Policy Recommendations

HGSB Report 2019

Unlocking the potential of HGSBs

High-growth small businesses (HGSBs) are vital to the UK economy, not least because of the employment they provide and the contribution they make to the Exchequer. If the UK is to continue to be a global leader in business, it is crucial that HGSBs are supported to grow and become the leading companies of the future.

We welcome the Government's commitment to support SMEs, but with the many challenges facing entrepreneurs, targeted support from policymakers is needed to ensure that HGSBs are able to scale up, realise their potential and drive the economy forward in the coming decades.

Furthermore, it is imperative that the UK maintains its position post-Brexit as one of the best places in which to start and grow a business. Whether by improving access to capital or reforming the UK's immigration scheme, we can do better to support HGSBs. Because if HGSBs flourish, the economy as a whole will follow suit.

We therefore encourage Government to consider the following nine policy recommendations.

Supporting investment in HGSBs

1.

Continue to support investment in the Alternative Investment Market to raise capital for HGSBs

Since its launch in 1995, the Alternative Investment Market (AIM) has enabled investment of £113 billion to more than 3,850 firms, many of which are HGSBs, providing essential capital to allow them to grow and establish themselves.[1] AIM is a UK success story and has provided capital to support businesses such as Domino's Pizza Group, Hiscox and Big Yellow Group.

The success of AIM is, to a large extent, the result of targeted Government policy to incentivise patient capital investment – in particular, tax reliefs offered to private investors, which incentivises investment in small businesses over the long term. The ability to claim business property relief (BPR) on investments on AIM and to pass these on free of inheritance tax has resulted in record levels of investment in small businesses.

The Government should make a long-term commitment to support the findings of the Patient Capital Review in 2017 and ensure that BPR is protected and AIM continues to flourish as a source of growth capital for HGSBs.

[1] London Stock Exchange AIM data, 2019

Remove venture capital trust performance fees from the automatic enrolment charge cap

We supported the introduction in October 2012 of automatic enrolment for workplace pensions, which will see a larger pool of funds being held by pension schemes for longer than ever before. It is important, however, that this pool of patient capital is put to the best use: to provide choice, greater returns and security for the ever-growing number of pension holders, as well as unlocking investment in HGSBs.

We welcome proposals from the Department for Work and Pensions to accommodate fund manager performance fees in the automatic enrolment charge cap. However, current limits only allow private pension schemes to invest in venture capital trusts (VCTs). Workplace pension funds are prevented from investing in VCTs because performance fees fall outside of the automatic enrolment charge cap.

Because of the proven success of VCTs in raising investment for small businesses and providing returns on investment, *we urge policymakers to exempt performance fees from the charge cap for investments in VCTs*. This will lead to greater long-term returns for pension scheme holders and provide a stable source of growth capital for HGSBs.

2.

3.

Allow ISAs to invest in unlisted companies

The Government's decision to allow AIM shares to be held within an ISA wrapper has been incredibly successful.

Since the rules changed in 2013, Octopus has invested hundreds of millions of pounds into AIM companies with a growth mandate, comprising both new ISA investments and the transference of existing ISA portfolios that would have been invested in FTSE-listed companies or cash. ISA investments are one of the most patient forms of capital, and *we would like to see this pool of capital invested into a greater number of small businesses by allowing ISAs to invest in privately owned, unlisted companies.*

With £316 billion currently held in stocks and shares ISAs, if even a small fraction of this is invested in unlisted companies, the impact on the availability of patient capital for HGSBs would be significant.[2]

[2] HMRC Individual Savings Accounts (ISA) statistics, April 2019

4.

Reform the business rates system

HGSBs are diverse and cover a broad range of sectors, from financial technology to manufacturing – and, like many other businesses, face a variety of tax pressures.

Our survey has found that while corporation tax is a significant pressure, entrepreneurs cited business rates as the area of the tax system where the most urgent reform is needed. Over a third said that cutting business rates is the best way the Government can support the growth of their business.[3]

The business rates system unfairly penalises bricks-and-mortar businesses and stifles the growth of HGSBs. *The Government should reform the outdated business rates tax by moving to a new system that addresses the current imbalance between business profits and physical property values.*

[3] Public First/Octopus Group research

Creating the jobs of the future

5.

Create 'talent visas'

HGSBs frequently cite skills shortages as a barrier to growth. The UK should ensure that HGSBs are able to access the best global talent – whether from the EU or further afield. One way to ensure that the door remains open is to create a visa system that does not penalise people based on their salary, but assesses their ability to contribute to the UK's business environment more broadly, by introducing 'talent visas'.

To guarantee access to the most skilled workers the world has to offer, *we recommend that the Home Office reviews its visa system relating to highly skilled jobs in the UK*, as the current visa regime (Tier 1 and Tier 2) is not fit for purpose.

In the short term, the Home Office should remove salary requirements for highly skilled entrepreneurs from Tier 2 visas to make it easier for HGSBs to access talent as the UK leaves the EU. Visa applications should be assessed on the basis of skills and the value an individual could bring to a business.

6.

Expand the apprenticeship levy to create a 'skills levy'

It is not sustainable for the UK to import talent from elsewhere without addressing the domestic skills shortage. A priority should be upskilling the UK's workforce in order to adjust and develop the technologies, sectors and jobs of the future. Addressing the skills gap cannot be considered in isolation – there must be a holistic approach, spanning from primary education to retraining on the job.

While we welcome the Government's commitment to improving and expanding core technical routes of education and training, demonstrated by the introduction of the apprenticeship levy and T-levels, more can be done to ensure businesses can hire people with the skills they need.

Few companies take full advantage of the funds made available through the apprenticeship levy in its current form, so it is therefore less efficient at achieving the goal of reducing skills shortages than it could be. *By expanding the apprenticeship levy into a more flexible 'skills levy', it would reach a wider pool of recipients and enable the critical upskilling and retraining that many people in the labour market require.*

Initially, the Government could tie this new levy to the Industrial Strategy Sector Deals, which identified the sectors that are of strategic importance to the UK beyond Brexit, before rolling it out in sectors that face the largest skills shortages.

Careers services should partner with local HGSBs through a national entrepreneurs' mentoring scheme

Careers advice in schools and universities focuses on traditional professions such as medicine, finance and law. But the world of work has moved on: HGSBs now provide a sizeable proportion of jobs, and there are more entrepreneurs than ever before.

For those aspiring to start their own business, the advice and support available through traditional education is almost non-existent. *We recommend encouraging school and university careers services to partner with local HGSBs through a national mentoring scheme* to connect aspiring entrepreneurs with experienced businesspeople. This could operate on an online platform that would also include testimonials from entrepreneurs, as well as information about Government support available for start-up businesses.

7.

Championing HGSBs and global trade

8.

The Department for International Trade should convene a small-business working group to champion the interests of HGSBs

HGSBs trade all around the world and have a strong presence in markets such as the USA and China. We know that being able to trade is vital for HGSBs to grow and welcome the support of the Department for International Trade (DIT). We urge DIT to continue to include VCT fund managers and portfolio companies in future trade delegations, particularly in Asia and the USA.

With the UK looking to increase global trade after it leaves the EU, it is crucial to promote trade in all areas of the economy. Future trade deals struck by the department will govern HGSBs' trading arrangements, so it is important that the interests of entrepreneurs and small businesses are represented. *DIT should appoint a dedicated minister for small businesses to chair a working group of SMEs, ensuring that they are given a voice in future trade negotiations.*

9.

British Business Bank should replace and exceed venture capital commitments by the European Investment Fund

The European Investment Fund (EIF) has been an important provider of growth capital for HGSBs. Between 2011 and 2015, it invested around €2.3 billion into UK venture capital, growth and mid-market funds, which then supported a total investment of €13.8 billion into SMEs.[4]

It is clear that the Brexit vote has already resulted in a drop in funding from the EIF for UK venture capital and HGSBs. Through its Infrastructure Finance Review, the Government will be acutely aware of the contribution that EU financing institutions make to the UK economy and the need to maintain current levels of investment.

As the UK leaves the EU, the Government should ensure that British Business Bank maintains, but also looks to exceed, the historic funding levels provided by the EIF.

[4] Written evidence from the British Private Equity and Venture Capital Association submitted to the House of Lords EU Financial Affairs Sub-Committee's Brexit: the European Investment Bank inquiry

HIGH GROWTH SMALL BUSINESS

2019

octopus

A brighter way

octopusgroup.com