

Corporate tech update: Chancellor announces Future Fund to support start-ups and high-growth companies during Covid-19 pandemic

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Please note: the information contained in our legal updates are correct as of the original date of publication

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The backdrop to the introduction of these measures is that venture capital and angel investment activity, upon which tech start-ups and scale-ups are so dependent, has fallen dramatically during the Covid-19 crisis and there remains uncertainty as to when transaction levels will bounce back. Instead, investors are assessing their future investment strategies, and notably how the Covid-19 pandemic will influence their preferred target sectors and preferred investment criteria in the future.

Start-ups and scale-ups have also largely been unable to access the Coronavirus Business Interruption Loan Scheme (CBILS) as a source of finance. This is because high-growth companies at the early stages of their lifecycle will be loss-making. Given that one of the eligibility criteria for the scheme is that the borrower must have a "sound borrowing proposal and show in it that were it not for the COVID-19 pandemic, the business would be considered viable for the lender", bank borrowing is not generally going to be a viable source of funds for start-ups or scale-ups.

Therefore, recognising the importance of the technology sector to the present and future UK economy, the Chancellor has now rolled out provisions that aim to support it through this turbulent time.

Summary of measures:

- Creation of a £250 million Future Fund – which will provide government convertible loans to UK-based companies ranging from £125,000 to £5 million, subject to at least equal match funding from private investors.
- The scheme will be delivered in partnership with the British Business Bank.
- An investment term sheet providing the headline terms expected to apply to the convertible loans has been issued.

A company will be eligible if:

- Its business is based in the UK;
- Its business can attract the equivalent match funding from third party private investors and institutions; and
- Its business has previously raised at least £250,000 in equity investment from third party investors in the last 5 years.

Inevitably there will be further detail and guidance on these measures, and how to apply for this funding, over the course of the next few days. In particular, we are expecting clarification on the following points:

- The extent to which there will be flexibility on the government's investment terms, to reflect those terms required by the private investors;
- Whether match funding can be provided by angel investors, or only by traditional venture capital investors; and

- If angel investors are able to provide match-funding, whether they will be to do so through other means – for example, via advance subscription agreements – which would enable them to seek investment tax reliefs under the Enterprise Investment Scheme.

We predict that, given the government’s recognition of the vital role played by tech start-ups in the UK economy, this new scheme will be moulded and adapted as flexibly as possible.

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