

The Enterprise Investment Scheme is invaluable in its support to young innovative businesses – why we shouldn't take this for granted

Access to finance is a key issue for Advanced Oxford and is the focus on one of our active research projects. Availability of risk capital is critical to R&D/innovation-based businesses as they set up, grow and scale. The Enterprise Investment Scheme (EIS) was set up over 25 years ago to support the flow of investment into early stage businesses. In 2012, the Seed Enterprise Investment Scheme (SEIS) was set up to incentivise private investors to provide risk capital to very early stage businesses. These schemes provide a range of tax incentives to investors, thereby encouraging them to support early, and inherently risky, businesses. In their lifetime, they have helped over 27,000 small and medium sized businesses to raise over £20bn. (HMRC, May 2019).

The Enterprise Investment Scheme Association (EISA) is a membership organisation for the EIS/SEIS industry, including fund managers, professional services and wealth managers. EISA works to promote policies that support the flow of equity to SMEs and to raise awareness of these investment schemes to investors and companies alike. On 3rd March, 2020, EISA organised a roundtable, hosted by Lord Flight, Chair of EISA, in the House of Lords, with the All Party Parliamentary Group (APPG) for Entrepreneurship. At this meeting, which was attended by a range of investors, investee companies, EISA members, parliamentarians, and to which Advanced Oxford MD Sarah Haywood was invited, EISA presented their report, *Fuelling an Entrepreneur's Fire*, containing recommendations for how EIS and SEIS can play an even greater role in supporting entrepreneurship in the UK. This article reflects the discussion at the roundtable and reflects on the recommendations made by EISA.



EISA Chairman, and host of the House of Lord's meeting, Lord Flight opens the APPG Entrepreneurship meeting at which the role of EIS in supporting young innovative companies was discussed.

While EIS has successfully operated for over 25 years, we cannot take its continuation for granted. During the discussion attendees thought that the current Chancellor of the Exchequer was pro the current schemes, but given the relatively short time in post, Rishi Sunak's views were less well known than those of his predecessor. A commitment to EIS was also contained within the

Conservative Party manifesto in the run up to the December 2019 election. Nevertheless, the current legislation that determines the shape and form of EIS and SEIS is governed in part by EU state aid rules – potential changes to this regime may present opportunities to the UK Government for development and simplification of EIS. However, what is clear is that the current legislation has a sunset clause in 2025, so whether the March budget 2020 brings changes, over the next few years, the schemes will be subject to increasing scrutiny. The roundtable’s objectives were to ensure that the APPG on Entrepreneurship was clear about the merits and the value of the schemes – as Lord Flight stated in his introductory remarks, there is still a market failure that justifies the need for EIS and SEIS.

During the discussion, a number of investors and investees were invited to talk about their experience of EIS. Roger Noble, Founder and CTO of University of Oxford spin-out Zegami (www.zegami.com) talked about the role EIS had played in supporting investment into the business. Zegami has raised seed funding using EIS, and through business angel investment. They have raised around £4m and about half of this has been under EIS arrangements. Roger’s view was the scheme provided great benefit in fund raising – as a native of Australia, he reflected that the UK was the right place for the business to be set up. He also noted that the experience investor network around Oxford was invaluable and the business had benefitted not just from money, but from smart money and expertise.



Mark Brownridge from EISA and Roger Noble from Oxford-based Zegami

Depali Nangria, a London-based angel, is part of Atomico Angels and a founder of Alma Angels. Her focus is on supporting female founders. Depali talked about the importance of SEIS, which she considered to be hugely valuable in support early stage companies. However, she was of the view that the £150k limit of the scheme was insufficient and that many fund raisings were limited by this cap. Indeed, she reflected that if it were raised, she was sure that investment rounds would be set at a higher level.

Neil Cole, Head of Wealth Planning Solutions at UBS, brought a perspective from the wealth management industry. Neil stated that EIS was not just about tax breaks but explained how it had

opened up a new class of investment within an investment portfolio. EIS investment allowed diversification of a portfolio into earlier stage and riskier investments and providing an option for investors to support these types of companies. UBS now has around 200 clients that are investing through EIS, with a number of them now seeing exits. He described this as “a really engaging form of investment” for a number of these investors.



One of EISA’s recommendations within their report, *Fuelling and Entrepreneur’s Fire*, is the need to raise the awareness of SEIS and EIS with both founders/companies and investors. This was illustrated by Helen Burgess’s story. Helen is the founder of Little Cooks Co, which provides cooking kits for children and their families. Helen started her business from home and had seen good organic growth, but she didn’t know about SEIS until she joined an accelerator programme run by NatWest. Attracting investment into her company had allowed her to accelerate growth, including hiring a team, and had brought the smart money that she needed, allowing her to access know-how and expertise to develop the direction and scale-up of her company, including valuable marketing advice and support.

EISA have made 4 recommendations for how EIS and SEIS can be developed in order to play an even greater role in funding the UK’s next generation of high growth, risk-based businesses. They recommend that:

- The thresholds for EIS and SEIS investment be increased to encourage follow-on investment
- The administrative processes around authorising EIS and SEIS and for granting tax relief of investors be improved
- The profile of SEIS and EIS is raised further so that companies seeking equity finance are aware of the opportunities the schemes present

- As Britain negotiates with the EU to release, or loosen, the State Aid and Risk Finance Guidelines, which currently place restrictions on the schemes.

While most of these recommendations fall to Government and will certainly be influenced by the negotiations with the EU over a post-Brexit trade agreement, the need to continually raise awareness of these investment schemes, and the tax treatment incentives that they provide to encourage investors to support early stage, risky ventures, is something that can be addressed at a local and regional level.

Get involved

Advanced Oxford is currently undertaking a project to look at what is needed to ensure that innovative Oxfordshire businesses can access the risk capital and finance that they need (see: <https://www.advancedoxford.com/project/financing-the-ecosystem/>). If you have views about this issue, are an investor, or have raised funding, whether it be through SEIS or EIS, we would like to hear from you. Please contact sarah@advancedoxford.com.

Statistics from HMRC on EIS and SEIS were last published in May, 2019:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/804455/May_2019_Commentary_EIS_SEIS_SITR_National_Statistics.pdf

Fuelling an Entrepreneur's Fire is a report produced in association with the All Party Parliamentary Group for Entrepreneurship in March, 2020, by The Enterprise Investment Scheme Association. Further information about EISA and their work can be found on their website, EISA.org.uk. A copy of the report can be found accessed here: <https://www.advancedoxford.com/project/fuelling-and-entrepreneurs-fire/>

