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A RETURN TO GROWTH FOR UK BUSINESSES

The Global Financial Crisis marked the end of a period of relative stability and growth for UK businesses. In the years since, a series of political and global shocks have impeded attempts at sustained growth. Senior Editor **Jacob Ambrose Willson** assesses the landscape for UK business as we enter 2024

During the last decade-and-a-half, the UK has teetered through a succession of shocks, from the Global Financial Crisis in 2008/09 to its withdrawal from the European Union, the Covid-19 crisis and the resultant economic slump, which was exacerbated by Russia's invasion of Ukraine in 2022.

Political instability has also been endemic throughout this period, which has had the effect of further diminishing confidence in the future of the UK economy. At the same time, a shrinking funding arena has provided an additional layer of complexity for UK businesses looking to succeed and grow.

This 'perfect storm' of long-term structural weaknesses in the UK economy and short-term political and global shocks have combined to create a vast array of challenges for organisations during this period. However, the current macroeconomic situation seems to be stabilising as we move into 2024. With inflation now largely in check, most commentators are calling the end of the Bank of England's interest rate hike cycle, which should bring some relief to businesses and provide greater ability for them to assess investment opportunities.

There is also the prospect of a forthcoming change in government, with a general election to be called at any point before January 2025. Any political changes will need to be closely watched by UK businesses as they look to chart a course towards sustainable growth, in an era where success will increasingly be defined by adaptability to market disruption.

Bridget Rosewell, Chair at M6toll and Flood Re, comments on the need for more investment in UK infrastructure projects and closer public-private partnerships in order to meet the fundamental challenge of climate change.

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>
> Bridget Rosewell

"You need a network of infrastructure for areas such as green hydrogen, for example. Not just the physical infrastructure, but underlying infrastructure, whether it's educational institutions, technical institutions, digital infrastructure or financial infrastructure, which enable people and businesses to get out there and do something."

Some of the aforementioned pieces remain in place in the UK, according to **Bridget**. "Growth businesses come in many shapes and size, but their dependency is on successful universities, ideas generation and so on. I see no reason why [the UK] shouldn't continue to be fairly successful in that regard. We have some top end global universities and they continue to be so.

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This statement hits on the nub of a key challenge facing UK businesses at present, particularly those entrepreneurial outfits that are attempting to scale up.

Venture Capital

Dominic Emery, former Chief of Staff to the CEO at bp and a Board Mentor at Criticaleye, says: "There is a vibrant startup scene in digital tech, life sciences, low carbon energy and beyond, but then boosting these startups to grow, scale and become successful companies such as we see in the US continues to be very challenging – we struggle to cross the 'valley of death'.

"London market listings have also been challenging in the last year, notably by comparison with the US, and without being as negative as the press would lead us to believe, some significant challenges remain, both structural and in sentiment."

This begs the question of whether the UK Government could play a bigger role in supporting growth businesses, whether that is through broad policy stability, attractive fiscal regimes or specific financing schemes and apparatus, such as the EIS (Enterprise Investment Scheme) and SEIS (Seed Enterprise Investment Scheme).

The impact of these schemes could be much punchier, says **Dominic**, but some of the recent reform proposals, with regards to pensions capital in >

particular, are encouraging. A growing propensity of UK pension funds allocating funds away from 'risk assets' has been highlighted by the Capital Markets Industry Taskforce, which was set up in consultation with the government to drive reform across the UK capital markets.

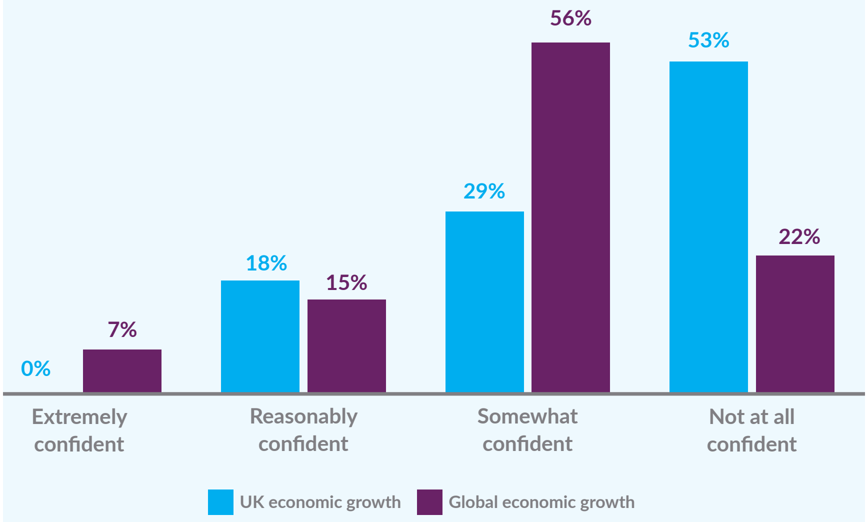
"It doesn't seem right that overseas pension funds provide more investment support to new and growing business in the UK than UK-based funds, so I think it's a very worthwhile effort to try and direct UK pension funds that hold phenomenal assets towards investing in that growth space, whether it's in life sciences, low carbon or digital. This needs to be done with real pace, particularly given where we are with the ticking clock of climate change and the low carbon energy transition."

However, the government's recent backtracking of its Net Zero drive will have come as a blow to many players in the space, while also "creating a less predictable environment for investors into the UK", according to **Dominic**, on top of steadily waning FDI flows into the UK in the aftermath of Brexit.

"I suspect it [Net Zero policy] will be an interesting battleground in the coming election because if you can start to say, 'I'm going to mandate that all new-build houses have electric heat pumps; have solar panels; have battery storage; have vehicle electrification'; then you could really start to build a new bow wave of capability in and for the UK."

However, organisations working within the cleantech space will likely receive very little financial backing from a ruling government for the foreseeable future, given the record amounts of public borrowing over the last few years which largely necessitates fiscal stability as a number one policy standpoint for both major political parties.

How confident are you that the rate of economic growth in the UK and globally will increase over the next 12 months?



Source: Attendees polled at Criticaleye's recent CEO Sustainability Retreat

With public funding constraints for the sector, government support could still be provided indirectly via a more stable policy and regulatory environment, incentives and mandates to encourage investment in low carbon, **Dominic** adds.

The Role of Government

Caroline Colliston, Executive Partner for Scotland at international law firm DWF, argues that the role of the government more broadly is to allow businesses "to get on with the job of growing and not interfere too much", but at the same time to provide support "by ensuring that people are being trained and upskilled for a just transition to Net Zero, to support our thriving technology and life sciences sectors and more".

This goes back to the previous point made around the need not just for financial infrastructure, but also education and vocational training to support UK business in key areas of the economy. "I believe there's a requirement to create an environment that creates better skills, better jobs and better pay to underpin a productive economy that delivers for all of society," **Caroline** continues.

With a general election likely to take place towards the end of 2024, business leaders will begin to consider how a change in the governing of the country will impact the landscape, in terms of broader policy, tax regimes and industry-specific regulations.

While the fiscal policies of both the Conservative and Labour parties seem to not be drastically different at present, **Caroline** highlights Labour's pledge to increase tax on carried interest as an area to watch for those in the private equity space, as the election year unfolds. >

"Carried interest is one area we are watching very carefully, because that could potentially change or limit the amount of investment and the risk profile of where funds are prepared to invest. This could affect adversely businesses looking for investment and ultimately impact growth."

Caroline is also an advocate for less onerous and a more joined-up approach to regulation for businesses across the UK. "I would ask [the next government] for caution on additional red tape and regulation that's unnecessary or overly interfering, other than for the protection of the most vulnerable."

Ian Wright, co-Chair of the UK Food and Drink Export Council, argues that businesses would benefit from the government focusing on what he calls 'smart regulation'. "The more we move to an assumption that everything has to be regulated, and the more that you pile regulation on top of regulation in a geological way, the more that will stunt growth," he says.

"It's about removing regulation which is no longer relevant with smart regulation that improves product safety for consumers, which will increase shopper confidence. Ultimately, the government's job is to make sure that regulation is appropriate, works and is practical, but is not too intrusive to constrain business confidence."

Looking towards the landscape for UK business in 2024, **Ian** stresses the need for "stability of direction and the ability to predict" what the operating environment might look like. While events of the last 15 years or so have proved that it's no longer simple, or

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even possible, to accurately predict the future, some degree of confidence in the landscape remaining relatively stable is sorely needed.

In a general election year, businesses might decide to err on the side of caution with regards to investment decisions until there is a certainty and consistency to the policy landscape. But, while the broader economic downturn seems to have reached a nadir, there is hope that businesses will be able to plan with a greater understanding of the financial limitations within the current context.

Finally, it's clear that closer public-private partnerships, further unlocking of venture capital and a clear policy and regulatory framework will allow businesses of all shapes and sizes to thrive and get back to meaningful growth, despite being in a difficult economic backdrop with huge forces of disruption at play. ■

Featuring commentary from:

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