



Autumn Budget 2017

Financing growth in innovative firms

- Innovative UK firms will be backed by a new action plan to finance their growth. It will unlock over £20 billion of investment over 10 years to ensure the UK economy is fit for the future.
 1. The UK is home to thousands of innovative, high-growth businesses bringing to life the ideas that will build the new economy. The new technologies they are developing have the potential to change the way we live and work, boost productivity and improve living standards.
 2. While a high proportion of start-ups achieve individual periods of high growth, some very promising firms struggle to attract the long-term investment needed to sustain that progress and develop into world leaders. This particularly affects firms that need substantial investment before their business model is proven e.g., those turning cutting-edge research into products or services ready for market.
 3. The Budget unveils a comprehensive 10-year action plan to unlock over £20 billion of ‘patient’ investment to finance growth in innovative firms through new investment into funds, clarified pensions guidance and reform of tax reliefs. Full details of the government’s plan can be found in its response to the Patient Capital Review, *Financing growth in innovative firms: consultation response*, which has been published alongside Budget.

Investment

4. To support successful investment into high-growth innovative firms, the government will make a series of time-limited investments to develop a self-sustaining market. Specifically, it will:
 - establish a new £2.5 billion investment fund incubated in the British Business Bank to be floated or sold once it has established a sufficient track record. By co-investing with the private sector, a total of £7.5 billion will be released. The fund will become a leading investor in ‘patient’ investment across the UK
 - invest £500 million of public money through the British Business Bank into a series of private sector ‘funds of funds’ to encourage new institutional investment in high-growth sectors. Up to two further waves of investment will be launched, facilitating up to £4 billion of financing in total
 - back first-time and emerging fund managers through the British Business Bank’s existing Enterprise Capital Fund programme, enabling at least £1.5 billion of investment
 - support overseas investment in UK venture capital through the Department for International Trade, which the government expect to unlock at least £1 billion of investment

- launch a commercial investment programme run by the British Business Bank to develop groups of business ‘angels’ outside of London.
- create a National Security Strategic Investment Fund to invest in advanced technologies that contribute to national security.

Regulation

5. Pension funds have the potential to be a natural supply of patient capital. To help achieve this:
 - the Pensions Regulator will clarify guidance on how trustees can include investment in assets with long-term investment horizons e.g., venture capital, infrastructure and other illiquid assets in a diverse portfolio
 - the Treasury will establish a working group of institutional investors and fund managers to look at how to remove barriers holding back some Defined Contribution pension savers from investing in illiquid assets

Tax

6. Knowledge-intensive firms, such as those developing new cancer drugs or cutting-edge technologies, often require a large amount of capital upfront to fund their growth. It may be many years before their products can be brought to market. In addition, despite recent improvements, other high-growth innovative firms also struggle to attract the investment that they need to grow.
7. The government will expand support available through the tax system and look to redirect investment into high-growth innovative firms. It will make changes to two schemes supporting investment into high-growth start-ups: the Enterprise Investment Scheme and Venture Capital Trusts. These changes will incentivise over £7 billion of investment.
8. Individuals investing through these reliefs can deduct 30% of the value of their investment from their income tax bill. The Budget announces that the government will extend and reform these reliefs by:
 - doubling the annual allowance for people investing in knowledge-intensive companies through the Enterprise Investment Scheme to £2 million
 - doubling the annual investment that knowledge-intensive firms can receive through the Enterprise Investment Scheme and Venture Capital Trusts to £10 million
 - introducing further flexibility for these companies over how the 10-year maximum company age test for the first investment is applied
9. In addition, the Budget introduces a test to prevent low-risk ‘capital preservation’ investments qualifying for the reliefs. This will re-direct investment towards high innovative growth firms. The government will also change Venture Capital Trusts rules to encourage greater investment into high-growth innovative firms. Entrepreneurial businesses seeking long-term growth will not be negatively affected by any of these changes.
10. To ensure Entrepreneurs’ Relief continues to encourage long-term investment the government is also changing the qualifying rules to remove the disincentive to take on external investment.
11. By redirecting low-risk investment, these reforms are broadly cost neutral over the next five years and will represent an increase in the support provided by government, by 2022-23.