BVCA Submission to the Business and Trade Select Committee Call for Evidence: Priorities of the Business and Trade Committee for 2026

December 2025

Summary

As recognised by the Committee, the UK economy faces a number of challenges including low levels of investment, growth and productivity. To ensure that the private capital industry can help the UK to overcome these challenges, it is essential that the UK continues to be an internationally attractive destination for private capital investment, no matter the global economic backdrop.surv

The UK based industry has £190bn of dry powder funds ready to be invested over the next three to five years. Historically, around half of the funds managed in the UK are deployed here. Unlocking billions in private capital could transform the UK's economic trajectory, boosting productivity, creating high-quality jobs, and improving living standards.

As the Committee develops their priorities for 2026 we would draw attention to three key areas where we believe reform would help to attract this investment and deliver higher productivity and growth:

> Capital to invest in high growth businesses: We continue to support the Government's pensions reform agenda, in particular creating 'mega funds' for DC pension schemes, the pooling of LGPS schemes, and reforms to shift focus towards returns, not just cost. In addition to offering pension savers additional diversification and the prospect of higher returns, this should unlock billions to invest in UK start-up, scale-up and other high growth businesses. We also recommend the implementation of Nova, as set out in Section 2, and a series of policy measures and regulatory interventions that would serve as critical enablers to unlock this investment in the UK and strengthen the wider investment ecosystem.
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> International competitiveness: To main international competitiveness, it is important that the UK has a pro-innovation and pro-growth tax and regulatory regime. This will preserve the UK's position as a global hub for private capital management and investment activity, and ensure the UK is the best place to start and scale a business.
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> Supporting innovation and entrepreneurs: Helping to commercialise the IP flooding from UK universities through 'spin-outs', and keeping those businesses in the UK, is crucial to economic growth and creating jobs. The more growing businesses we have, the more investment opportunities there are. The stronger the UK can make its domestic pipeline of promising businesses, the more the country will attract private capital firms to expand their teams and investment activities here. In addition to direct support for innovation, we also need to ensure that that other important policy priorities such as protecting national security can be achieved in ways that do not unnecessarily stifle entrepreneurship, growth and jobs of the future.

Below, we have responded to the Committee's specific questions in further detail.

Background – private capital in the UK

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity, venture capital and private credit (together "private capital") industry in the UK. With a membership of 600 firms, we represent the majority of UK-based private capital firms, as well as their professional advisers and investors.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024 located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

Private capital invests for a better future by developing innovative companies and delivering solutions to global problems:

- **Backing the UK's best loved businesses:** Private capital has revived and reinvigorated much-loved UK businesses like Hovis and Merlin Entertainment.
- **Developing the companies of the future:** The UK is the third largest venture capital hub in the world, while three in ten of the UK's 100 fastest growing companies were backed by private capital.
- **Delivering solutions to global problems:** Private capital investors are key to backing the innovative UK firms developing sustainable solutions to challenges like net zero and climate change, with investment for the long term in companies like biofuel tech company Nova Pangaea Technologies and aerospace business Orbex, which has developed a low-carbon launch vehicle for the small satellite industry
- **Driving productivity throughout portfolios.** Analysis shows that private capital's active ownership model helps the businesses it backs become more productive. Private capital owners help to embed better management practices, provide accesses to technical expertise, business strategies and knowledge of supply chains.[1]

Section 1: **Business Confidence**

What factors most affect confidence in the UK as a place to invest and expand?

It is important to say at the outset that there is a huge amount of positive sentiment towards the UK as a place to invest. Research conducted by the BVCA[2] in partnership with Public First, identified the most important barriers that investors seeking to deploy and attract investment in the UK face. We found that for many it was easier to find investable propositions and execute investments in the UK due to strengths including the scale of fintech, climate and life sciences in the UK, the existence of a broad range of innovative growing businesses in the UK mid-market which can be scaled internationally, a bigger pool of talent compared to other individual European countries, and the simple fact that the UK is a large, developed and open economy with an already well-developed private equity ecosystem, a clear legal framework, an entrepreneurial culture and an established VC sector.

Despite its strengths in innovation, research, and early-stage entrepreneurship, the UK has consistently lagged behind its international peers in overall investment levels. For much of the past three decades, the UK has recorded the lowest investment-to-GDP ratio among G7 nations. This persistent underinvestment has constrained productivity, limited economic growth, and weakened the UK's ability to scale domestic innovation into globally competitive enterprises.

While the UK excels at generating high-potential startups —particularly from its leading universities— the lack of awareness and underutilisation of external sources of finance to support growth hinders

[1] *Private capital and the UK's productivity gap, Public First*
[2] *Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report*

these businesses' ability to scale. This challenge is compounded by institutional investors often favouring low-risk, liquid assets over productive enterprise.

Several structural and policy factors underpin this investment gap:

- **Scale-up capital deficit**: The UK struggles to support start-up businesses through the scale-up phase. Many high-potential companies either fail to commercialise, sell prematurely, or relocate abroad to access growth capital, particularly in the US. This "valley of death" in the funding continuum remains a critical barrier to long-term value creation.
- **Underutilisation of institutional capital**: UK pension funds, especially Defined Contribution (DC) schemes, allocate significantly less capital to private markets than many international counterparts with comparable landscapes. While Canadian and US pension schemes invest heavily in private capital funds, UK schemes remain risk-averse, limiting their ability to support productive enterprise.
- **Fragmentation and lack of scale**: The UK pensions industry is highly fragmented, with many small DC schemes lacking the scale or expertise to invest directly in private capital. This limits access to diversified investment opportunities and reinforces a conservative investment culture.
- **Regulatory and tax barriers**: Key to the UK's success in attracting global private capital firms and investment has been its robust tax, legal and regulatory frameworks. High standards are essential for global institutional investors and must be upheld in any reforms. However, these frameworks need to be modernised and applied more proportionately to ensure the UK remains internationally competitive for private capital. Streamlining requirements and removing unnecessary complexity and duplication are needed to reinforce investor confidence and help to cut regulatory burdens that deter, delay and frustrate the deployment of investment capital into UK business.
- **The EIS and VCT schemes had become outdated and less effective**, and so the planned increase in limits has been welcomed. R&D tax credits have also become outdated, while recent changes to capital gains tax have further reduced incentives for risk-taking.
- **Missed strategic opportunities**: Despite having the third-largest venture capital hub globally, the UK has not capitalised on the tech boom in the same way as the US. A lack of joined-up strategy between research institutions, capital providers, and scale-up support mechanisms has hindered the development of globally competitive tech firms.

Investor confidence is also affected by a wider range of regulatory and tax regimes that hinder capital allocation and discourage long-term investment, as covered elsewhere in our submission.

To reverse the trend of low investment, the UK must implement bold reforms that unlock domestic capital, reward risk-taking, and build a coherent framework for scaling innovation. The Mansion House Compact and Accord are promising steps, but must be backed by accelerated pension reform, and a national strategy to retain and grow high-potential businesses. Without decisive action, the UK risks continued underperformance in investment and missed opportunities for economic leadership.

How are communication and engagement between government, business, and the City influencing sentiment?

Communication and engagement between the government, our members and the portfolio companies they back are critical to investor confidence. While the Government has established constructive relationships with many venture capital and private equity firms, there is an opportunity to broaden this engagement across the full spectrum of the private capital ecosystem. This includes growth capital and lower mid-market firms, many of which focus their investments outside London and the South East. By engaging more extensively with these stakeholders, the Government can ensure that policy decisions are informed by the diverse needs and perspectives of investors across the UK, ultimately strengthening confidence and driving growth.

What role do stability, predictability, and long-term planning play in shaping business decisions?

Stability, predictability and long-term planning are crucial both for investors when choosing to invest in the UK, but also the portfolio companies they back that are looking to scale.

Political uncertainty and frequent unpredictable changes of policy damage the confidence of investors and create problems for the UK businesses they invest in. Capital is mobile. Government needs to think about the messages is it sending to people who are considering making large, long-term investments in the UK, and who could make those large, long-term investments in businesses based elsewhere instead.

It is crucial that investors can plan with confidence and are given clear signals about the Government's priorities and direction of travel. The BVCA has therefore welcomed the direction of travel set out in the Industrial Strategy and Infrastructure Strategy respectively. The BVCA has also welcomed the move to a single annual fiscal event, as we called for before the election, though the high levels of speculation in the run-up to the November 2025 Budget should not be repeated.

Stability and certainty are also important as regards the implementation of tax law. Changes to policy and interpretation, as well as to the law itself, need to be clearly signalled, consulted upon, and never imposed retrospectively. The UK's reputation for consistency and fairness in our government institutions is one of our strongest selling points in the international business community, and we endanger this reputation at our peril.

Section 2: **Pro-Growth Reforms and Investment**

Which areas of reform—planning, infrastructure, regulation, skills—are most urgent for unlocking growth?

Reform across planning, infrastructure, regulation, and skills are all vital to unlocking economic growth. The BVCA welcomes the measures outlined in the Industrial Strategy and Infrastructure Strategy, which represent important steps toward this goal. However, further action is needed in each of these areas to unlock the UK's full growth potential. Beyond the areas listed, reform to pensions investment will also play a vital role in unlocking growth, driving innovation and boosting productivity as well expanding support for the British Business Bank. Our recommendations on these are set out below.

Further reform to improve infrastructure and planning

Although over half of the 13,000 UK businesses invested in by the private capital industry are based outside London and the South East, investment in regional businesses could be higher with improvements to infrastructure and planning processes. It is critical the Government uses the UK Infrastructure Strategy to improve infrastructure and accelerate planning processes to boost investment potential in the regions.

The BVCA recommends that greenfield status should not be a block on building new facilities and supporting infrastructure development, reforming greenfield restrictions where appropriate would ensure limitations do not block the development of vital manufacturing and job-creating sites when brownfield land is unavailable. We welcome the Government's commitment to recruit more planning officers, as this will be important to process applications in line with business timelines, and the Government should go above and beyond the 300 already being recruited.

The BVCA recommends that Government empower the National Infrastructure and Service Transformation Authority (NISTA) to build on the powers of the National Infrastructure Commission and deliver a clearer, more authoritative roadmap for major projects. Alongside this, provisions in the Planning and Infrastructure Bill aimed at reforming greenfield restrictions where appropriate would ensure limitations do not block the development of vital manufacturing and job-creating sites when brownfield land is unavailable. Finally, realising the aim of simplifying and expediting planning laws through the Bill would make it significantly quicker and easier to build new facilities and the infrastructure that underpins investment and economic growth.

Expand support for the British Business Bank (BBB)

The BBB plays a significant role crowding in regional and growth funding in the venture capital ecosystem, as it does in supporting the pensions and growth agenda. The BBB is, and will continue to be, an important source of capital for businesses looking to start and scale up. It helps drive innovation, supports entrepreneurs and can help break down barriers to capital with programmes such as the Nations and Regions Investment Funds (NRIF), providing valuable support for innovative companies across the UK.

The BVCA welcomed the recent enhanced funding and changes to the remit of the British Business Bank. However, there is still scope for the BBB to support growth equity investment further in order to help businesses scale up. The UK has missed out on significant investment from the European Investment Fund since the UK withdrew from the EU. This funding had historically supported growth capital funds, which are a critical motor for the UK-wide economy and drive strong returns for investors, whilst unlocking UK SME growth around the country. The BBB's remit as it stands does not address this investment gap, although there may be scope within their expanded remit to invest in growth funds that take some majority stakes, this flexibility should extend to all growth capital funds that invest in the IS8 sectors. It is important that the Government continues to support the BBB to deploy capital across the venture and growth capital ecosystem.

This will also give greater flexibility for returns via secondaries (where an investor buys an existing asset or interest from another investor). We believe that this would also provide a route to more regional lower mid-market managers being able to attract investment from LGPS pools.

Reform of UK Capital Markets

A BVCA survey conducted in September 2025 showed that appetite is returning for Initial Public Offerings (IPOs) among BVCA members. One third of the firms surveyed revealed that they are considering an IPO in the next 12 months, and approximately 40% are considering the UK for a listing.

At the Budget the Government confirmed that there will be a stamp duty "holiday" for the first three years after a company is listed on the London Stock Exchange. The BVCA welcomes this move as a first step in unlocking the full potential of the London Stock Exchange as the destination of choice for ambitious companies going public. However, we believe that further changes are needed. We continue to call for the Government to carry out a wider review of stamp duty on shares, so that an informed assessment can be made as to whether the revenue raised justifies the negative impact on growth.

Address domestic and international skills shortages

Both domestic and international skills shortages remain a persistent barrier to continued growth for businesses. The UK's ability to train, attract and retain highly skilled individuals, specifically in digital technologies such as AI, is central to its long-term economic competitiveness.

Skills shortages in the recruitment of a domestic workforce has been identified by investors[3] as the single biggest issue for UK businesses they invest in, and a major factor in deciding not to invest in particular UK businesses. It is important that there is a focus on developing a skilled workforce across the UK, which will also help to drive economic growth across the nations and regions of the UK.

The UK also has a world-class research base, universities, and a thriving ecosystem of start-up and spin-out companies. It is critical that the UK remains internationally competitive to attract talented students and academics to continue to build on leading research and development that can commercialise, and contribute to UK economic growth.

To continue to close skills gaps and ensure the UK is able to develop and attract talent, the following reforms should be considered:

Streamline and modernise the UK visa system.

- Introduce a more efficient, user-friendly process for high-skilled visa routes such as the Global Talent, Innovator Founder, and High Potential Individual (HPI) visas.
- Ensure visa decisions are made in days—not months— and is cost effective to prevent the UK losing top talent to more agile jurisdictions.
- Create specialist visas for sectors critical to national security and innovation, aligned with the UK's Industrial Strategy.

Promote STEM and enterprise education.

- Support initiatives to increase uptake of data science, engineering, and enterprise skills at school and university level.
- Support for skills training programmes that focus on particular skills gaps would make it easier for businesses to be confident that they can recruit the workers they need, and for investors to back them.
- Prioritise programmes that help build a pipeline of female and minority entrepreneurs, addressing longstanding DEI gaps in the innovation ecosystem.

Improve regional skills infrastructure.

- Skills England should work with the private capital industry to support the delivery of Local Skills Improvement Plans and formulate a national understanding of the current skills gaps and how this can be addressed.
- Invest in universities, Further Education colleges and Institutes of Technology as anchors for regional workforce development.

Unlocking UK pensions capital to fuel growth and savers' returns – pensions reform and NOVA

Another area where reform can help to unlock economic growth is on pensions. The Pensions Investment Review, and accompanying Pension Schemes Bill, will drive much needed consolidation across the DC

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[3] *Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report*

and LGPS pension landscapes. This will mean larger schemes, and therefore a greater ability for them to build capability in their investment teams to invest in private capital funds. The BVCA believes these reforms are critical to unlocking economic growth.

Compared to other countries with comparable pension landscapes, UK pension funds allocate relatively small sums to private capital. The Canadian pension schemes most active in private capital investment, for example, typically allocate on average 21% of their capital to private equity, and major US schemes average around 14%[4]. Indeed, sixteen times more capital from pensions around the world goes into UK private capital than from UK pension funds [5]. In contrast, the LGPS currently has 6% invested in private equity[6], and signatories to the Mansion House Compact hold 0.6% of their funds in "unlisted equities"[7].

However, we take the view that many of the reforms set out in the Pensions Schemes Bill may take some time to take effect, and that bold action is required to increase investment in the short to medium term, in order to meet existing investment demand, and to ensure the commitments set out in the Mansion House Compact are achievable.

We welcome the commitment by the Government in the Entrepreneurship Strategy to explore options to facilitate further domestic institutional investment in UK venture funds, beyond the current reforms.[8] These options will seek to build on the BBB's Venture Link initiative, announced in the Bank's Five Year Strategy, which the Budget confirmed will see the Bank publishing more information on funds it supports or is considering in a bid to help pension funds invest more confidently in UK venture.

We are pleased to see the clear priority to explore more options to unlock further sources of capital, and the BVCA will engage closely with the BBB, government and industry, to explore how we can develop the marketplace for pension funds to invest in private capital. As the committee will be aware, the BVCA has therefore been exploring how the UK could successfully implement NOVA, an initiative based on the French 'Tibi' scheme, which has successfully channelled €12.5bn of investment into the French tech sector[9]. NOVA will help to boost the scale and pace of DC investment into UK private capital funds, specifically venture and growth capital funds. This was a recommendation of the BVCA-convened Pensions & Private Capital Expert Panel[10] and is supported by several stakeholders across the pensions landscape.

With government facilitation at its core, NOVA would help address the current gap and support investment leading up to 2030 and beyond. It would give DC schemes access to investment opportunities via a trusted initiative and the chance to build relationships and expertise. A summary of the BVCA's NOVA proposal can be found here.

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[4] BVCA analysis of Preqin database
[5] BVCA-Pensions-and-Private-Capital-Expert-Panel-Interim-Report.pdf
[6] LGPS Scheme Advisory Board - Scheme Annual Report
[7] mansionhousecompactprogressupdateoctober2025.pdf
[8] Entrepreneurship in the UK
[9] TIBI initiative: a target raised to €15 billion | Direction générale du Trésor
[10] Pensions & Private Capital Expert Panel Interim Report

Section 3: Costs of Doing Business

How are tax, employment costs, and regulatory obligations shaping firms' ability to grow?

The UK must ensure that it maintains a competitive, pro-innovative and pro-growth framework that supports growth, entrepreneurship and the UK's position as a global destination to start and scale a business. The private capital industry is key to driving sustained economic growth and can play an important role in UK national renewal. To unlock this potential, we must pursue pragmatic tax reforms that not only maintain the UK's international competitiveness, but work actively to incentivise investment and reward founders, entrepreneurs, and their private capital backers.

The private capital industry plays a vital role in funding the businesses that drive job creation, productivity, and long-term growth. While the UK is a great place to start a business, several measures must be taken to ensure it is also a great place to scale one. Without action, innovative companies in key growth sectors risk not being able to stay and scale in the UK. To address this challenge, the UK's tax environment must send a clear signal that the UK is open for business with measures that support entrepreneurship, wealth creation, and enterprise, while encouraging a virtuous circle of re-investment and innovation.

Furthermore, if the UK is to maintain its position as a global hub for private capital, it is critical that the tax rules affecting the industry are stable in the long-term. The UK is currently implementing a new tax framework for carried interest, and we have welcomed the focus on international competitiveness as a central consideration in the development of these rules. However, higher national insurance contributions for employers have had a negative impact on many UK firms, and the abolition of the non-dom regime risks making it harder for international investors to come into and out of the UK to do business. The Government must avoid implementing any further tax measures affecting private capital firms, including measures targeting partnership profits, that would undermine investor confidence and drive investment away from the UK.

The BVCA recommends the following targeted tax reforms which will promote investment and entrepreneurship across the UK's nations and regions, increase investor confidence, and promote the UK as the best place to start and scale a business.

Reform the EIS and VCT schemes

The EIS and VCT schemes are essential tools in unlocking private capital for early-stage, high-growth UK businesses, particularly in knowledge-intensive sectors such as life sciences, clean energy and deep tech.

The BVCA welcomed the announcement in the Budget that the Government is increasing the investment thresholds and gross assets tests for these schemes. However, the reduction in income tax relief from 30% to 20% for VCTs is a concern, as it could lead to a decline in fundraising that would impact the high growth and high-risk investments that the Government is looking to encourage. VCTs are a key part of the UK's capital mix, providing one of the few consistent sources of long-term equity for early-stage and scaling companies, and any reduction in their ability to raise funds would directly affect the pipeline of innovative businesses the UK needs to grow.

The Government's publication of the Call for Evidence on Tax Support for Entrepreneurs is a very welcome step forward, as it provides an important opportunity for us to raise our concerns and highlight areas for improvement. Whilst the Budget contained a number of welcome reforms, there are further changes that the Government can make to ensure EIS and VCT remain fit for purpose. These include introducing a statutory 60-day advance assurance timeframe, simplifying eligibility rules, and allowing joint venture structures in capital-intensive sectors.

Regional fund managers have also highlighted that the 7–10 year age restriction on EIS and VCT disproportionately affects companies outside London and the South East, where longer scaling timelines are more common. Reforming this aspect of the schemes would therefore boost investment into fast growing companies across the UK, supporting regional economic growth. We have also called on the Government to extend the company age limit to 14 years for all firms and 20 years for KICs, with flexibility for acquisition-led growth and major strategic pivots.

Remove constraints on Enterprise Management Incentive (EMI) options

The BVCA also welcomed the announcement in the Budget that the EMI scheme is to be expanded, with increases to the employee limit, company share option limit and the gross assets test. However, there is scope to improve the scheme and lift the limits even further, so EMI applies to a wider range of high growth companies. This includes making the scheme available to private capital-backed SMEs, as this would boost precisely the type of business this scheme was designed to assist.

There are also unnecessary costs around valuations, as well as complexity and uncertainty regarding the operation and tax status of EMI option plans. Updating the EMI scheme to ensure it is fit for purpose should be a priority.

Increase the amount of support for Research and Development (R&D)

R&D tax relief provides critically important support for innovative companies in their earliest stages, often before they have begun to generate revenue. Increasing the funding for this relief, particularly for KICs, and addressing unnecessary delays in processing claims would align with Government's priorities to support science and technology scale ups and regional growth.

Review tax rules for PE-backed SMEs

Private equity supported SMEs are classified under tax rules as part of a wider corporate entity alongside other businesses backed by the same private equity firm. This treatment does not reflect commercial reality, because small and medium sized businesses that are backed by the same private equity firm remain operationally independent, and are therefore genuine SMEs.

As a result of this anomaly, private capital supported SMEs experience a range of adverse tax treatments, including in relation to the timing, frequency and rate of payments of corporation tax. These SMEs are also often unable to access incentives that are designed to promote growth and investment, such as SME R&D tax credits, and the full amount of the annual investment allowance. HMRC provides no flexibility to address this misclassification. The BVCA urges Government to resolve this inconsistency so that these incentives can reach more of the companies they are intended to assist.

What policy options could reduce the cumulative burden on business while maintaining fiscal sustainability?

The BVCA has welcomed the push for regulators to place economic growth at the heart of their remit, and as such there are a number of changes, as set out in Section 6, that can reduce the burden on businesses, deliver growth and maintain fiscal sustainability. For example, CMA approaches should be simplified to ensure the UK merger control regime is not seen as overly complex and to encourage inward investment.

On top of this, a critical barrier to attracting investment into the high-growth sectors driving the industry strategy, and particularly the defence and technologies sectors, is the NSI Act NARs. In both their current form and in proposed reforms set out in the Cabinet Office's consultation[11], launched in July, the regime does not strike the right balance between protecting national security and encouraging investment.

Compared with some international peers, the regime is overly burdensome and costly, especially for venture capital firms. The number of transactions being caught and/or requiring notification is higher than the equivalent number in the US, Germany, France and Italy and continues to rise year on year. We therefore remain concerned that the regime will continue to cast a very wide net over investment activity compared to other geographies that are competing for global investment. If the UK is to maintain competitiveness and incentivise investment into the Industrial Strategy sectors, namely defence, it is essential to narrow the scope of the regime, streamline the notification process and reduce operational barriers. Efforts should therefore focus on decreasing the number of notifications to better support investment and growth in priority sectors.

Reforms should be taken forward that ensure the regime does not hamper investment and growth. In particular, narrowing the regime's scope and refining sector definitions will improve its effectiveness and strengthen the UK's competitiveness as a destination for investment.

The BVCA continues to recommend that the Government take steps to address these issues, as outlined in our consultation response.[12]

What lessons should be learned from past Budgets in balancing costs against growth incentives?

Changes to policy and interpretation, as well as to the law itself, need to be clearly signalled, consulted upon, and never imposed retrospectively., A pro-innovation and pro-growth tax framework means maintaining the UK's international competitiveness. Given the long-standing position of the UK exchequer, those with the broadest shoulders will be expected to contribute more. However, it is important that tax raising measures do not cut across the competitiveness message from the Government or discourage long-term investment in the UK.

The additional headroom that the Government now has must now mean that future Budgets aren't marked by the kind of speculation we have seen in advance of the recent Budget. The Government should now get on with the pro-growth measures, introducing the changes to EIS and VCT; and driving forward reforms on pensions and investment, to make an even bigger contribution to the UK's economic success.

Section 4: **Productivity Growth**

What are the main drivers of the UK's productivity challenge?

As per Public First's analysis earlier this year[13], produced for the BVCA, the UK's productivity growth has been poor since the financial crisis. It was already lower than in peer economies, and it hasn't caught up. In 2024:

- The average German worker produced 9% more than a British worker.

[11] *Consultation on the NSI Act Notifiable Acquisition Regulations, Cabinet Office*
[12] *BVCA response to NSI Notifiable Acquisition Regulations Consultation*
[13] *Private capital and the UK's productivity gap, Public First*

- The average French worker produced 18% more.
- The average American worker produced 40% more.

Low productivity is a pivotal concern for small businesses in the UK, because it often reflects outdated equipment, inefficient processes, and limited access to expertise—all of which reduce competitiveness and limit growth. Addressing the productivity challenge will be essential if the Government is to kickstart economic growth and raise living standards in every corner of the UK.

Public First's analysis shows that the British economy would be boosted by an estimated £100 billion by the end of this Parliament if businesses across the country achieved productivity growth comparable to private capital-backed firms. Private capital demonstrates how targeted investment drives innovation and efficiency; these are lessons that could be taken on board by policy makers, including in the upcoming Small Business Strategy, and the business community as a whole, to drive forward wider growth.

Private capital businesses operate an active ownership model which involves working with portfolio companies to improve management capability, operational efficiency and use of technology. The BVCA is calling on the Government to apply lessons of private capital's active ownership model by providing support to SME leaders, removing barriers to productive investment, and using the British Business Bank and channelling pension fund investment to support future productivity champions:

- **Upskill SME leaders:** Encourage small and medium-sized enterprise (SME) leaders to adopt behaviours and practices that drive productivity, whilst supporting programmes such as Help to Grow which boost management capabilities, and organisations like Be the Business, Small Business Britain and Business Leader which create networks of high performing business leaders who share the ambition to improve their operations
- **Remove investment barriers:** Address obstacles preventing businesses from making productive investments, through the likes of planning reform, to ensure that access to the resources needed for growth are available.
- **Support future productivity champions:** Government should work with the private capital industry to help drive pension investment into venture capital and growth equity, whilst expanding support for the British Business Bank and creating new pension vehicles.

There are tangible policy measures that the Government could put in place to unlock the type of investment that generates these productivity gains. One of the central ways to do this is to ensure the policy and regulatory framework supports as many businesses as possible to be as productive as possible particularly through the adoption of innovative technologies such as Artificial Intelligence (AI), further detail is set out below.

How can the Government and business better align to improve productivity in the Industrial Strategy's eight growth-driving sectors?

The Government's Industrial Strategy set a clear focus to work with businesses to improve productivity across the eight growth-driving sectors, with technology adoption, enhancing skills and fostering innovation at the core of this objective. Higher productivity is widely recognised as the key determinant of improving living standards, but the UK has underperformed similar economies in recent years.

Research conducted by the BVCA with Public First[14] has highlighted the productivity growth that results from private capital investment, with annual productivity gains in private capital backed firms collectively one per cent higher than in the business population as a whole. This builds on the existing and widespread academic consensus that private capital investment supports productivity both at portfolio companies, and across entire industries through spillover effects.

As set out in Section 4, Public First's analysis shows that the British economy would be boosted by an estimated £100 billion by the end of this Parliament if businesses across the country achieved productivity growth comparable to private capital-backed firms, with private capital demonstrating how targeted investment drives innovation and efficiency.

Beyond taking steps to encourage increased private capital investment, through the measures set out in this submission, the Government can also apply the lessons of private capital's active ownership model by providing support to SME leaders, removing barriers to productive investment, and using the British Business Bank and channelling pension fund investment to support future productivity champions.

What role should technology, skills, and innovation policy play in boosting long-term output per worker?

Technology, skills and innovation all contribute significantly to long-term output and productivity across the UK economy. The BVCA has called on the Government to ensure the UK adopts an agile regulatory framework to encourage the adoption of innovative technology to increase productivity. A welcome example of this is the proposed introduction of the AI Growth Labs to test innovative technologies through regulatory sandboxes.

There are two key ways in which BVCA members are using AI to drive productivity in financial services. Private capital firms utilise AI to support in-house operational processes, particularly within compliance teams to help process the significant quantity of data and support the analysis required as part of the investor onboarding and transaction due diligence process. The private capital industry also invests in high-growth, innovative companies developing technologies such as AI to provide solutions to national challenges.

The UK has a strong investment ecosystem in developing AI technologies, with the UK the largest market for AI funding in Europe.[15] Alongside the adoption of AI to enhance operational efficiency at a firm level, BVCA members actively invest in companies developing AI technologies, ranging from cyber security to ESG and sustainability compliance tools, that can be utilised by the financial services industry.

Intelligent Ultrasound is a Wales-based medical technology company that specialises in real-time hi-fidelity simulation for the ultrasound training market and artificial intelligence based clinical image analysis software tools for the diagnostic medical ultrasound market. Supported by IP Group since 2010, the company has been able to develop new innovative products such as its AI-based ScanNav image analysis technology that makes clinical diagnostic ultrasound easier and simpler to use.

The AI technology is utilised by GE Healthcare, the world's largest ultrasound company, in their Voluson Expert, Signature and SWIFT ultrasound machines. Through the support of investors such as IP Group, the company has been able to expand its product offering into new medical specialties such as

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[14] *Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report*

[15] *Venture funding in Europe fell to $45B in 2024, says Atomico | TechCrunch*

anaesthesia and emergency medicine and grow its sales network to cover operations in the US, Europe and Asia.

In order to capitalise on this, the UK must ensure its regulatory framework keeps pace with technological advancements, while its R&D regime must actively encourage private capital investment in technology. This approach will help retain and expand UK innovation domestically, safeguarding the nation's economic security for the future.

Introduce specialist visas to secure talent to support the Industrial Strategy sectors

The introduction of specialist visas to secure talent in key sectors that contribute to national security and align with the Industrial Strategy. This would ensure that the UK can attract and secure talent in critical areas as visa decisions are often too slow, resulting in the UK losing talent to other jurisdictions.

These shortages will vary from sector to sector, but through the BVCA's engagement, we have identified particular concern about difficulty in recruiting people with certain technical skills, from heat pump installation to the ability to use particular kinds of software.

Support for skills training programmes that focus on particular skills gaps would make it easier for businesses to be confident that they can recruit the workers they need, and for investors to back them. Skills and talents are not just about the broad workforce that a business needs, but about specific leadership and business development skills. In the absence of domestic or local business leadership, this sometimes has to be brought in from overseas.

The BVCA welcomes the establishment of Skills England, which will help formulate a national understanding of the skills gaps that exist and how these can be addressed. This will contribute to the economic growth, and align with the growth driving sectors set out in the Industrial Strategy. Skills England will also support Mayors and employer representatives to develop Local Skills Improvement Plans to identify local needs and measures to address this.

Section 5: **The Role of Regions and Cities**

How can regional and city leadership be further empowered to drive local growth?

Regional and city leadership are integral to driving local growth and innovation across the UK. Further empowering leadership at a local level can support economic growth which in turn helps to address geographic inequalities, boost productivity and generate jobs, particularly in areas where many feel left behind.

The private capital industry is a key partner for generating nation- and region-led economic growth, ensuring that the benefits of economic growth can be shared by all. Businesses backed by private capital are already major employers in areas across the country, supporting over 1.4 million jobs outside of London and the South East. These businesses range from some of the largest multinational corporations to new innovative start-ups.

Proven investors specialising in particular nations or regions can deploy capital quickly to support regional growth, but it can be difficult for regional funds to raise capital from international investors as a result of constraints around maximum fund size exposures, target returns, and deal ticket sizes. This can make it difficult for regional funds to access the capital of large institutional investors like pension funds.

Place-based investment aims to address these imbalances by channelling capital into underinvested regions. By doing so, it fosters local economic development, creates jobs and stimulates growth in areas that have traditionally been overlooked.

Opportunities for further support include:

- **Clarity in policies**: Investors face challenges aligning with local needs due to unclear net-zero and economic development plans. Government and investors must enhance clarity, collaboration and information sharing to connect macro strategies with region-specific investments.

- **Effective incentives**: Increase incentives to drive investment in universities across the UK, fostering innovation and spin-outs beyond London and the South East.

- **Government-private sector collaboration**: Impact Investing is a proven tool to help channel private capital into underfunded public services and the green transition. Helping to scale and mainstream this approach to investing can help achieve growth by focusing investment into underrepresented region.

Delivering regional and local growth through metro mayors and devolution

While over half of the 13,000 UK businesses invested in by the private capital industry are based outside London, the BVCA has produced a series of regional reports which show that investment is still disproportionately concentrated in London and the South East. Redressing this balance will require a range of barriers to be overcome, from improving infrastructure, increasing support for Government supported programmes, pensions investment reform and regional decision-making.

Metro Mayors and devolved powers are crucial in developing resources and policies that boost economic growth in the regions. Initiatives such as the West Midlands Digital Skills Consortium is an example where Mayors can improve the investment climate and leverage strengths in their regions to develop key sectors such as manufacturing and digital technology.

Support regional innovation ecosystems

The Government should focus on developing local/regional innovation and investment ecosystems to facilitate economic growth across the regions. This includes targeting and establishing technological innovation hubs in different regions will assist in developing technical skills thereby widening the pool of resources and skills and making it easier and more attractive for private capital to invest.

A place-based approach to industrial policy is essential to address the long-standing gap in regional economic planning. For example, Oxford and Cambridge have developed strong ecosystems that foster entrepreneurship, supported by local initiatives and a robust infrastructure. The BVCA welcomed the plans for the Oxford-Cambridge Growth Corridor which highlight the action that can be taken to support innovation, accelerate regional developments and drive delivery.

Supporting innovation and entrepreneurs, for example by helping to commercialise the Intellectual Property (IP) flooding out from UK universities through ‘spin-outs’, and keeping those businesses in the UK, is crucial to economic growth and creating jobs. The more growing businesses we have, the more investment opportunities there are. The stronger the UK can make its domestic pipeline of promising businesses, the more the country will attract private capital firms to expand their teams and investment activities here. Ensuring that there is a strong domestic pool of capital available to support this innovation is critical, as set out above in section 1.

As set out in our response to section 1, reform of the EIS/VCT schemes are welcome, as in their current form they risk excluding the very companies the Government is seeking to support, particularly in AI, life sciences, clean energy and advanced manufacturing. Regional EIS and VCT funds are particularly constrained by restrictions such as the 7-year rule. This often limits access to access schemes as regional funds often take longer to reach the stage when they are able to receive institutional investment from VCs. Raising this limit would therefore provide more opportunities to scale up and grow across the nations and regions.

The BVCA welcomes the objective to establish 'AI Growth Zones' (AIGZs) as outlined in the AI Opportunities Action Plan, to facilitate the accelerated build out of AI data centres and boost the UK's domestic compute portfolio, and looks forward to engaging further on how the private capital industry can support the delivery and implementation of this. Given the focus on the adoption of AI across the UK economy, the development of a national infrastructure to support the deployment of innovative technologies such as Artificial Intelligence will be crucial to achieving this objective.

Local Government Pension Scheme (LGPS)

The Government's LGPS pooling reforms should hopefully open new avenues for UK investment. The LGPS has a track record of supporting the UK's innovative growth companies by investing in private capital funds managed by firms based around the country , thereby enhancing nationwide economic development. Ideally, larger FCA-authorised pools should have a greater ability to build capability in their investment teams to invest more widely in private capital funds, to the benefit of LGPS returns and the wider economy.

However, in contrast to investing in infrastructure projects or large funds with global mandates, investing in private capital funds that support the growth of early stage companies will require the pools to make relatively small individual investments of £10-50m into lower mid-market private capital funds. The returns generated in the UK's high-growth and lower mid-market segments are often very attractive, but accessing these smaller opportunities, alongside larger investments, will require the pools to develop specific expertise and programmes.

We flag this as we recognise that the pooling project also carries some risk – larger pools of capital often consider it inefficient to make smaller investments and so there is a risk that lower mid market mangers that focus, in particular, on regional growth, are no longer part of the investment landscape for the newly reformed LGPS. It is essential that the Government ensures that the reforms ensure that the LGPS remains active in this space, and that links to the regions the funds serve are maintained.

How will the Government's housebuilding and infrastructure investment plans boost regional economies?

Infrastructure underpins all economic activity by connecting people, goods, services, and ideas, and improvements in infrastructure will be essential to promoting economic growth across the UK.

Investing in infrastructure and reforming the planning system will be key to the success of the Industrial Strategy and will work to create more opportunities for small business growth and attract further private capital investment into the UK's nations and regions. The length of time it can take to get planning permission for facilities such as factories and laboratories adds further uncertainty for those looking to invest across the UK's nations and regions. In many cases, their plans are also vulnerable to planning delays affecting other necessary infrastructure, from the grid to transport to housing.

Business investors are not investors in infrastructure, but they can only deliver high growth and strong returns if there is world-class infrastructure for their businesses to make use of.

The BVCA has made[16] several recommendations to improve the UK's planning and infrastructure:

- Planning laws need to be changed to make it significantly quicker and easier to build both the facilities and the supporting infrastructure that enable investment and job creation in the UK.
- Greenfield status should not be a block on building new facilities and supporting infrastructure. Forthcoming changes to Green Belt designation should not be restricted to housing development but must ensure that job-creating sites can be built where they are needed where there is insufficient suitable brownfield land.
- A lack of basic planning capacity is a crucial constraint on approvals: the Government should invest in training planning officers, and deliver and go beyond its pledge to recruit 300 additional planning officers.
- Where a business commits to investing over a certain amount in physical assets in order to create over a certain number of jobs, the Government should support the costs of building associated grid or public transport connections in line with their timelines.
- The National Infrastructure Commission should be given stronger powers to ensure a clear roadmap for nationally significant projects.
- The Government should recognise that one of the reasons to invest in infrastructure and reform the planning system to build more housing is to make it easier for talented individuals to travel to and live in the places they are needed, and therefore easier to invest in and grow businesses there.

Section 6: **Better Regulation**

Is the current regulatory environment helping or hindering growth and investment?

The UK is the world's second largest hub for private capital, and private capital firms support businesses across all sectors and in all regions of the UK.140,000 people work in the private capital ecosystem in the UK, including in the wider legal and financial services sector. The sector now backs over 13,000 UK companies, supporting 2.5 million jobs, contributing £199bn to the UK economy (7% GDP). A robust, well-regulated financial system has underpinned this success. However, private capital investment is being slowed down by a regulatory environment that is overly complex, duplicative and at risk of losing ground to more competitive jurisdictions. This matters because it is holding back growth. Excessive rules delay deals and deter international firms from locating in the UK and suppress the speed at which investment can reach parts of the UK economy.

The recently published Financial Services Growth and Competitiveness Strategy acknowledges many of these issues. It makes important commitments to reduce authorisation timelines, reduce regulatory burdens, and benchmark UK performance against international peers.

[16] *Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report*

For the UK to compete globally, and attract more of the £190 billion in deployable capital held by UK-led private funds, regulation must evolve from a brake on investment to a bridge for economic growth.

The current regulatory landscape frequently delays deals, introduces risk, and dampens investor confidence. Excessive bureaucracy - such as protracted FCA notification and approval processes slows capital deployment and undermines the UK's appeal as an investment destination. In high-growth sectors such as advanced manufacturing, life sciences, and clean energy, slow or unclear regulatory processes act as a drag on expansion, innovation, and job creation.

Financial Conduct Authority

The BVCA is encouraged by the FCA's recent commitment to reform the regulatory regime for private capital, including:

- The review of the future regulation of alternative fund managers (UK AIFMD). The BVCA is also calling for a review of the regulatory framework that applies to private capital firms that are regulated as MiFID investment firms, subject to the Investment Firm Prudential Regime (IFPR). Despite promising simplification and proportionality, IFPR resulted in significant and disproportionate increases in capital, liquidity, risk management and remuneration requirements for private capital firms, putting UK-based firms at a competitive disadvantaged compared to their EU counterparts.
- The potential reform of the MiFID client categorisation rules to unlock investment from HNW and sophisticated investors.
- Shorter statutory deadlines for determining regulatory applications to make it quick and easier to do business in the UK, and support faster authorisation for new firms.
- Strip away duplicative processes to enable regulators to become more agile and responsive.
- Require regulators to take a longer-term, more strategic approach to regulation and supervision with a new have regard to their growth-orientated remit letters.
- A review of the appropriateness of remuneration rules for asset managers and investment firms.
- Streamlining the Senior Managers and Certification Regime.
- The broader ambition to enhance proportionality and competitiveness through the secondary international competitiveness and growth objective (SICGO).

However, these reforms must be meaningful and targeted. Good intentions will count for little if the outcome is in reality an increased burden or continued friction. The FCA must be held to account and ensure delivery of a regulatory framework that is genuinely:

- Proportionate to the risks posed by private capital and other financial services firms
- Clear and predictable in application.,
- Internationally competitive and attractive to global private capital firms and investors when choosing where to locate and invest.

A clear example of where expectations on growth and competitiveness reforms do not meet reality was in the FCA's proposed new three-tier regulatory structure and thresholds for UK Alternative Investment Fund Managers (AIFMs) in its April 2025 Call for Input. Rather than easing the burden on smaller firms, the proposal would impose a higher level of regulation, introducing greater complexity, reporting obligations, and increased costs on UK private capital firms. This risks reducing competitiveness and deterring firms from expanding or locating in the UK at a time when competing jurisdictions in the EU are actively exploring reforms to attract and grow their own private capital footprint. Post-consultation, the BVCA has had good engagement with FCA policy officials, and we are hopeful that this issue will be addressed in the next round of consultations on the details of the new framework, expected in 2026.

Given the wider drive for UK pension funds to invest in private capital, we also believe the FCA needs to consider some of the rules for DC pension providers:

- FCA charge cap rules for contract-based DC pension schemes continue to apply to performance related fee structures, despite the DWP excluding them from the rules within the trust-based market some time ago. At the moment, COBS 19.6.6R limits all administration charges to 0.75%. This effectively acts as a barrier for the DC schemes that are subject to the FCA rules from investing in private capital. The BVCA believes this is inconsistent with both the FCA's Value for Money agenda, as well as the wider growth remit.
- The BVCA is also calling for the FCA to make changes to 'permitted links' rules – applicable to DC providers that invest through unit linked insurance platforms - to enable access to a wider range of investment options. At the moment the rules mean that those schemes can only access private capital opportunities via a Long Term Asset Fund (LTAF), and so creates an uneven playing field with those not on platforms. Given the professional set up of DC schemes, and existing rules requiring them to seek professional investment advice, there is a strong argument in favour of the existing rules being relaxed.

If the UK is committed to maintaining its position as a world-leading hub for private capital, it must deliver on its promises by removing unnecessary regulatory frictions while maintaining high standards and ensuring global private capital firms and investment capital is not just welcome but wants to be here.

Competition and Markets Authority

The CMA should continue its dialogue with industry, as this enhances a better understanding of the industry and helps inform policy and regulatory developments. External engagement and hearing directly from the CMA also helps industry stakeholders to better understand the CMA's actions.

- The Government must ensure its competition policy maintains the UK's ability to attract international investors and its position as a global hub for private capital, helping the Industrial Strategy to leverage private capital investment across growth-driving sectors.
- The BVCA supports the CMA's stated commitment to ensure that the '4Ps' framework is embedded across its work and helps to improve the CMA's approach to market studies, reviews and investigations.
- A key challenge for our members is the lack of transparency, predictability and timely access to evidence, and so the CMA should ensure that interventions are proportionate and evidence-based, focusing on clear market failures.
- Generally, the BVCA supports the CMA's ambitions to better monitor impact and performance, but thinks it should consider what other UK regulators and international peers do to drive investment.
- For the UK economy to grow productively and sustainably, competition regulation must take a common-sense approach, be applied consistently and effectively balance growth with global standards.
- Regulatory frameworks must be flexible, proportionate and clear enough to allow capital to flow efficiently and predictably. It is very positive to see the program of reform the CMA is currently working through, including consultation on a wide range of topics, all to embed the 4Ps.
- At the same time as reform, it is vital that the CMA considers the wider positive impact that private capital investment can have on UK businesses as it scales and grows them.

Key considerations for policy priorities:

- **Policy uncertainty** – Uncertainty in how competition policy is applied can damage the confidence of investors and create problems for the UK businesses they invest in. The CMA should be more aware of the signals it is sending to investors, including in the media and via the themes of market studies. These investors are often considering making large, long-term investments in the UK, and could instead look at businesses based elsewhere.
- **Complex regulation** – Complex and uncertain competition rules in the UK can make other countries more attractive for investment. A clear and consistent message about how competition concerns are handled, and who investors should engage with, can help build confidence and encourage investment in the UK.
- **Lack of regulatory agility in innovative sectors** – The CMA's approach to regulating tech startups, working with innovative technologies – from AI to medical devices and quantum technology – is unclear. This is largely because the CMA is reluctant to give guidance on their likely approach to market definition, which has a direct impact on the CMA approach to transactions/investments and the conduct in these sectors more broadly. As a result, investors find it difficult to understand what their return on investment is likely to be, whether a product has a path to market, what the likely route to exit could be and indeed whether a business is viable at all.

Ensure an agile regulatory framework to encourage tech adoption to increase productivity

The UK's financial sector is well-placed to take advantage of AI compared to other countries, largely as a result of the commitment taken to work alongside regulators to utilise AI. As outlined above, private capital firms are increasingly adopting AI technologies to streamline processes, increasing existing capability and capacity that contributes to enhanced productivity.

Many technology startups are working with innovative technologies – from AI to medical devices to quantum technology to driverless cars to novel foods – which are rightly subject to regulation. Where regulations have not kept pace with what is now technologically possible, it is more difficult for investors to understand what their return on investment is likely to be, whether a product has a path to market and how quickly it will get there, and indeed whether a business is viable at all.

In our BVCA member survey conducted with Public First, we found that 91% of respondents say a faster and more agile regulatory system would make it easier for them to invest in UK businesses.[17]

Collaboration from regulators through forums such as the Digital Regulation Cooperation Forum (DRCF) help to foster a collaborative approach to the adoption of AI across the financial services industry. It is important that regulators continue to engage across the financial services industry on any developments to the existing regulatory approach.

Ensuring the UK remains a hub for technological innovation and investment is essential to drive economic growth. Being a leader in this space would enhance UK international competitiveness, provide homegrown advancements in critical industries such as defence and cybersecurity, and enable the UK economy to adapt to risks and evolving geopolitical circumstances. Some private capital firms have noted that the current definition of AI technology in scope of the National Security and Investment Act

[17] *Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report*

is too broad, resulting in many transactions falling into scope when there is minimal to no national security dimension. It is important that legislation strikes the right balance between protecting national security and encouraging investment into innovative technologies

What impact will the Government's Regulatory Action Plan have on reducing unnecessary costs and delays for businesses?

The Government's Regulation Action Plan has the potential to reduce unnecessary costs and delays for businesses by streamlining approvals, improving coordination across regulators, and creating a more predictable and pro-investment and pro-growth regulatory environment.

Specific measures such as simplified reporting requirements, and faster authorisation and notification processes could help address key bottlenecks that currently hinder capital deployment. For example, reforms to streamline FCA authorisations and certain regulatory notifications would shorten transaction timelines and reduce execution risk. Similarly, improvements to the National Security and Investment Act (NSIA) process, such as clearer guidance on risk thresholds and faster screening for low-risk cases, would support more efficient deal flow without compromising national security.

In heavily regulated and capital-intensive sectors such as energy, infrastructure and advanced manufacturing, commitments to speed up development consent orders, grid connection approvals, and environmental permitting could reduce project lead times significantly. This would have a material impact on the cost of capital and the pace of investment in strategic industries critical to UK economic growth and net zero ambitions.

Enhanced coordination among regulators, particularly in digital, data and AI, is also welcome. A more coherent and proportionate framework across the ICO, CMA, Ofcom and DSIT would reduce compliance duplication, increase clarity for investors, and encourage innovation in emerging technologies.

However, the overall impact will depend on consistent implementation across departments and regulators. Realising the expected savings and efficiencies requires digital infrastructure, more ambitious statutory service standards, and a cultural shift toward risk-based regulation. There is also a risk that piecemeal reform or uneven application could dilute the benefits and perpetuate uncertainty for investors.

If delivered effectively, the plan would materially improve the UK's investment climate by cutting avoidable friction, lowering compliance costs, and accelerating investment and growth

Section 7: **Risks and International Context**

How should the UK position itself in relation to international competition, including the US, EU and emerging economies?

The UK is currently home to one of the largest private capital hubs in the world, second only to the USA. Key to the UK's success in attracting private capital firms and global institutional investment capital over the last forty years has been its stable and robust regulatory framework. However, as explained in Section 6, private capital investment is being slowed down by a regulatory environment that is overly complex, duplicative and at risk of losing ground to more competitive jurisdictions.

The private capital industry will only remain attracted to the UK if the country's tax, legal and regulatory frameworks for private capital fund management are flexible enough to allow capital to flow efficiently through UK structures, while maintaining robust standards demanded by the most sophisticated institutional investors in the world.

Keeping R&D competitive

Many jurisdictions worldwide offer tax benefits to businesses as an incentive to invest in R&D. So the UK's R&D tax credit regime needs to remain competitive to ensure the UK attracts investment. The following are a few examples.

The following are a few examples;

- The US offers a non-refundable tax credit for certain qualified research expenses (QREs) incurred in the US.
- France offers: an R&D tax credit (equal to 30% of eligible R&D expenses incurred by the company); the Innovative New Company status (JEI) which enables companies to receive tax benefits and pay lower social security contributions for highly qualified jobs; and a reduced corporation tax rate of 10% for revenue from patents.
- Canada has a well-regarded system of tax credits for Scientific Research and Experimental Development (SR&ED), with a 15% credit for eligible activities and expenditure, rising to 35% on a capped amount of expenditure for small Canadian owned companies.
- Denmark has introduced incentives for R&D expenses that can result in a deduction of up to 130% of eligible costs.

The UK's approach to R&D tax credits needs to strike the right balance between targeting this tax relief effectively and supporting the innovators and investors the UK needs to boost growth and jobs.

Section 8: **Government Strategy and Coordination**

How coherent and effective are current government structures for coordinating pro-growth policy?

Whilst current government structures are coherent and effective for coordinating pro-growth policy, a cross-departmental focus is needed to enact policy changes as set out in the Industrial Strategy.

The BVCA welcomed the new Office for Investment: Financial Service which will help deliver a world-class concierge support for foreign investors to navigate the UK government landscape. This will help maintain the UK and the City as a global hub for investment, with a competitive and stable tax system and a clear roadmap that sells the concept of Britain and the future of our economy.

A cross-departmental focus is needed to enact Industrial Strategy reforms, including modernising the planning system to enable scale, fostering innovation through agile regulation, upskilling the workforce and attracting global talent, and driving growth through efficient infrastructure investment. The most important political leadership, in terms of setting strategic direction and making policy, is at a national level. But at the same time, in the context of regional investment in particular, we heard in our Investment Commission member survey that having significant political figureheads such as metro mayors makes a big difference – both as champions of the area they represent and as a focal point for engagement. The BVCA therefore welcomed the Government's intention to devolve more powers on infrastructure, employment, and housing policy to a wider range of local authorities and refresh the way central government works with regional Mayors.

While the exact powers and responsibilities of metro mayors differ from mayoralty to mayoralty, and may be changed in future, the benefit of having a single central figure for potential investors to engage with is invaluable - perhaps more than through specific policies at mayoral level. New bodies such as the Regulatory Innovation Office, the Industrial Strategy Council and the Mission Board for Growth need to be empowered to deliver investment and growth.