



Prime Minister  
10 Downing Street  
London SW1A 2AA  
*Sent by email only*

07 October 2022

*Dear Prime Minister*

## **INCREASING THE AVAILABILITY OF SCALE-UP INVESTMENT FOR DOMESTIC INNOVATIVE SCIENCE AND TECHNOLOGY COMPANIES**

We welcome the measures in the Growth Plan 2022 that aim to stimulate investment in science and technology (S&T). We are encouraged to see action on several areas of CST advice and offer some thoughts for further government action.

S&T companies provide a huge opportunity to stimulate short and long-term, sustainable economic growth in the UK and address some of society's greatest challenges such as sustainable energy, healthcare, and reducing structural inequality. Addressing the private and public capital funding gap is vital to support UK economic growth by allowing more companies to scale-up in the UK, increase their global competitiveness, and create more jobs. As we have previously noted, S&T companies provide the route to faster growth.

We have looked in detail at the ability of S&T companies to access finance for scale-up, including a qualitative study highlighting key differences in approaches to scale-up innovation between the UK and other successful geographies. To further strengthen these vital policies, and to build on our previous letter, we offer the following recommendations where we believe government should double down on efforts to increase the appetite for investment from domestic investors and help build the requisite system:

### **1. Stimulate larger domestic scale-up funds**

We welcome the announcement of a new Long-term Investment for Technology & Science (LIFTS) competition to support new funds to catalyse billions of pounds of investment into UK S&T businesses. We would be pleased to continue to work with government officials on the design and implementation of the LIFTS competition. We would also be delighted to support discussions with leading UK asset owners to advise on appropriate fund structures and vehicles that maximise the impact of the government's contribution to LIFTS.

As we previously recommended, the government stake will need to be of sufficient scale and effectively designed to lower perceived market risk, crowd in private sector capital, and fill the capital gap at the scale-up stage. The funds should be run by

those with a strong reputation, experience, and expertise in investing in S&T scale-up companies, with clear key performance indicators and transparent accountability. This is a specialist type of investing.

Beyond LIFTS, other action will be required to stimulate the availability of capital at scale. **Government should set clear, national goals and outline a pathway for developing the S&T needed to deliver these goals.**

### Public procurement that supports the scale-up of UK S&T businesses

Part of building national S&T capability should be a commitment to prioritising support for S&T companies to scale-up through government procurement, as has been done successfully in other countries including the USA, Singapore and Israel.

S&T companies provide tools and solutions to the challenges facing our nation. Public services should be among the first to benefit from more sustainable and efficient solutions and, in many sectors, the public sector is an influential customer.

Beyond delivering better solutions, public procurement can be an effective stimulus and signal for innovation, business and economic growth, leveraging private investment, including scale-up funds, and advancing the pull-through of innovative solutions where additional domestic sales or exports will result.

**Recommendation 1:** The government should explore targeted procurement of products and services that deliver innovative solutions towards national goals. This should be at an appropriate proportion, at least 5% of government's procurement budget, to be a genuine incentive to growing S&T businesses, especially those at the scale-up phase.

**Recommendation 2:** The government should adopt the model well established in the private sector where strategic procurement earns returns including equity on success (e.g., through warrants<sup>1</sup>) and priority access to goods and services for the government.

Effective delivery of novel procurement practises such as warrants requires skilled procurement professionals able to address the associated technical, legal, and practical challenges.

We will write to you separately with more detailed suggestions on the use of public procurement to drive innovation in pursuit of national goals, including advice on the development of skilled professionals needed.

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<sup>1</sup> Warrants give the holder the right to purchase a company's stock at a specific price on a specific date. They are issued directly by the company concerned; when an investor exercises a stock warrant, the shares that fulfil the obligation are not received from another investor but directly from the company. Companies typically issue warrants to raise capital and encourage investors to buy stock in their firms. They receive funds when they sell the warrants and again when stocks are purchased using the warrant. Warrants are typically priced inexpensively compared to the underlying stock, making them more appealing to investors, especially if it is for an unproven company.

## 2. Human capital development

The UK needs more people with deep S&T knowledge to be trained in specialist investing to create a long-term cultural change in the investment community.

We welcome the Chancellor's proposal to bring forward draft regulations to reform the pensions regulatory charge cap. This provides an opportunity to incentivise recruitment of specialist S&T investment talent. We note from our previous engagement with UK pension funds that performance fees have previously been an impediment to investing in areas where investors need specialist knowledge.

We have made progress in developing the idea of investment fellowships (modelled on the US Kauffman Fellowship) through discussions with UKRI, learned societies, and the Newton Program. Government could play an important role in convening investors to demonstrate the importance of such fellowships and raising the awareness of these programmes. Government may wish to pilot an investment fellowship programme in one particular sector before expanding to other areas of strategic importance, but facilitating learning across different technology areas will be important. We would be happy to continue working with government to help build and scale this programme.

**Recommendation 3:** The government should encourage and facilitate domestic investors and corporates (in venture, institutional, and private equity) to provide fellowships for people who have deep S&T knowledge to undertake training in the practical side of investing in S&T. The vision should be to create a cadre of thousands of knowledgeable S&T specialist investors.

## 3. Regularly convene key stakeholders

Increasing private sector investment in this specialised sector will need regular, sustained, and open engagement from government with key external stakeholders (such as asset owners, corporate venture capitalists, scale-up businesses). This is fundamental to long-term cultural and behavioural change that will support implementing the recent announcements in the Growth Plan 2022. The investment community needs to see and believe government's commitment to the growth of innovative S&T companies.

**Recommendation 4:** You should lead a coordinated cross-government effort to signal commitment to the investment community on S&T for national goals and to engage with opportunities for impact investing. A strong government commitment to **regular, sustained engagement** would help inspire investor confidence and support partnership to address the issues highlighted above.

We recognise the positive engagement from many UK asset owners in the innovation economy (e.g., M&G Catalyst, Railpen, L&G etc). They play a critical role in representing the majority of UK savers and insurance policy holders who unfortunately have missed out on innovation dividends in the last 20 years relative to their peers in US, Canada, Australia and Singapore.<sup>2</sup> We see major opportunities in

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<sup>2</sup> Average annualised returns (AAR) over the last 10 years reported by major Canadian funds AIMCo and CDPQ were 8.6% and 9.6% respectively. For Singapore based funds GIC and Temasek, AAR over 10 years were 6.4% and 7% respectively.

having similar engagements with domestic and international corporate venture capital entities who can support scale-ups as customers and investors.

**Recommendation 5: Unleash demand for corporate venturing -**

government should re-engage corporate investors and review measures to support corporate venturing in areas of national priority. There is a significant growth opportunity for the UK to incentivise scale-up investment from corporates, including global R&D businesses based in the UK, to invest directly or as limited partners (LPs) in VC funds. To incentivise corporate R&D the UK will need to compete with USA, Israel, France, and Germany, which have introduced a range of policy packages including organising business enterprise forums, supporting co-investment initiatives, and providing fiscal incentives.

The UK's S&T companies ready for scale-up could become some of our national crown jewels but the UK is currently underperforming in nurturing their development. This is despite the large numbers of exciting S&T start-ups we now have. We believe our recommendations can produce significant economic dividends. There are essential investments to be made to secure our long-term capabilities to address critical issues such as sustainable energy, healthcare, and the reduction of structural inequality.

We would be delighted to discuss this topic in more detail with you, or your Ministerial colleagues.

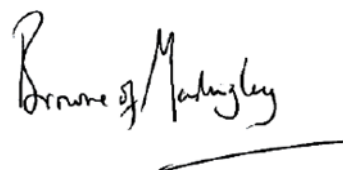
We are grateful to Council members for developing this advice, in particular, Saul Klein (Co-founder and Partner, LocalGlobe) and Professor Fiona Murray (Associate Dean for Innovation and Professor, Massachusetts Institute of Technology, School of Management) for leading this advice, with support from Professor Julia Black (President of the British Academy), Professor Paul Newman (Director of the Oxford Robotics Institute and BP Professor of Information Engineering, University of Oxford), Suranga Chandratillake (General Partner, Balderton Capital), and Professor Philip Bond (Professor of Creativity and Innovation at the University of Manchester).

This letter is copied to the Chancellor of the Exchequer; the Secretary of State for Business, Energy and Industrial Strategy; the Chief Secretary to the Treasury; the Minister for Science and Investment Security; the Cabinet Secretary and the Permanent Secretaries of HM Treasury, and the Department for Business, Energy and Industrial Strategy.

Yours sincerely,



**Sir Patrick Vallance**  
Co-Chair



**Lord Browne of Madingley**  
Co-Chair