**Cancer Research UK response to HM Treasury consultation: 'Financing growth in innovative firms'**
**September 2017**

Cancer Research UK (CRUK) is the world's largest independent cancer charity dedicated to saving lives through research. In 2016/17, we spent £432 million on research in institutes, hospitals and universities across the UK. Our vision is to accelerate progress so that three in four people survive their cancer for 10 years or more by 2034. To achieve this goal we work in a variety of ways, including supporting the commercialisation of discoveries into technologies that benefit patients.

As such, where technologies with a broad application can be most effectively advanced via a focused and innovative environment, CRUK will stimulate the creation of a start-up company through our legal entity Cancer Research Technology (CRT). Over the years, CRT has been involved in the formation and development of more than 40 successful start-ups.

In addition, CRUK has joined forces with the Wellcome Trust and Battle Against Cancer Investment Trust (BACIT) to create a new investment fund called Syncona Ltd[i]. This £1 billion quoted investment vehicle seeks to partner with the best, brightest and most ambitious minds and entrepreneurs to build globally competitive businesses. Syncona Ltd represents an excellent model for providing patient capital. It invests deeply over time to support life science companies through their start-up and growth phases. However, due to the depth of funding and time needed, the fund can only support a handful of investments each year, and will likely only support 12-15 companies when fully invested. This is therefore a model that could be built upon.

The recent Life Sciences Industrial Strategy[ii] (LSIS) makes a strong case for action to better support the creation and growth of life science companies. A thriving life sciences sector will not only bring economic benefit, but will also lead to better patient outcomes and NHS sustainability. But bringing a new technology to market in the UK can take a substantial amount of time. The average time lag between investment in cancer research and eventual impact on patients is around 15 years[iii]. We therefore welcome HM Treasury's (HMT) review of how best to support longer term investment in innovative firms, such as those in life sciences, to help bring innovations to market.

CRUK is pleased to respond to this review. We have provided some key messages below, as well as some answers to the specific questions in the consultation.

**Key messages:**

- We strongly urge HMT to take a more long-term approach. At the moment potential solutions are framed around what the Government could announce in the forthcoming Autumn Statement. While near-term announcements would be welcome, to fully address the issue of effectively scaling companies in the UK, greater clarity and focus is needed on longer-term solutions which take full account of the implications of Brexit, such as potential changes to the currently constraining state aid rules and access to the European Investment Fund.
- It is important that the review prioritises and recognises the value of spin-out companies to the knowledge economy. However, the review misses an opportunity to also consider investment into projects as well as businesses. As the LSIS outlines, more attention needs to be given to support and accelerate more robust company formation in the UK, rather than always rushing to early company formation as the only means of attracting private investment. This can be achieved by creating funds which invest in research projects to 'de-risk' and potentially to aggregate them prior to forming a spin-out company.
- We agree with the analysis of why the UK lags behind other countries in supporting the scale up of new businesses, in particular that there is a more risk-averse culture of investment in the UK. We believe the biggest issue in the UK is the size of funding in each funding round

compared to the US. This limits ambition, competitiveness, pace of progress and acquisition of experienced management and leadership. Indeed it is not uncommon for each funding round to take up to two years to complete, only to provide 18-24 months of "runway", meaning that entrepreneurs are constantly fundraising rather than focusing their energies on growing successful businesses.

- We support the proposals set out, but would urge HMT to consider a few select interventions to take forward rather than one or too many. We like the idea of a public-private partnership – but for this to be a success and get investors on board the ground rules for success must be clearly stated up front. We also support moves to unlock the potential in pension schemes, as this could be transformative, and believe the Department of Work and Pensions should issue guidance to support this.

**Answers to specific questions:**

1. *Do a material number of firms in the UK lack the long-term finance that they need to scale up successfully?*

   Yes. However, it should also be noted that - alongside finance - other factors should be addressed to create the right environment for success. For example, access to skilled leadership, management and personnel, and a supportive culture of entrepreneurship are also required.

2. *Where is the gap most acute by type of firm, stage of firm development and amount invested?*

   We believe the largest gap is in the size of investment per round of funding. In life sciences, the time and expense of taking a new technology through the research and development pipeline, including negotiating necessary regulatory hurdles, can be substantial. In addition, while the route to market for a new medicine is clear, in medtech there remains ambiguity about the pathway for getting a new technology to market. This can further lengthen the time taken for medtech companies. Long term investment of sufficient size is therefore crucial.

   There are also few investors in the UK with enough money to follow their funding through multiple rounds – this creates the requirement for complex investment syndicates which at best, causes delays, at worst, failure to secure subsequent funding.

3. *Have we correctly identified the UK's current strengths in patient capital?*

   Yes. However, access to funding through the European Investment Fund is beneficial for UK companies and doesn't feature prominently in this section.

4. *In what order would you prioritise the UK's weaknesses in patient capital?*

   We would prioritise the weaknesses as follows:
   a. The subsequent number and size of private investment in each funding round
   b. The lack of appetite for risk and longer term investments through public markets
   c. Venture debt

5. *What are the main root causes holding back effective deployment of and demand for patient capital?*

   The report identifies the key route causes in deployment. In life sciences an additional consideration in terms of demand is the lack of a big local market and a lack of willingness to invest large sums of capital in the UK. The point about size of the market is more relevant to medtech rather than drug development (where global intellectual property is strong). However, regardless of the type of technology, many companies that start out in the UK are bought or move to the US where the market is larger and adoption is typically faster. While the size of the UK market cannot necessarily be changed, we must utilise our strengths in areas such as the use of health data and improving access to make the UK more attractive for businesses to remain.

6. *What are the main barriers holding back effective supply of patient capital by major investors?*

   The paper sets out the barriers well. The need to address barriers to pension funds making long term investments is a critical point – the Department of Work and Pensions should issue guidance to this effect. The existence of many small pension funds in the UK is a further challenge. Many countries have herded their funds into a few large ones, enabling them to pool their research and administrative resources to scale up their investments. Poor historical returns on investments have created a more risk-averse culture.

7. *Which programmes (investment programmes, tax reliefs and tax-incentivized investment schemes) have most effectively supported the investment of patient capital to date?*

   N/A

8. *Are there areas where the cost effectiveness of current tax reliefs could be improved, for example reducing lower risk 'capital preservation' investments in the venture capital schemes?*

   N/A

9. *Are there other ways the venture capital schemes could support investment in patient capital, in the context of State aid restrictions and evidence on cost effectiveness?*

   N/A

10. *When is it more appropriate for government to support patient capital through investment rather than through a tax relief?*

    N/A

11. *Is there an optimum minimum length of time of investment for entrepreneurs and investors to focus on the long-term growth of their company and, if so, what is it?*

    In life sciences, funding rounds of no less than 3 years would be beneficial. Any less would incentivise the wrong behaviours from investors. Multiple funding rounds may be needed to support a company to market success, particularly in drug development.

12. *What other steps could government take to make current tax reliefs more efficient and effective, to provide the best support in line with their policy objectives?*

    N/A

13. *What scale of new investment should the government seek to unlock and over what timeframe?*

    The Government should look to plug the £4 billion gap in UK investment outlined in the paper. However, we note that this may be an underestimate.

14. *Should resources be focused on one intervention (e.g. a single fund of significant scale) or spread over a number of different programmes?*

    We believe Government should choose a small number of key interventions to address this issue, rather than one or many. We like the idea of a public-private partnership – but for this to be a success and get investors on board the ground rules for success must be clearly stated up front. We also support moves to unlock the potential in pension schemes and believe the Department of Work and Pensions should issue guidance to support this.

    We are less in favour of tax changes as these are unlikely to stimulate the sea change needed as they are indirect, lack transparency and are less likely to incentivise decision making. Though we acknowledge tax incentives may create more capital over time and could play a role, bolder initiatives are needed.

15. *When considering how to replace EIF investment if the EIF were no longer an investor in the UK, to what extent should the government seek to replicate the EIF's current activities in (a) venture capital and (b) private equity?*

    The Government should look to replicate the EIF current activities. Government should also consider earlier stage funding that the EIF currently does not support as much.

16. *Beyond replicating existing EIF investment if required, what areas should government focus on to increase investment in patient capital?*

    The Government should focus on unlocking the potential of pension schemes. The Department of Work and Pensions should issue guidance to this effect.

17. *When considering how to support increased investment, should the government consider supporting one or more of the setup of a public-private partnership, a new incubated fund in the BBB to be sold in part or full to private investors once it has established a successful track record and a series of private sector fund of funds to invest in patient capital?*

    N/A

18. *If desirable, what steps should government take to encourage investors to form a new public-private partnership to increase investment in patient capital?*

    N/A

19. *What steps should the government take to support greater retail investment in listed patient capital vehicles?*

    N/A

20. *Will focusing resources on increasing investment provide better value for money than changes to the tax environment?*

    Yes. As mentioned above, while tax changes may create more available capital over time, they alone are unlikely to instigate the sea change needed.

21. *Beyond measures already being considered to support more effective asset allocation decisions by DB pension funds across their portfolio of investments, what further steps should be taken to support investment by DB pension funds in patient capital?*

    N/A

22. *How can individual DC pension savers be best supported to invest in illiquid assets such as patient capital?*

    We believe this may be too complex and therefore less of a priority.

23. *Are there barriers to investment in patient capital for other investors that the government should look to remove?*

    N/A

24. *What steps should government take to support the next generation of high potential fund managers to develop their knowledge and skills and to raise their first or next fund?*

    N/A

25. *What further steps, if any, should government take to increase investment into university spin-outs specifically?*

    We believe the national approaches set out in this paper to better finance companies emerging from universities should suffice. A more regional approach may encourage the establishment of poorly designed companies that will have less chance of success and scalability.

26. *What further steps should be taken to increase investor capability in the public markets to invest effectively in firms requiring patient capital to grow to scale?*

    N/A

**For more information please contact Emlyn Samuel, Senior Policy Manager, on emlyn.samuel@cancer.org.uk or 020 3469 5581.**

[i] https://www.synconaltd.com/
[ii] Life Sciences Industrial Strategy – a report to Government from the life sciences sector. https://www.gov.uk/government/publications/life-sciences-industrial-strategy
[iii] Medical Research: What's it worth? Estimating the economic benefits of cancer-related research in the UK http://bmcmedicine.biomedcentral.com/articles/10.1186/1741-7015-12-99