

**VCTA Autumn 2024 Budget submission**

## Summary

* Venture Capital Trusts (VCTs) invest in high-growth small businesses, supporting jobs and investment across the UK. The VCT scheme sets out defined rules applied through State Aid criteria and UK legislation, providing tax reliefs in exchange for long-term, patient capital investment in British businesses that would struggle to attract conventional funding.
* The VCTA represents twelve of the largest Venture Capital Trust (VCT) fund managers across the UK, which together represent more than 90% of the VCT industry by value.
* The VCTA welcomes the government’s formal extension of the ‘sunset clause’ on the VCT Relief on 3 September 2024 until 2035. The relief remains a crucial part of the UK economy, helping businesses to scale and grow at pace.

## How VCTs contribute to the economy

Venture Capital Trusts (VCTs) invest in high-growth small businesses, supporting employment and investment across the whole of the UK through the long-standing VCT scheme.

VCTs provide an **essential source of patient capital** to innovative high-growth small businesses, enabling them to access the support and funding they need to grow, enter new markets, and drive employment in all parts of the UK.

VCTs **support early-stage businesses that would otherwise struggle to access commercial investment as they are seen as high-risk investments** and offer intensive business support, commercial and strategic advice in addition to the funds invested.

* VCTA members have made 1,600 individual investments, totalling over £2.95 billion in capital into high growth companies since November 2015, averaging £420 million per annum.
* Over the last financial year, VCTA-backed businesses delivered £21.8 billion in revenues, generating £5.5 billion in exports and investing £274 million in R&D.
* Our investments help businesses to grow fast, helping to tackle the scale up challenge. Mean sales per company increased from £7.3 million to £8.4 million this a year – a 15% year-on-year growth. Since investment, the 2018 cohort of investments have grown sales from £130 million to £455 million – a 3.5x increase.
* Export sales per VCTA-backed company have increased from £0.7 million in 2018 to £1.7 million in 2023.

**106k people** are currently employed by VCT-backed businesses. Between 2021 and 2023, the workforce employed by member-backed companies **increased by over 54%.**

VCTs **develop and support a thriving entrepreneurial economy**, and have an outside impact in terms of innovation, productivity, and job creation. VCTs have been **instrumental in growing the UK’s tech sector**, now the largest in Europe and third largest globally.

In 2023, VCTs **invested £505 million into UK start-ups and businesses** and this investment rate has continued into 2023.

## VCTs – A UK Success Story

**VCTs fuel regional growth**

The UK relies on small businesses to drive economic growth across the country and to deliver innovation, jobs and productivity.

VCT funds play a vital role in the UK funding ecosystem, supporting businesses to move from earlier stage investment towards fully commercial investment. VCT funds are invested and managed by independent fund managers through an extensive regional network of local offices in more than 15 towns and cities around the UK, supporting growth in all parts of the country and stimulating well-paid jobs in innovative, fast-growing industries across the UK.

VCTs deliver high value jobs which are well above the median for the area. Figure 1 below details the average VCTA backed business salary across the UK’s regions and nations compared to the average salary for full time employees. The data shows that across the UK VCTA-backed businesses have a higher salary than the regional average.

Ablatus Therapeutics improves patient outcomes through its next generation soft radio frequency ablation technology, it was founded and is based in Cambridge. The company was backed by VCTA member NVM. It saw an increase of almost 73% in its employee's median salaries between 2020-2023.

VCTA members co-invest in places with the British Business Bank. The British Business Bank’s deploys capital in the regions, e.g., through the Northern Powerhouse Investment Fund (NPIF) and Midlands Engine Investment Fund (MEIF). This combined with schemes like EIS and VCT attracts capital into the regions, which helps develop self-sustaining environments for business growth and job creation.

*Figure 1: Average VCTA-backed unquoted business salary across UK regions and nations, compared to average for all businesses in that region.*

|  |  |  |
| --- | --- | --- |
| **Region/Nation**  | **Average VCTA-backed business salary, GBP**  **(source, VCTA annual return)**  | **Average salary in region for full time employees, GBP (source,** [**Statista**](https://www.statista.com/statistics/416139/full-time-annual-salary-in-the-uk-by-region/)**)**  |
| Greater London  | 60,608  | 44,370  |
| South East  | 50,908  | 36,560  |
| Scotland  | 44,000  | 35,518  |
| East of England  | 53,408  | 34,833  |
| West Midlands  | 51,344  | 33,003  |
| South West  | 39,094  | 33,450  |
| North West  | 44,310  | 33,036  |
| Northern Ireland  | n/a  | 32,879  |
| Wales  | 62,000  | 32,371  |
| East Midlands  | 17,139  | 31,634  |
| North East  | 38,658  | 31,200  |
| Yorkshire and The Humber  | 55,243  | 31,920  |

**Case Study – Matillion**

Matillion was founded in 2010 and is one of the world’s leading cloud data integration platforms. First backed by VCTA Member YFM Equity Partners in 2016, with a £4 million investment, Matillion has expanded rapidly. YFM introduced Peiter Knook, whose appointment as non-executive Chairman brings decades of experience in the technology sector to the firm.

Matillion has attracted some of the world’s largest companies to its services, including Microsoft, Slack and Amazon. Matillion became the first ‘Unicorn’ in the North-West, with a valuation exceeding $1 billion. VCTs have supported regional firms such as Matillion, promoting growth across the UK and contributing to the development of the region’s tech ecosystem. With support from VCTs, Matillion has been able to expand into the US market, opening a dual headquarters in Denver.

Matillion is demonstrative of the role that VCTs can play in expanding a business, as well as the positive impact a properly supported British start-up can have on the UK economy. Matillion has continued to expand its workforce, which now numbers in the hundreds. Many of these employees are based in the Greater Manchester area.

**Support for British tech startups**
VCTs are instrumental in providing start-ups with the patient capital they need to grow, and truly allowing ‘product-led’ innovation, with VCTs providing the support they need to commercialise their tech products. This is at a time when the UK seeks to lead Europe in tech funding.

Data from the VCTA shows that its members invested **£505m in early-stage companies across the UK in 2023**. VCTs provide a vital source of funding for businesses with the broader venture market falling by a third in 2023.

**The VCT and Enterprise Investment Schemes have provided funding to 11 out of 44 active Unicorns in the UK highlighting the value of VCT and EIS schemes’ funding and advice**. The UK is now one of only three countries in the world with a tech industry worth more than $1 trillion.

**Case Study – Bright Network**
VCTA member Maven supported recruitment technology specialist Bright Network, connecting graduates to employers, which now has over 1 million members. It currently works with over 300 partner firms, including Amazon, Vodafone, and Google. VCT investment was used “to help further develop its technology and student engagement strategy”. Founder and CEO, James Uffindell, commented “VCT funding has helped to propel Bright Network through our latest stage of growth and supported our ambition of becoming the UK’s leading graduate career platform”.

Some of the most exciting projects currently sponsored by VCTA members include Optellum, a developer of clinical designed to diagnose lunger cancer at an early stage and, XYZ reality, the world’s most accurate engineering grade augmented reality headset for construction.

**Job creation and funding growth**

The UK is a great place to start and grow a business and is helped by tax-incentivised investment through schemes such as the SEIS, EIS and VCTs. These have helped to develop a thriving start-up community recognised around the world, providing financial support at the earliest stages of starting a business by encouraging investment in small, unquoted trading companies. Allowing companies to raise more funds at the very earliest stage improves their prospect of success. Currently 106k peopleare employed by VCT-backed businesses.

These high growth businesses are the engine of the economy, growing rapidly to punch well above their weight in terms of economic contribution, productivity and job creation. They are not without risk, however, which is why the government provides tax incentives to encourage investment by private individuals.

VCTA member Albion Capital’s investee businesses have seen their employment grow from 3,490 employees in 2020 to 4,700 in 2023. One recent notable investment also made by Albion was in Quantexa’s Series E funding, an AI-powered data and decision intelligence solutions company, which saw it become the first British Unicorn of 2023.

In a Treasury Select Committee report on Venture Capital, published in July 2023, the contribution that VCT backed businesses make to job creation was widely recognised.

Dr Amrit Chandan, co-founder and CEO of Aceleron Energy, a sustainable battery manufacturer, was asked “how [do] we verify that the tax schemes actually work”, he responded that “his business would not be functioning without them”. Jane Whittaker, Director of Knowledge, Analysis and Intelligence in HMRC, provided the following comment in relation to analysis of the benefits of the scheme: “We did qualitative and quantitative research […] We found that [the tax relief] schemes led to increase in sales, jobs and productivity as well as greater innovation across the products and services provided.” The report concluded with a recommendation that “HM Treasury extend the EIS and VCT sunset clauses beyond April 2025 at the earliest opportunity.”

The role of VCTs in providing incentives for investments in UK SMEs helps the process of moving young, ambitious, innovative companies to the next level by injecting the capital they need to expand. In many tech-intensive businesses it can take years and millions of pounds worth of investment before the company can begin to see a return on the funding they receive. **VCTs play a crucial role in providing innovative firms with the capital they require and the support they need to prosper, with a view to long term growth.**
**VCTs provide extensive business support and advice**
VCTs provide expertise in addition to funding – to help their companies develop new products, enter new markets, and create new jobs. VCT fund managers have a network of specialists who can help investee companies scale and grow, for example advising how to hire and build effective boards, or to rapidly scale a sales team.

VCTs deliver management support, provide industry connections, make follow-on investments and help to expand future funding options. They also use their established connections and wider market knowledge to help businesses expand overseas through bespoke support for investors.

VCTs are currently supportingover **1,100 of the most ambitious young businesses in the UK,** which have collectively received almost **£4 billion of investment.**

**Extension of the ‘Sunset Clause’**

The VCTA has long advocated for the extension of VCT Relief and welcomes the renewal of the sunset clause enacted by the government on 4 September 2024. The decision has extended the VCT scheme which provides billions of pounds in financial support to start-ups and ambitious young businesses, and this has given certainty to businesses and investors.

The UK is currently the third largest creator of venture capital backed businesses in the world and this decision will help ensure that UK remains internationally competitive. The VCTA appreciates this decision and with the HM Treasury’s statement that this decision will prove instrumental in the government’s pursuit of growth.

The VCTA looks forward to working with Treasury officials in the coming months on ways of making the VCT Scheme more efficient for the taxpayer and simplifying the scheme to make it more effective.

## About the VCTA

The VCTA represents twelve of the largest Venture Capital Trust (VCT) fund managers across the UK, which together represent more than 90% of the VCT industry by value.

The businesses we support range across sectors as diverse as digital technology, medicine development, specialist manufacturing and online retailing.

The twelve fund managers we represent are Albion Capital, Beringea, Canaccord Genuity, Foresight, Gresham House, Maven, Octopus Investments, Mercia Asset Management, Molten Ventures, YFM Equity Partners, Pembroke and Puma Investments.