Budget Representation to the Chancellor of the Exchequer, Rt Hon Rachel Reeves MP.

On behalf of UK Business Angels Association (UKBAA)

The crucial role that Angel Investment plays in supporting the Government's Strategic Growth Agenda, including the New National Wealth Fund and in developing a new Industrial Strategy for the UK. What measures should be taken by Government to further strengthen the role and impact of the UK Angel investment market, with a specific focus on unlocking the potential of Business Angel Investment across the UK Regions, increasing investment in diversity and innovation.

1) Introduction

1.1. Who We Are:

UKBAA is the trade body for Angel and early-stage investment established in 2012 covering England, Wales, Scotland and Northern Ireland. We are a private company limited by guarantee and operate as a not-for-profit organisation. Our community spans the Angel and early-stage ecosystem, including over 20,000 angel investors across the UK and our membership consists of 110 Angel networks, 12 online platforms, 40 early-stage funds and VC funds; 30 Accelerators and 48 Associates, including professional advisers, lawyers; academics; other finance providers; and key stakeholders at regional and national level.

Our role is to build and support the growth of an effective angel and early-stage finance ecosystem across the UK and to address areas where capacity is weak, providing education and support; connecting investors to quality sources of deal flow and connecting the investment supply chain from start-up to scale-up. We also seek to address core challenges and gaps in the market such as addressing regional angel capacity imbalances and increasing angel investment in diversity, also to address key underserved sectors. We work closely with Government, BBB and key stakeholders to ensure an effective policy environment for the growth of angel and early-stage investment.

1.2. The Role of Angel Investment in the supply chain

Angel Investment plays a fundamental role in the long-term growth and scaling of small businesses and represents the most significant source of equity finance for early-stage entrepreneurs, bringing over £3bn annually,[1] providing crucial, high-risk, early-stage capital alongside deep domain expertise and valuable connections and networks. It plays a vital role in the equity supply chain, fuelling growth, innovation, and job creation across core priority sectors and technologies including Green Technologies, AI and DeepTech, Healthcare and Life Sciences, Space, Manufacturing, Creative Industries and Industrials.

1.3. Needs and Challenges for the growth of the Angel Market:

Angel Investment faces a number of core challenges as set out below:

1) Angel and Seed stage investment has declined under the financial and economic downturn, specifically impacting access to angel investment in the regions:

Evidence:

- There was an overall decline of 47% in the Angel market between second half of 2022 and end of 2023, whilst latest data for Q1 2024 still shows little improvement[2]. Notably, the Regions outside the Golden Triangle were

[1] Beauhurst The Deal Equity Market report 2023
[2] The Deal 2023 and Q1 2024 Beauhurst

specifically impacted by the decline in Angel Investment with several key regions facing an annual decline of 20% in levels of Angel Investment between 2022-23[3]

2) There remains a strong imbalance in the distribution of Angel investment across the UK which directly impacts the level of investment in innovating early-stage businesses in the regions:

Evidence:

- 55% of total Angel equity capital deals remain focused on London with over 60% of investment value, whilst most of the regions except Scotland have received between 3-5% of total angel investment and Northern Ireland only 1%.[4]
- This was compounded by an overall decline in the level of seed stage funding and notably, first-time deals across both the Angel and early-stage equity market with second round deals overtaking first time deals.
- Regions and nations outside Greater London witnessed a 35% decrease in the number of seed stage deals and a 36% decrease in their total value in 2023[5].
- This indicates the need to considerably strengthen the pool of Angel Investment across the UK to address the growth needs of innovating start-ups across the UK and notably to significantly increase the level of Angel Investment in the regions where distinct barriers exist for businesses seeking to access early-stage investment.

3) The Angel Investment Community continues to lack diversity, which directly impacts the level of investment to businesses powered by diverse founders. There remains a systemic imbalance in the number of women angel investors across the UK.

[3] The impact of Female Investment Beauhurst-UKBAA 2022
[4] BBB Small Business Equity Tracker 2023
[5] BBB Small Business Equity Tracker 2024

Evidence:

- *The Women Angel Insights report led by UKBAA and carried out by Beauhurst* in September 2022[6], identified 37,000 angel investors across the UK, but only 14% (5,000) of these were women Angels with at least 2 investments. Less than 0.7% with a portfolio of over 12 companies, so representing a very nascent and underdeveloped pool of capital.
- Data from the *Investing in Women Code* reports show a continuing low level of investment in women only teams, with only 9% of Angel Investment going to all women teams in 2023[7], only a slight improvement on data from 2022 where 7% of angel investment went to all women teams.
- At the same time whilst less data is available, it is estimated that only 11% of Angel Investors are from black and ethnic minorities. Whilst data from the *Investing Women Code* signatories showed 84% percent of Angel Investment went to all white teams in 2022[8].
- Research also clearly shows that the level of women angels in the investment base, directly impacts the number and level of investments made in female founders. Women Angels have 25%-50% of their investment in women founders with an increasing number of women angels investing 100% in women founders.
- *The Investing in Women Code Report 2024* demonstrates once again that Angel Groups with a significant proportion of women in their group make significantly more investments in women led teams and higher levels of investment, making between 60-100% of their investments in teams with women founders, compared to male focused angel groups who made less 63% of their investments in all male teams[9]. Thus, showing the considerable impact that empowering many more women to become angel investors could make in the level of investment into women founders.

[6] https://ukbaa.org.uk/wp-content/uploads/2022/09/Women-Angel-Insights%E2%80%94The-impact-of-female-angels-on-the-UK-economy%E2%80%942022-report-final.pdf
[7] Investing In Women Code Report 2024 (to be published by DBT sept 2024)
[8] IWC report to the APPG for E
[9] Invest in Women Code report to be published by DBT 19 September 2024)

- A further key factor is that 60% of Women Angel investment remains focused on London and South East, with far fewer women angel investing in the regions for example, only 3% of women angel investment is focused on Yorkshire and Humber and only 1% in Northern Ireland, although 11% is focused on Scotland[10]
- This indicates the urgent need to support the mobilisation of the equity investment power of many more women into the Angel investment base and notably in the UK regions outside the Golden triangle and the need to significantly increase the overall diversity of the Angel Investment market in order to meet the needs of early stage businesses across the UK, especially businesses in the regions and businesses powered by women, black and ethnic minority founders and by wider underrepresented communities across the UK.

3. Key Policy Measures Proposed to strengthen the Pool of Angel Investment across the UK

We set out below our proposals for policy and expenditure to strengthen the Angel market and how this will support the Government's Growth Agenda and current policy initiatives and reforms.

2.1. The Regional Angel Programme:

- We are deeply grateful to the Government for its commitment over the past 5 years of £250m co-investment Funding pot to increase Angel Investment in regional entrepreneurs. This has offered an extensive opportunity to reduce regional imbalances in access to early-stage equity finance across the UK, providing co-investment to designated Angel groups and relevant early-stage Funds to boost their investment potential and increase the level of investment made in regional innovating entrepreneurs. This programme offers co-investment pots of funding between £5-15m to experienced angel groups and early-stage fund

[10]https://ukbaa.org.uk/wp-content/uploads/2022/09/Women-Angel-Insights%E2%80%94The-impact-of-female-angels-on-the-UK-economy%E2%80%942022-report-final.pdf

managers to boost investments into small businesses across the regions, with 15 delivery partners allocated funds so far.

- Whilst this has proved to be effective in driving out funding to small businesses in the regions, the opportunity should be taken to create long term sustainability for many more Angel Investor Groups operating across the regions, by enabling them to benefit from access to RAP co-investment funding to leverage this local angel investment potential into many more innovating entrepreneurs across the regions. These groups are building strong communities of angels embedded in the region and focused on supporting their local economies, as well as groups focusing on specific regional sector strengths and innovation clusters also supporting spin outs. However, the majority of these regional groups do not currently qualify for funding under the RAP parameters which require extensive track records, as well as exits experience and frequently FCA authorisation to benefit from funding under the RAP.

- We also have an increasing number of Angel groups focused on investing in Women and wider diversity across the UK regions to enable them to benefit from the RAP. The current parameters set for eligibility to access the RAP scheme have precluded all these high potential women focused angel groups and groups with wider diverse investors across the UK from accessing the benefits of the scheme. Many of these groups operating across the regions are 100% focused on investing in women led businesses, or diversity-led businesses and bringing significant additional experience and added value to their investments, whilst mobilising the investment power of women and diverse investors

We recommend:

- Allocate a further **additional £250m funds to the BBB Regional Angels Programme** in the current spending review to expand the reach of the Co-investment funds to catalyse the investment power and support long term sustainability of many more regional angel groups backing innovating early-stage business in key growth sectors.

- **Earmark £100m** of this additional RAP Fund allocation to BBB to specifically leverage the investment potential of emerging new Angel groups led by women investors and investors from other diverse communities, focused on mobilising investment in women and diverse founders across the regions. This will significantly increase the pool of angel investment into women and wider diverse founders across the UK regions and build a sustainable diverse Angel investment base across the regions.
- BBI should urgently move forward with **establishing new structures and mechanisms under the RAP** to enable more regionally embedded angel groups and high potential women led angel groups and groups focused on backing diversity, to access co-investment under the Regional Angels Programme and build a long-term sustainable pool of Angel investors deploying their capital in underserved regions and nation and underserved founders across the regions.

- **Allocate additional resources to BBB to support capacity building for Angel Groups across the regions.** We recommend that additional resources be allocated to support Angel Capacity building across the regions and devolved nations, building on existing work piloted by the BB regional Network Team. This should aim to boost existing good practice actions being taken by Angel groups across the UK who are developing dedicated educational programmes and supporting the development of educational resources and tools. This should also have a specific focus on attracting and supporting angel groups to recruit and mobilise more women investors and investors from other diverse backgrounds, leading to increased angel capacity to invest in women and other diverse founders in the regions.

2.2. The Role of the new Invest in Women task Force

We also endorse the measures being developed by the new **Invest in Women Task force** set up in 2024, supported by both DBT and HMT and endorsed by the Chancellor of the Exchequer with the aim of leveraging the Investment potential of Women Investors to significantly increase the level of investment in women-powered businesses. Notably we support their initiative to leverage private and public sector funding including the pension funds to develop **a new £250m Fund** to support the growth of women led Investment funds

Jenny Tooth OBE, Executive Chair of UKBAA, is a member of this new Task Force, leading the Angel investment stream of work and which is developing proposals for policy and actions, focused on increasing the number of women angel investors to 30% from 14%, more than double the existing level; also, to ensure that at least 30 of total angel investment is focused on women powered businesses.

This includes a specific focus on leveraging and effectively mobilising the investment potential of many more women angel investors in the regions, as well as developing bespoke educational programmes for building awareness and knowledge among women angels. Also addressing the current barriers among wealth advisers to enable HNW women to engage with Angel Investing including a bespoke programme of education for wealth advisors, banks and corporates on the merits of Angel Investing and pathways to unlock the Angel investment potential among their HNW women clients.

2.3. Enterprise Investment Scheme as key tool to boost Angel Investment across the UK

- The Enterprise Investment Scheme (EIS) has mobilised £24bn into 33,000 companies since its instigation[11]. The scheme has proved to be of fundamental importance in developing a strong Angel market in the UK, providing mitigation of risks to enable individuals to deploy significant levels of their own personal capital and take much greater risks in backing very early-stage businesses. UKBAA research showed that 85% of Angel investors had used the scheme to bring more investment from their own personal wealth to high-risk businesses
- The Angel and early-stage investment community welcomes the recent endorsement by the Government of the European Commission's decision to approve under State Aid Competition rules the continuation of the EIS and VCT schemes until 2035. This will provide clarity and certainty to the Angel Investment community who identify the benefits of the scheme in mitigating their risks enabling them to back more early-stage high-risk innovators and increase the level of investment across the UK.

[11] UK Government EIS statistics May 2024

- There is also an opportunity for the Government to more effectively utilise EIS and SEIS to support the formation and growth of innovating businesses by increasing access to the data gathered by HMRC from both the founder and investors that utilise the schemes including the potential for more detailed reporting. This will enable better understanding of the usage of EIS and SEIS in relation to investments in small businesses in the regions and also the collection of gender related data and sector focus, enabling alignment of the schemes to Government's policies to enhance growth.
- However, there are currently strong disparities in the take up and usage of the scheme with far fewer investors in the regions and among women investors and other diverse communities as a major incentive to use their spare wealth to make investments in high-risk entrepreneurs, also among women and diverse founders seeking investment.

We recommend

- To support a nationwide awareness campaign, mobilised through the key trade bodies including UKBAA, BVCA and EISA, VCTA and wider channels to promote much greater awareness nationwide about the benefits of SEIS and EIS among investors and entrepreneurs and the advisory community, with a view to influencing the distribution of capital across the UK's regions and devolved nations through the EIS/VCT schemes.

2.4. Supportive Regulatory and Tax environment to strengthen and grow Angel Investment capacity across the UK

- Angel investors need a stable and certain environment to commit spare wealth into high-risk small businesses.
- Regulatory changes and reversals, such as under the FSMA legislative framework earlier this year, should be avoided to ensure a more certain environment for the growth of Angel Investment. This is specifically the case for Angel groups who are striving to grow the pool of risk capital for early-stage businesses, especially across the underserved regions and devolved nations and for those seeking to attract and mobilise more women investors and creating a more diverse pool of investment.

- Angel groups are working to increase the professionalisation of angel investment and a growing number of Angel groups are developing early-stage Investment Funds operated under the Financial Conduct Authority FCA. These Angel focused Funds provide further capital boost alongside angel investment and play an important role in galvanising a wider pool of investment in the UK's innovation ecosystem.

We recommend:

- We should avoid complex and costly regulatory changes by the FCA that impact on the operation of these early-stage Funds. These Funds require a supportive regulatory environment to enable increased professionalism in Angel Investing and development of new valuable co-investment funds to leverage further angel investment across the regions.

Capital Gains Tax:

We need a supportive and attractive tax environment to enable private individuals to continue to mobilise their spare wealth capacity into the UK's innovating growth focused entrepreneurs and does not deter them from bringing much needed investment to small businesses. It will also be vitally important to encourage many more successful entrepreneurs to mobilise the results of their successful growth and exits into investing in the next generation of entrepreneurs.

Angels do not get the benefit of carried interest schemes, they are putting their own money at risk and over 60% of investments may not return their original investment. We need Angels to continue to take risks and commit some of their spare wealth capacity. We need to attract many more individuals to become Business Angels across the UK.

We recommend:

- In considering changes to Capital Gains Tax and Inheritance tax, consideration be given to how increases in levels can be capped or offset for private individuals investing as Angels in high-risk early-stage businesses; also, to encourage exiting Entrepreneurs to recycle at least part

of their success into investing in small businesses (recognising that the previous Entrepreneurs Relief Scheme was abolished).

- We recommend that Government consider maintaining current levels of CGT for investors investing their own money into small businesses.
- Also, to review opportunities for entrepreneurs to have a lower rate of CGT when selling their business, as long as a proportion (potentially on a scale relevant to amount of gain) is invested in start-ups.
- We also hope that the existing EIS/SEIS scheme will continue to enable CGT on investments in qualifying small businesses can be deferred and Inheritance tax on these investments removed, as long as gains continue to be further invested in small businesses.

3. The importance of the National Wealth Fund in strengthening the Angel Market and drawing on the enhanced role of BBB

We welcome this very important new policy initiative which brings together the investment power of UK Infrastructure Bank with £7.3bn additional funding and the British Business Bank Growth Funds and we identify the vital importance of using these funds in catalysing private investment at an even greater scale. This approach will enable the BBB to significantly scale its reach and impact and ensure it can mobilise the UK's deep pools of institutional capital by harnessing its pipeline of investments and track record as the UK's largest investor in venture capital, enabling the support of innovation and entrepreneurship.

Angel Investment has a core role in supporting the objectives of the new National Wealth Fund. Angel investors bring significant levels of risk capital to early-stage innovators, focused on developing important new technology solutions and applications to address climate change and support environmental sustainability across a wide range of subsectors, frequently being the first risk takers, bring equity investment to support early-stage commercialisation of innovations and ensure long term social impact.

We recommend:

- That the extensive benefits offered by the New National Wealth Fund and specifically through the mechanism of the BBB Growth Fund to harness the huge investment potential the Pension funds and institutional investors, should not be limited to de-risked deals done at the high-growth end of

the Equity market, but should be deployed to support **the whole equity supply chain** from early stage through to scale-up and long-term successful growth businesses.

- Notably, we recommend that the National Wealth Fund and the BBB Growth Fund should mobilise the Pension Funds alongside Angel investment to catalyse investment into innovating early-stage entrepreneurs focused on the Green Agenda, as well as directly boosting investment potential into early-stage innovators in key growth sectors in the regions.
- There is a specific opportunity to deploy the Pension funds into investments in women-powered and diversity-powered businesses, to further boost their growth and scale-up potential, offering the potential to further leverage the risk capital potential of women angels and diverse angel groups. This also supports the key policy recommendations of the Invest in Women Task Force.

4. The role of Angel Investment in a New Industrial Strategy

- At UKBAA, we support and recognise the opportunity being taken by the Government to develop and implement a new Industrial Strategy as a key means to provide the relevant investment, infrastructure and policy measures to support sustainable long-term growth, to catalyse the impact of innovation and technology, targeting UK's growth sectors and key industrial strengths and strengthening the access to skills and talent.
- We recognise the vital importance of leveraging and crowding in Private sector capital and investment and we wish to draw attention to the important role that Angel Investment will play in the development and successful delivery of an effective Industrial Strategy.
- Angel Investors are in pole position in the supply chain of investment in innovating, growth focused entrepreneurs across the key priority sectors and industries in the UK. As already described, Angel Investors have the potential to mobilise significant levels of risk capital investment in the regions and into women and diverse teams. The businesses that Angels back, providing several investment rounds and strategic advice and support through the first stages of growth and scale are more likely to go

on to successfully access VC Stage A and supporting access to relevant grants and loans.

We recommend:

The pool of Angel investment is considerably strengthened as a core measure under the Industrial strategy, with a view to building on sector and innovation strengths. This should draw on the measures outlined above including allocating further to RAP to build stronger regional Angel communities to support regional and local sector strengths and innovation clusters; also building on the key measures to grow and mobilise the investment power of many more women through the measures outlined in this submission.

4.1. Leveraging Angel Investment as a key part of the Government's Innovation strategy

- We recognise the important role that Government funding plays in building a long term sustainable strategy for the growth of Research Technology and Innovation in the UK and maintaining UK's global leadership position which in turn attracts substantial private sector investment within the UK and internationally by aligning public funding with private risk capital from Angel and early stage investors, the Government has a clear opportunity to achieve a sustainable investment base to support the successful early exploitation of innovation across core priority sectors.
- UKBAA recognises the important role played by Innovate UK to promote the development of robust, high-growth businesses in technology-rich sectors. Grants and loans delivered by IUK leverage crucial funding and domain expertise from Angel investors at the most critical phase of the commercialisation pathway for innovating entrepreneurs.

We recommend:

- The Government's strategy under the Department of Science Innovation and Technology should establish stable and long-term funding for Innovate UK as a key player within the work of UKRI in delivering direct

innovation support to innovating small businesses and delivering on key growth sector challenges.

- The current allocation of £80m to the IUK Investor Partnerships Programme should be increased to £150m to leverage the investment power of Angel groups and particularly co-investing alongside Women focused Angel groups investors focused on backing diverse founders alongside IUK activity. This will leverage more enhanced levels of investment into innovating small businesses especially into underserved regions and sectors across the UK and into women and diverse founders.

4.2. Life Sciences Investment Schemes

- Angel investors are actively investing in Life Sciences and providing the key anchor funding for early-stage life science innovators and spinouts across the UK and supporting key Life science clusters across the UK regions. Angels also frequently co-invest alongside R&D grants, VC and Corporate Life science investors.
- UKBAA is extremely supportive of the continuation and strengthening existing funding initiatives including the BBB's Life Science Investment Fund and the Future Fund Breakthrough scheme.
- We see the benefits of actively mobilising pension and institutional funds into this important sector through the LIFTS programme and welcome the launch of the first two LIFTS Funding consortia.

We recommend:

Further cornerstone funding should be allocated to BBB to attract further pools of pension funding into scaling Life Sciences innovation under the LIFT schemes and leverage further private sector investment.

4.3. R&D Tax Credits

A further key aspect of the Government's Innovation strategy are schemes such as the R&D tax credits. This offers an essential lifeline for technology start-ups especially when leveraged alongside angel investment. However, this important relief has been reduced and become significantly more difficult to access. This

has further complicated the already complex risk landscape that angels must confidently navigate to continue their investment activities.

We recommend:

- R&D tax relief scheme should be urgently reviewed to improve the allocation processes and provide innovating entrepreneurs with long-term funding stability to support and incentivise innovation, enabling research-driven companies, backed by private capital, to reinvest in their future growth.

5. Liquidity for Angel Investors

Angel Investors lack liquidity in common with many other investors across the equity supply chain. Angel investor frequently build extensive investment portfolios over many years, but exits can take up to 13 years to achieve, often requiring multiple angel investment rounds and then requiring ongoing potential investments alongside other investors.

Recent surveys among the UKBAA Angel Community of the Angel Community revealed that many Angel investors with significant portfolios feel unable to make any further new investments without access to relevant liquidity options.

The exit market remains challenging across the whole equity supply chain and Angel investors need to achieve opportunities for liquidity to enable them to recycle their investment capacity into further early-stage high risk businesses.

We welcome the **PISCES** initiative supported under the London Stock Exchange which will give the potential for certain Angel Investment deals to be traded intermittently on the stock market.

We recommend:

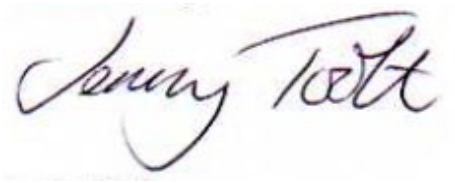
Government gives consideration to supporting the development of further secondary funds suitable for angel and early-stage investors, potentially allocating dedicated funds to BBB to support the establishment of appropriate mechanisms.

6. In summary

UKBAA recognises that these are extremely challenging times for the Government, as it sets out its plans for the deployment of public funds within severe economic and financial constraints on available capital and with many competing demands. However, we hope that consideration will be given to the opportunity to build on existing schemes and funding allocations, as set out in this submission to harness and strengthen the risk capital potential of Angel Investment, as a key foundation stone of the Government's long-term objectives to rebuild the UK economy, based on entrepreneurship, innovation, growth and investment.

We welcome the opportunity to provide further background or information relating to the points raised and policy recommendations set out above.

Yours sincerely



Jenny Tooth OBE
Executive Chair
UK Business Angel Association

E: jenny.tooth@ukbaa.org.uk
T: +44(0)7951 599480
W: www.ukbaa.org.uk