

22 February 2010

Rt Hon Alistair Darling MP  
Chancellor of the Exchequer  
HM Treasury  
One Horse Guards Road  
London SW1A 2HQ

Dear Chancellor

### **BVCA Budget representation 2010**

Stimulus measures taken by the UK and developed economies across the world have been effective in preventing a 1930s style depression, but what is needed to bring an end to the crisis and underpin robust future growth is a private sector-led recovery. Our industry can make a significant contribution here.

Private equity and venture capital have suffered as a result of the downturn. Fundraising and investment activity are down significantly and some current portfolio companies are struggling, but collectively the industry has both capital and management skills to invest and help us return to growth.

The challenge for governments here - and elsewhere - is to facilitate that role and ensure that obstacles to its full participation are not put in place. We believe there are three specific areas where government can act:

**1. Ensure the EU AIFM Directive does not undermine the UK private equity and venture capital industry**

The AIFM Directive is the industry's main focus, and it enters a critical phase in the coming weeks and months. As a recent House of Lords Committee report noted, unless the legislation is consistent with a global regulatory approach, it will "seriously damage EU and UK economies".

The Spanish Presidency is seeking to reach agreement on the text for next month's ECOFIN meeting, and we are concerned that ground may be conceded in attempting to reach a quick compromise, especially over the vital areas of depositaries and third country funds. The more than 1600 amendments tabled to the Parliament's reworked text demonstrate that we have a considerable way to go in resolving these issues and that arriving at an agreed position will take time.

We continue to appreciate the representation which HM Treasury and the FSA are giving the industry, but we urge that a robust approach is maintained on the critical areas mentioned above in the months ahead.

**2. Maintain a stable and competitive tax framework, especially on capital gains**

In order to ensure the UK preserves and reinforces its position as the centre for European private equity, venture capital and entrepreneurship, the UK tax system should: (i) be stable; (ii) give certainty to taxpayers; (iii) offer simplicity wherever possible; and (iv) have competitive tax rates which encourage highly skilled people and businesses to locate and invest in the UK.

In recent years the UK has not performed well on these measures. In particular we are concerned that the incoming 51% (rising to 52%) effective top rate of income tax would be compounded by further increases in the rate of Capital Gains Tax. This would be deeply damaging to the UK. The relatively low and stable rate we have had in the UK has been successful both at encouraging enterprise and raising revenue. An increase in the rate would, we believe, lead to lower tax revenues as transactions would be put on hold, and it would send a very negative message internationally about the UK as a place in which to base and grow a business. An increase of a few percentage points, for example, would push the UK down the league table of international competitiveness, from a current mid table position, to somewhere near the bottom. We urge the Government not to increase CGT in the upcoming Budget.

**3. Create the right regulatory framework to encourage investment to bring about the transition to the low carbon economy**

Finally, we are very supportive of the government's aim to bring about a low carbon economy, and believe private equity and venture capital can be a key partner in meeting this objective. In recognition of the growing presence of investors from amongst our membership in this area, the BVCA has established an Energy, Environment and Technology Board (EETB). The EETB consists of UK-based fund managers investing in low carbon at all stages, and the group collectively has over £10 billion in funds under management; of which over £700 million has already been invested in UK companies, saving an estimated 4.2 million tonnes of CO2 p.a.

We believe the UK can be a world leader in developing, deploying and financing green technologies. Private equity can play a material part in providing the capital and backing the innovative companies that will realise that goal. In our submission we outline a number of areas where government can act to set an attractive framework to encourage and quicken the pace of investment in this vital area.

At a time when banks are shrinking their balance sheets and capital is in very short supply, private equity and venture capital has a track record of investing more in areas like R&D and working capital, as well as in making a significant difference to the productivity of the companies which it owns. A study by Ernst & Young found that in 2008/09, labour productivity in companies owned by private equity grew by 8% per annum, compared with the UK economy as a whole which has been struggling to exceed an annual increase of 1%.

Finally, over the last ten years private equity as an asset class has produced average returns of 15.4%, compared with just 1.2% from the FTSE All-share. These are long term returns for investors such as pension funds, who account for almost half the money the industry raises.

We ask HM Treasury to take up our suggestions and allow the industry to play its full part in aiding the recovery and helping return the economy to sustainable growth.

Yours sincerely

**Simon Walker**

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BVCA – The British Private Equity and Venture Capital Association