make to achieve the objective of increasing the number of successful and high-growth businesses in the private sector?**

- 5.1. There are numerous government backed schemes, tax incentives and initiatives that are already in operation and are broadly regarded as useful by the engineering community. Although improvements to some schemes would be welcomed, the overall message the Academy has received from the engineering community is a desire for stability and longevity of schemes, rather than frequent and substantial changes to align with new political ideologies. Stability of schemes, combined with policy consistency, will enable businesses, funders and investors to develop and grow

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<sup>35</sup> [Understanding Alternative Finance](#), Nesta, 2014

<sup>36</sup> [Understanding Alternative Finance](#), Nesta, 2014

<sup>37</sup> [Understanding Alternative Finance](#), Nesta, 2014

businesses to scale, and may go some way to increasing the availability of long-term patient capital in the UK.

- 5.2. Nevertheless, there are changes that government could make to ensure that all its schemes and incentives deliver the intended impacts and that any perverse incentives are minimised. For example, Entrepreneurs' Relief allows directors who own 5% or more of a company to enjoy a reduced level of Capital Gains Tax upon business disposal. However, Entrepreneurs' Relief could be perceived to be acting as a disincentive to growth, as the directors in question would not want to see their share diluted below 5% as they would then become ineligible for the tax relief. Enterprise Investment Schemes (EIS) and SEIS are well regarded schemes for investors that de-risk investments through tax relief. Suggestions have been raised in the engineering community that the limits on the amount that can be invested, which currently stands at £1m for EIS and £100,000 for SEIS, should be increased. The beneficial impacts of all schemes need to outweigh any negative behaviours.
- 5.3. As has already been outlined, there is a desire by the engineering community to see an increase in the availability of long-term patient capital that is not too restrictive in scope and is available to high-risk propositions. The success of the BGF demonstrates that the UK has potential investees with sufficient ambition to warrant the provision of long-term patient capital. Rearticulating the aspiration and narrative, much of which was perceived to come from government, that led to the creation of the independent BGF in 2011 would be welcomed. Government backed financial guarantee schemes, if designed appropriately, can be used to support long-term investment loans by the private sector, by mitigating the associated risk - the German Kreditanstalt für Wiederaufbau is considered a successful example of this. Consideration should be given to increasing collaborative working between the government and existing financial institutions, as is already done by the BBB, to expand the portfolio of incentives to increase long-term investment by the private sector. In parallel, regular and comprehensive reporting on UK equity investment deals would be welcomed to help the government identify any funding gaps. The challenge for government is then to ensure that there is an overarching vision and a coherent, stable and strategic policy framework to ensure that access to finance is enabled across the spectrum of sectors, stages of development and location within the UK.