HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Post-pandemic economic growth: Industrial Strategy, HC 674

Tuesday 15 December 2020

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown, Judith Cummins; Ms Nusrat Ghani; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

Questions 107 - 158

Witnesses

I. Catherine Lewis La Torre, Chief Executive Officer, British Business Bank; Irene Graham OBE, Chief Executive Officer, ScaleUp Institute; James Wise, Partner, Balderton Capital.

Examination of witnesses

Witnesses: Catherine Lewis La Torre, Irene Graham and James Wise.

Q107 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee. Our hearing this morning is on post-pandemic economic growth and the future of the industrial strategy. We are focusing today on the role of scale-ups in the economy and how we can support start-ups to scale up in the future. We are delighted to welcome three witnesses to the Committee today: Catherine Lewis La Torre, who is the CEO of the British Business Bank, which sits within the BEIS Department; Irene Graham, who is the CEO of the ScaleUp Institute; and James Wise, who is a partner at the investment firm Balderton Capital. Good morning to all of you.

Just to kick us off with a starter for 10, we understand on the Committee that scale-ups account for around 0.6% of SMEs in the UK but generate around 70% of SME output. I just wonder if you could start by describing what a scale-up means to you and why you think they perform so disproportionately in terms of high returns.

Irene Graham: Good morning to you, Chair and everyone around the table. As you know, the ScaleUp Institute was formed in order to address the scale-up challenges that the UK has, because we lag behind other countries. As you say, they are a huge contributor to the UK economy overall. When we define a scale-up, we look at it from the OECD's high-growth-firm definition, so that we can compare and contrast ourselves internationally. That means a business that is growing at 20% or more in either employment or turnover across a consecutive three-year period, normally with around 10 employees at the start of that review period.

Of course, they are vital and, as you say, they contribute £1 trillion of the £2 trillion of the SME economy today. We also have those that are coming through the pipeline of those businesses. We have around 33,800 scale-ups today and around 17,000 that are in that 15% to 20% growth rate.

What differentiates them and what are their characteristics? They are highly productive—54% more productive than their peers. They are twice as innovative as their peers and highly exporting and internationally focused. They are also very much creating jobs for now and the future and they are expecting to grow next year. In our very recent survey, eight out of 10 of these businesses expect to grow next year, five in 10 expect to scale, and one in four to scale more than 50%, so they really are engines of innovation and growth.

Importantly, they are across all sectors and geographies of the economy, so they have a very vital role in our communities, in the future levelling-up agenda, and also in future opportunities for the new and innovative sectors coming forward. That is significant in the way they are contributing and how they differentiate from their peers and, indeed, from larger firms in terms of their innovation and export ambitions. That is why we have to be able to address the concerns and challenges that they have.

Q108 **Chair:** Catherine, from a British Business Bank perspective, do you have any particular insights as to why, when a start-up tips into that scale-up potential, they have that booming effect on the economy?

Catherine Lewis La Torre: Thank you for that question, and thank you to everyone who is joining. As you will be aware, the British Business Bank was established in 2014 to make finance markets work better for smaller businesses. As we just heard from Irene, the scale-up segment of the SME community is incredibly important for the economy overall.

What is it that they need to really take them into the scale-up landscape? To answer your question, one of the fundamental ingredients is access to equity capital. That is their rocket fuel, and you need to think about the ecosystem that builds and delivers that rocket fuel to this community to support that. That is how the British Business Bank plays into this: by supporting venture funds and growth capital funds across the UK, as well as the regional angel community. There are other things, of course, that scale-ups need to thrive—access to talent and to markets—but the equity capital piece cannot be underestimated.

Q109 **Chair:** James, that was a timely ending there from Catherine. Your firm provides equity to companies that are scaling up. Do you measure based on those metrics as well—on employee and turnover growth—or is there something particularly magic that you are happy to disclose on public record that you look for when you are investing in businesses?

James Wise: We look for all kinds of things but certainly those two factors are incredibly important. I would add one other thing to Irene’s pretty perfect description of a scale-up. This huge opportunity ahead of them also means they do need more capital than a normal SME, as was touched upon, and it often means they are unprofitable for a period of time, which means that certain types of funding—venture capital funding, in particular—are more relevant to these organisations.

The great news for the UK is that venture capital funding has grown by about five times over the last decade in terms of the total amount of money coming into companies at the earlier stage, but where we see a challenge for UK scale-ups in particular is when they get to the stage beyond where we normally participate. That could be £10 million of revenues or it could be 100 to 1,000 employees. It is when they get to the £100 million of revenues and beyond where they need later-stage funding and also access to public markets, which is where we see some of the more acute problems for scale-ups in the UK today.

Q110 **Ms Ghani:** Good morning, everybody. Irene, you said earlier that scale-up businesses are expecting growth next year. When you did that survey, were they already in the throes of Covid, and are they prepared for

Brexit? Can you give just a quick response to this one, please?

Irene Graham: Yes, this was a survey that we completed in October, so it is very much hot off the press. It is over 600 scale-up CEOs, so absolutely in the height of Covid and of the ongoing Brexit discussions. Although they view negatively the impact that Covid and, indeed, Brexit will have, they are still very focused and hungry to grow and go global. That is a very distinctive factor in how they are approaching it. They are highly ambitious and have high aspirations. They are confident in what they can do. They are worried about the UK being as good a place to grow a business in the future, but they are confident about their own abilities. They need help breaking down the barriers that Catherine has touched on.

Q111 **Ms Ghani:** That is really fantastic news, Irene, especially as Catherine mentioned that access to talent and markets will be key. If they are that confident, that is great. That takes me on to my primary question: why is it that the UK is only the 13th best country in the world to scale up a business? Explain to us what is going on, Irene.

Irene Graham: When we assess that and we look at the countries ahead of us in scale-up growth, there are three or four key factors that we notice. First, they have long-term interventions that have been there for a long period of time and that they leverage and utilise to address the scale-up challenges. Those challenges, as we have touched on, cover talent, finance, access to markets, and infrastructure. There are long-term interventions. We have some of those toolkits. Some of them were established only very recently, like the British Business Bank and Innovate UK. We now need to make sure we deliver to long-term solutions and at scale.

The second thing that they have is quite a regionalised model of their interventions. Whether that is in Denmark, Germany, the US or Canada, they have their central Government resources deployed locally and close to the businesses, and we are starting to see that in how the British Business Bank has its regional network and Innovate UK has its network, but we need to see that dialled up. That very regionalised model is another thing.

The third factor, touching on what my colleagues have already said, is that access to patient and diverse capital, whether that is venture debt or venture capital, of which there are much larger pools in the US, or whether it is institutional patient capital that is available to invest in these businesses. Canada is a great example in terms of how its pension funds are investing in these scale-up communities. Those factors are not as prevalent here and we need to dial up the ingredients and unleash the opportunities and resources that we have in a more co-ordinated way. That is what we are seeing at the moment.

Q112 **Ms Ghani:** If we could get close to any of the 12 countries above us next year, which country should we be aiming for?

Irene Graham: We have to be aiming for the top layers: the US, and what our Scandinavian, German and French colleagues are doing. We have some high aspirations to make and we need to be aiming for those who do it well.

Q113 **Ms Ghani:** Scale-ups have increased by 25% since 2013, so does this not illustrate that we are doing tremendous work in innovation in the UK, which does not always explain why we are 13th? Could you shed some light on that?

Irene Graham: It is 25%, yes, but that it is not consistent across the country; it is very different across the different regions. We have consistent cold spots in this growth and our ability to sustain a growth of one per 100,000 across the country. Also, when you look at ours in terms of the World Bank's index for ease of doing business, we have dropped back in that, so we cannot be complacent. We have other countries that are very focused on this agenda and are putting tremendous resources to it. Our growth is mirroring Canada's but lagging behind Sweden's, so we have quite a bit to do and we must not lose focus of this agenda, which is really only maturing and beginning to evolve now.

Q114 **Judith Cummins:** My questioning follows on from the previous question. The ScaleUp Institute has said that many businesses do not feel that there is sufficient support or growth capital available to them, and that is particularly true outside of London and the south-east. I am also conscious that Covid and Brexit are not going to have uniform effects right across the country. How does that sectoral variation in scale-ups map on to regional variations? Are there any other issues that mean that it is easier to scale up in certain parts of the country than in others?

Irene Graham: As I said, 15 areas of the country are doing particularly well in their growth; there are seven where we have very cold spots, with a whole range in between. There are three factors that we see for those areas of the country that are really motoring ahead with scale-up growth. In analysis we did this year with Arup, there were three factors that made a key difference. We looked at start-up rates, transport and a whole range of factors, but three made a difference. One was access to skilled talent, another was access to clusters and hubs, so having a larger start-up and scale-up community in a clustering and hub, and the third was access to equity and growth capital, not traditional debt.

That is why the work that the British Business Bank is doing is so important in seeking to address regional access to growth capital and that connectivity, and then building our talent pool, and clusters and hubs of excellence around the country overall. It is a really key factor of growth. Those are things that we need to focus on as we move forward. I am very happy to share with the Committee that regional variation and what will be important in addressing that further in more detail. Those three factors are very key in driving forward local growth.

Q115 **Judith Cummins:** Irene, in terms of regional variation and regional factors, is the fact that we have a more centralised system here in the UK a barrier to business accessing the support and funding that they need?

Irene Graham: Our businesses want their services delivered locally and in their communities, so having regional and local networks and centralised Government resources deployed locally is vital. We are seeing good work in that with Innovate UK and the British Business Bank. The Growth Hub network is growing, developing and enhancing its services. Those are very important factors. As I said earlier, when you look at the countries ahead of us, they have that very regionalised, localised model. The role of combined authorities, the British Business Bank and Innovate UK at a local level, and garnering resources to deploy locally, is very important. Denmark does that very well and is doing well on its scale-up rates as well.

Catherine Lewis La Torre: I would support what Irene says in terms of the regional disparities that we have. That is a perennial issue, of course; it is not a new issue. It is likely that Covid has exacerbated some of the problems that we have identified before. It is also important to have feet on the street locally, which is why we set up a regional network team a couple of years ago, so that we have representation in every region and nation of the UK. We have also introduced a series of regional funds that could provide funding into their regions, based on the underlying dynamics and industry sectors that are most representative in those areas. It is very much the case that there is no one-size-fits-all that is going to work across the UK, so it is very important to tailor some of the interventions.

I have a couple of data points. We know that London receives about 50% of the funding for high-growth businesses but is home to only 20% of the number of high-growth businesses, so that is a wasted opportunity in terms of there being companies out there that really do need growth funding across the regions and which would benefit from it.

I suppose the last thing to say is that we have to think about the demand side of the dynamic as well, so there is clearly a supply-of-capital issue, but we also need to make sure that businesses across the UK understand what financing options are open to them. Again, we have introduced a finance hub, which is a digital journey that companies can go on to try to work out what types of financing are available and what is best-suited to their needs. You have to look at the demand and supply together to really make important moves forward in this area.

James Wise: The good news for the UK is that we have clusters of excellence. We have world leaders in e-commerce in Manchester, in biotech in Cambridge and in FinTech in London. The challenge with these clusters is that they suck in all the talent and capital, and so the important point here is to think about how we start new clusters and areas of excellence outside of the regions while maintaining the current groups. The balance of finance is important. The BBB has been leading on this work, and regional innovation through Innovate UK has also started on some of these new clusters and areas of excellence. Right now, we are still very much on day one of this effort in terms of the resources put in and also an acknowledgement that it takes decades to change those virtuous circles that you already see happening in London's FinTech scene and in Manchester's e-commerce scene.

Q116 **Judith Cummins:** I am just struggling with the concept of it taking so long, because it has existed for so long in terms of inequalities. Are there any ideas about how we could tailor those interventions or resources to give a more equal spread right across the regions?

Irene Graham: If you look at the private sector, there is a relationship management of growth businesses that can occur. When you segment the business, you then look at how you can relationship-manage them at a local level and, therefore, connect them into the vast resources that exist. In the public and private sectors, we are seeing more of this. Putting in dedicated relationship managers at a local level, who can connect them to the vast array of services in Government and in the private sector, is really important and is what scale-ups want, because that gives you a single point of access to the range of opportunities and resources that exist, which are terribly difficult to navigate at this time if you are trying to do it just through the internet. That is really important.

We have learned quite a lot from this recent crisis about productivity and the use of digital to enable connectivity, and the Future Fund is a really good example of getting to the regions in a very different model to what has existed before. There is good practice and it is about how we build on the knowledge of what works. What makes a good hub like Alderley Park or Babraham? How do we create more of those that bring together the scale-up community, the investors, the mentors and the non-executive directors in one place?

We can give you some examples of what we think works and how that can be replicated, and what we need to see is that replication. We are not good at replicating. We have great export programmes, for example, in London and Manchester but they are not uniform across the country for scale-ups, so we need to do more of that replication of what works and accelerate that.

Just to touch on a final point, Innovate UK and the British Business Bank have only been established in this last decade. We have not been good at keeping consistent policies in place for the long term and we now need to make sure that that does happen for the long term and at scale.

Q117 **Mark Pawsey:** There are two huge challenges affecting businesses across the UK in all sectors and geographies at the moment, which are the challenge of Covid and the uncertainty surrounding Brexit. I want to explore how those two issues are affecting scale-ups, how scale-ups are responding and whether they are able to respond better than businesses as a whole. Irene, you told us that scale-ups are doing well in all sectors of the economy and in all geographies. How could that possibly be the case for somebody in the hospitality sector right now?

Irene Graham: I said that there was growth in all sectors, and scale-ups themselves are planning growth next year. Five in 10 plan to scale again next year, and one in four to grow further.

Q118 **Mark Pawsey:** Is that including those in hospitality?

Irene Graham: Yes, some of those in hospitality, depending on what type of business they have. If you have more of an online marketplace, where you can deliver—

Q119 **Mark Pawsey:** There are not many hospitality businesses with an online presence.

Irene Graham: Maybe not but some of them are pivoting towards that. That is a critical factor.

Q120 **Mark Pawsey:** Is the key issue the sector that you are in, rather than your leadership or your access to capital? Those businesses that happen to be in fast-growing, innovative areas are always going to do well, are they not?

Irene Graham: If you look at the last five years—we will certainly give you this data—we have seen growth across all sectors in those businesses that are scaling, and quite substantial growth. When we interview and spend time with our scale-up CEOs, consistently their issues and barriers are access to markets, talent and equity, and how that gets deployed locally for them. Those are the key things that we need to look at.

You are right that there are, of course, challenges that have affected certain industries more so this year but, across the board, even in those sectors that have an online presence and are tech-enabled, investment is down. What we are seeing in the creative sector and across sectors is that these businesses want to grow and to go global, and they need to see the barriers that continue to affect them removed to help them go further into this UK market and into the global marketplace. Access to markets is now dialling up as the critical concern, alongside the talent and finance needs. We have seen some progress in some of the leadership needs but we need to see a real, structured process around access to markets and continued focus on access to talent and finance, as we have discussed already.

Q121 **Mark Pawsey:** In a recent report of yours, you say that 55% believe Covid will have a negative impact on their business, and 56% think Brexit will. Those figures are incredibly close. Which is the greater challenge for scale-up businesses right now: Brexit or Covid?

Irene Graham: It is a combination of aspects. 74% would say that their greatest challenge and priority is access to markets. That maybe reflects Covid, Brexit and other concerns that they have, but their greatest challenge at the minute is getting access to markets. That is a combination of factors but, despite those negative views, they equally expect to grow and they really want help in accessing markets and getting the right talent in—that means domestic as well as international talent—and being fast-tracked to the solutions that can help them grow.

Q122 **Mark Pawsey:** Catherine, every country is seeking to make theirs the best place to grow, start and develop a business. We have these twin challenges of Covid and Brexit. Brexit is pretty much unique to us. How does that affect our ability to compete in an international arena, if we have two challenges and everyone else only has one?

Catherine Lewis La Torre: That is absolutely the case but we have been through massive economic disruptions before and come out the other side of them. The important thing is to work out what the economy will need to keep it going and to move it from crisis into recovery, and then, hopefully, on to onward growth. You are right that we should not underestimate the size of the challenge that we have in the coming decade to get everything back on track, but we know what some of the vital ingredients are and some of those have already come up.

One of the unused secret weapons that we have is an incredible base of institutional capital in the UK, but a very small amount of that is deployed into UK businesses, scale-up or otherwise. That is in sharp contrast to other European countries, and notably to the US. If there was a way to unlock some of our domestic institutional capital for our scale-ups and the SME community more broadly, that would be really helpful.

Q123 **Mark Pawsey:** Is there not some evidence that businesses have no shortage of capital? They have been provided with loans and grants by Government, and many of them, because of the uncertainties of markets, are sitting on that cash and waiting for things to get better.

Catherine Lewis La Torre: It is important, again, to segment what type of businesses we are talking about. If you are really focused on scale-up businesses, you really need quite a quantity of capital to fulfil those ambitions. Something that James rested on earlier is that making sure that the quantum of capital is available for them is going to be critical.

Of course, during the crisis, there have been a number of emergency interventions that have been designed for the SME community more broadly. We are talking about the 5 million SMEs out there, not the 34,000 scale-ups in that case. What you need in the teeth of a crisis in terms of financial response will be very different from what you need in the recovery phase, where you are going to want to really target those companies that are going to pull and drive the economy into a better place. That is why scale-ups can have such an important role, but they are going to need the economic and business environment around them to enable them to do that.

Q124 **Mark Pawsey:** James, what is your assessment of the greater challenge to these very important businesses within our economy? Is it Covid or

Brexit?

James Wise: One of the fundamental factors of scale-ups is that they are quite naturally agile. Unlikely many of the other broader businesses we have in our economy, they are more asset-light and more tech-first and tech-enabled, although they are not all in the technology sector. This means that they are better set up to deal with these kinds of challenges.

As we saw during the Covid crisis at the beginning of the year, while the Future Fund was set up, this particular sector of the economy did not request, nor did it get, as much support as other sectors of the economy, probably rightly. With Brexit, similarly, while there will be challenges in terms of access to finance and talent, and specific sectoral challenges around FinTech, regulation, e-commerce, and import and export tariffs, these businesses are better set up to capture opportunities coming out of this crisis than more traditional businesses.

One of the questions that we ask ourselves more is about what Britain can do to benefit more from these types of scale-ups to make sure that the rest of the economy learns from the way they are adapting technology and, at the same time, benefit taxpayers, pensioners and other employees from these companies scaling. Compared with other parts of the economy, there is not as much concern among the scale-up community. Often, that is because of the type of finance that they take on.

We think of ourselves as patient capital investors. We invest for 10 years or more. When you are investing for a decade ahead, you expect there to be challenges in the macroeconomic situation, as do all of the founders of the companies we invest in. Instead, what is important is that we help them navigate those challenges in the short term, as they come, but they are all pretty well set up to deal with them.

Q125 **Mark Pawsey:** You are suggesting that it is the agility of the scale-ups that means that they will be able to withstand these shocks more effectively. What is it about these businesses? Is it the nature of the entrepreneurs? Where do they get these skills from that enable them to respond in the way they do? How do we share that thinking across the rest of our economy?

James Wise: This is the nub of the question and it is completely the right one. There are two aspects. One is that, fundamentally, most scale-ups are tech-enabled. It does not mean that they are selling software online but it does mean that software in particular is a driving force for how they develop and grow. The good news is that it means that you can change things very quickly. You do not have a factory to concern yourself about, or a front-of-house in retail, or much of a supply chain. The challenge there is holding on to these businesses because they can relocate pretty quickly, if they need to, because software is pretty borderless.

On top of that, most of the entrepreneurs we see succeeding in this scale-up space are people who have independent characteristics, where they have the confidence and drive to build category-defining companies, but often also experience in fast-scaling businesses already. Often, that means people who have had experience in software and scale-up success stories elsewhere in the economy—whether that is Siemens in Manchester or Revolut in London—leaving those companies to go and start new organisations because they have seen it done once and that level of ambition and drive has been set.

The challenge for Britain, as already mentioned, is that we are not the world leader yet in many areas of software, so making sure that we can access talent—whether it is engineering talent in Germany or software talent on the west coast of the US—is absolutely critical. We have a programme at Balderton called Valley Veterans, where we try to attract back Brits who have gone abroad and been through this scale-up process with a Valley company, and bring them back to have an impact here. We would love to see that at a broader level across the UK.

Q126 **Mark Pawsey:** How is that going? How do you assess the competitiveness of the UK, given these twin challenges, in attracting those people back to the UK to drive our economic growth?

James Wise: The good news is the latest stage of financing. If you look at funding rounds for technology businesses in particular of over £100 million over the last decade, we have seen a significant increase of over three times, so there is more money coming into the UK to do that. One of the challenges, though, is that the vast majority of the capital is foreign investment. Around 83% of all that funding comes from foreign investors. In one way, you could say that that is a huge success. That is almost an 8:1 ratio for every £1 put in from a British investor being matched by an international investor.

The challenge there, though, is that, as these companies go on to scale, the benefits that they create and the returns that they generate do not come back to British pensioners or taxpayers, but to international investors, so making sure we have a very strong base, both in terms of private investment and public markets here—organisations like the FTSE—is going to be essential to make sure that these companies can continue to scale and benefit everyone else.

Q127 **Chair:** I just have one question, primarily for Catherine. We have had evidence on the Committee that we need to see reforms to Government financial vehicles, with more of a purpose around providing long-term, high-risk investment. I am conscious that there is a bit of contradiction in receiving evidence that we need to change things and then, having the evidence we have heard this morning, saying that we need to leave things alone, so that it is long-term, patient capital. I know that that is a specific term, but not moving around all the time. We also saw the news coverage on Monday in the *Financial Times* that the Government are considering a state-backed loan scheme for SMEs, which I am conscious is not just for scale-ups, but where do you think we are, Catherine? Do we need to see fundamental reforms, is it just iterative learning, or are we okay with what we have?

Catherine Lewis La Torre: It is all of the above, to give you the very short answer. We have put very good pieces of the puzzle in place but we have not put enough resource behind some of the pieces of the puzzle. There is clearly something more that we can be doing with institutional capital. As James just said, we have a lot of institutional capital coming into the UK from abroad. That is a wasted opportunity for our domestic pension funds. We produced a piece of research in 2019 looking at DC pensions and really trying to encourage them to open their minds a little bit, which means expanding their risk appetite to think about investing in early-stage, high-potential businesses.

That is great, but if you have the pension community saying, "We want to invest more", they also need the vehicles to invest through. That is where the Long-Term Asset Fund comes into play to provide a vehicle that is designed from the outset to hold institutional capital patiently, for long periods of time. This is not a sector that you can develop by trading. This is something that you do have to buy and hold for the long term. It is a value play. More institutional capital, more vehicles that can support that, and more fund managers skilled in that area of identifying the best opportunities are all required. We are doing that right now but on a smaller scale.

Q128 **Chair:** When you talk about scale, do you mean that, in terms of, for example, the mandate of the British Business Bank, the scale could be bigger, or do you mean more money? It is and/or, I suppose.

Catherine Lewis La Torre: I was thinking more of the ecosystem overall. It is not a comment specifically on the British Business Bank. If you think about the interventions that we have introduced to the market this year in response to Covid on the loan guarantee side, we are now providing around £66 billion of loans guaranteed by Government. If you compare that to the equity side of our business, we had a big pivot to equity that we undertook pre-Covid, but we have £2.5 billion of funding for British Patient Capital, around £800 million for our regional funds, and the Future Fund, which is a new intervention providing loans that will convert into equity, is currently supporting around 875 companies with around £875 million. You can see the balance between what we have in the lending space compared with the equity capital in the rocket-fuel space, so there is definitely room to rebalance that.

Q129 **Chair:** Should it be the British Business Bank that is providing the leadership to the broader ecosystem, or should that come from somewhere else?

Catherine Lewis La Torre: It is really important that the private sector continues to play a role. The business model that the bank has is really to invest directly, so we are not lending to or investing in companies directly. We select the finance partners that are experts in doing that and we provide them with the funding that they need to invest in underlying SMEs, and we do that alongside the private sector.

Typically, when we are investing, for instance, in VC funds like Balderton, we will be a small or sometimes a significant part of that fund, but the majority of the funding is provided by the private sector. We would like to keep that model, which allows us the scale and allows us to continue to work efficiently alongside the private sector, because we want to get maximum leverage and bang for every pound that we invest in the UK economy. It is absolutely something that would have to be done in partnership with the private sector.

Q130 **Chair:** Just very briefly to push on that, we have said that there are reforms that need to happen and we need to get the whole system together and pointing in the right direction. If it is not the British Business Bank that is providing that leadership, who is it? Is it Ministers who are saying, "This is what we are going to do," and trying to pull everyone together, or do we just let everyone figure it out?

Catherine Lewis La Torre: That is a really good point, because there are a lot of really exciting things that are in the early stages of development or have been developed. We need somebody to join the dots and, as Irene mentioned earlier, to bring all of that together to make sure that we are all facing in the same direction in order to have much more impact.

Where does that sit? That is a really good question. The British Business Bank has a very powerful role to play in that as a convenor to bring these bodies together, but that is not going to be enough. We are going to need to have concerted efforts around co-ordination and joining the dots to move us into a better place.

Q131 **Chair:** I am massively abusing my position as Chair but I am keen to get a very short answer from Irene and James. Who would you like to provide the leadership, Irene?

Irene Graham: You have to have the political leadership. It was important that a Minister for scale-ups was appointed previously, so having that ministerial role. The industrial strategy and the refresh of that are going to be absolutely critical. As we head into 2021, it has helped turbocharge some of this, but we need that combination of political and private sector, with the public and private sector working together. That needs to be in the framework of an industrial strategy, with clear leadership to that.

I just want to pick up the point that Catherine made, which I entirely endorse. I have said several times that we have some ingredients but you need to make them at scale. We estimate that £118 billion is the growth capital gap if everybody wanted to raise money. Five in 10 of our scale-ups want to raise money next year. They will want us to raise money and that is quite a big gap to fill.

That sits very much in the private sector, if we unlock that institutional money, but you need the catalysts and the convenors that can support that, which is the role that the British Business Bank plays. It is also a role that Innovate UK plays. Some £283 million of grants that Innovate UK has given to scale-ups generated £5.2 billion of private sector investment, so it is how that catalyst and convening role is played by Government and the agencies. There are important things that are coming up that need to anchor that.

Q132 **Chair:** James, do you agree? Minister plus industrial strategy plus mandate for the British Business Bank—would that be welcome?

James Wise: Yes, indeed. There are two players that deserve to be mentioned here. Innovate UK has just started on its journey and has huge potential here but, compared with international markets and other competitors of ours, it is certainly under-resourced. On top of that, the Bank of England has a pretty critical role to play going forward. When we think about later-stage financing, the rules around floating businesses, or the role of pension funds in particular, the B of E has a strong role to play and I would add it to this space.

Ultimately, political leadership is required. We have had clear indications of a desire to level up and increase the R&D budget but, for comparison, the incoming Biden Administration have said they want to put $300 billion to work in their scale-up part of the economy under his term. This is the level that we need engagement at. We are seeing some of it but there is obviously a lot of space for improvement.

Q133 **Alan Brown:** Catherine, how do the services provided by the British Business Bank relate to the objectives of the industrial strategy?

Catherine Lewis La Torre: There are two ways to think about that. If you look at the five foundations of the industrial strategy, clearly, when we are designing our programmes and interventions, we think very carefully about ideas, people, place and the economic environment, so they are also foundations for us when we are designing programmes to support smaller-business finance.

If you take a sector approach, you can map very clearly some of the key sectors that come through in the existing industrial strategy, where we are playing very significantly. Especially when you think about equity finance, I would draw attention to life sciences and artificial intelligence as two sectors in the industrial strategy that are really important to support. There is a big representation of companies operating in those fields in our underlying portfolio of SMEs.

If you take it forward, there will be, as Irene has said, a refresh of the industrial strategy. We would like to very much work with everyone on that to think about the sector of the future. One of the sectors not represented right now in the industrial strategy is FinTech but, as has come up today, FinTech is a really important sector for the UK. We are a world leader in that, so it is really important to make sure that we are basing the industrial strategy on really solid foundations that we have in certain sectors or areas of expertise.

The last thing to say is that, in terms of research coming out of universities, when you apply a sectoral lens to that, it is something really to investigate further and to try to work harder on, to get better at commercialising research out of universities, taking that into companies that will be building the economy of the future. They are starting today, of course.

Q134 **Alan Brown:** Irene mentioned the refresh of the industrial strategy, and we know that it has to take account of Brexit and the post-Covid recovery. You have also identified sectors that are stronger. How much interaction do you have with Government on that, so that they can start reshaping the industrial strategy now rather than through a later consultation, so that they are ahead of the game, foundation-wise?

Catherine Lewis La Torre: We are very fortunate because BEIS is our sponsoring Department and we have regular meetings at different levels with our colleagues in BEIS. We have lots of mechanisms to link into those discussions and, in fact, that has started to occur. Just being within the BEIS ecosystem is really helpful in terms of the next iteration of the industrial strategy. What we want to do—and what we already do—is to bring the insights that we have from our underlying portfolio into that discussion, so that we can open the kimono on what is happening underneath the bonnet in terms of sectors that are being supported, so we can see some of the drivers behind the core sectors and industries of the future.

One of the unintended consequences of Covid is that it has brought the future a little bit closer to us in some of those sectors, so we have perhaps even shortened the timeline to be really significant players in some key sectors that are going to drive the future economy as well.

Irene Graham: We have had in-depth conversations with BEIS and Treasury on the industrial strategy and taken them through a lot of evidence around what is happening in the scale-up economy and what further needs to be done. That dialogue is happening. It is also happening in the fintech space, given the fintech strategy review, and in the life sciences space. That dialogue is good and ongoing, and it will inform what the future holds and what it needs to look to deliver.

Picking up James and Catherine’s points, I would just add the importance of UKRI and Innovate UK as part of that industrial strategy for our scale-up economy and the economies of the future. That also needs to be mandated for the long term, and I just want to emphasise that point.

Q135 **Alan Brown:** Do BEIS have discussions with you about other policies?

We have the industrial strategy, which is meant to be overarching, but there is so much still to come out of Government. We had the energy White Paper yesterday but there are a whole load of policies that fundamentally feed into the industrial strategy.

Irene Graham: I completely agree. Another one is the business support review that is occurring, and the Shared Prosperity Fund going forward. There is a constant and very engaged dialogue, which is going to be ever more important. There are a lot of moving parts. We talked about access to markets being important as well, and we are pleased to see the Green Paper that has just been announced today, looking at the procurement from scale-ups. That is going to be very vital because, just to re-emphasise, access to both domestic and international markets is really critical. It is important that there is this ongoing dialogue and we need to see that maintained. We then need, of course, to see action and implementation.

Q136 **Alan Brown:** Catherine, how successful has the British Business Bank been in using public funding to unlock late-stage venture capital for scale-ups?

Catherine Lewis La Torre: I would say this, would I not, but we have been pretty successful in doing that? Essentially, what you have seen over the last few years is that the British Business Bank has replaced the European Investment Fund, so that, today, we are the largest institutional investor in venture capital in the UK. That is a mantle that used to be held by the European Investment Fund but, post the referendum, of course, they were not so keen to think about 10 and 12-year-plus investments into the VC community here. We have successfully transitioned to have that cornerstone role for many amazing VC and growth capital managers in the UK.

To put some numbers around that, British Patient Capital was established in 2018 with £2.5 billion to invest in UK venture and growth capital over 10 years. Where we are today is that about £1 billion of that capital has been committed to VC and growth capital funds, and the underlying portfolio today consists of over 500 companies. This is a programme that you have to think about as a 10, 15 or even 20-year programme to see the maximum impact. The EIF developed its own fund over that period of time as well. We have made a really powerful start and we have been given some significant funding—*[Inaudible.]*

Chair: Catherine has frozen, but hopefully she will be back with us in a second.

Q137 **Alan Brown:** James, do you want to comment, since this is your area of knowledge as well?

James Wise: Certainly, we track what is happening with the industrial strategy, and some of the areas that they have covered are important at the Grand Challenge level. There is a lot going on more at the individual policy level. I guess the thing that we would stress here is that

Government cannot solve all problems and cannot start all businesses. We expect there to be entrepreneurs building solutions to large business problems across the sectors. It is not just going to be where the Government focus their support. Focusing support on areas that need it most, are poorly financed, or regionally do not yet have the support that they need is going to have some of the highest impact. There are areas where we are already incredibly strong and we want them to continue to flourish while the Government's focus is on supporting where they can elsewhere.

Irene Graham: Picking up on the important role of the BBB, in terms of the scale-ups that we track and that have over £10 million in turnover and are backed by VCs, 29 of those VCs are co-invested with the British Business Bank. That also emphasises the point that James is making: the British Business Bank works with the private sector, so a small portion of British Business Bank funding does unleash more private sector capital. That is the model that we need to see deployed. It is very similar with Innovate UK. How do we use their capital to deploy more? Certainly, we are seeing the British Business Bank backing the VCs that are supporting the scale-ups.

The other point that James made earlier was on the importance of the private sector. The gap in growth capital that we have is about 0.5% of the assets under administration in our pension funds and institutional investors, so that is why it is important that we look at unlocking that as well as we move forward. British Patient Capital was set up in the last number of years and is important in that respect as well.

Q138 **Alan Brown:** Catherine made the point about the British Business Bank replacing the European Investment Bank as a key driver for this in the UK. Was there any noticeable difference in moving from one vehicle to another for businesses or scale-ups?

Irene Graham: I do not think there is. There is another important factor that is European-backed and that needs to be covered when we look at the Shared Prosperity Fund, which is the ERDF funding. About one in three business support programmes for scale-ups are supported by ERDF funding. What we need to see with the Shared Prosperity Fund is that equally doing what we have seen with the British Business Bank: really replacing that ERDF money for those impactful programmes. The other thing that is going to be important is Horizon 2020 and those schemes. If we cannot get access to those schemes as we want to do, as stated in the R&D roadmap, we must build an equivalent here. Those are two important factors from a broader perspective.

Catherine Lewis La Torre: I am so sorry. I dropped off momentarily, so I might have missed some key debate, but I just wanted to clarify that the British Business Bank has been replacing the European Investment Fund, not the European Investment Bank. That is the distinction. Irene's point about the European funding that we have through the European Investment Bank is another area that needs to be addressed, but we have done something significant and impactful in terms of replacing the European Investment Fund capital that was coming into the venture and growth capital space in the UK.

Q139 **Charlotte Nichols:** My question is based on what has come up repeatedly throughout the conversation today around the fact that SMEs, in all guises, regularly raise concerns about access to skills and people. Is the challenge in accessing talent any more acute for a scale-up than it is for businesses that are not growing at a rapid pace? Have you identified a relationship between poor workforce skills and sluggish growth in the sectors where scale-up is slow?

Irene Graham: Clearly, we have referenced the fact that access to skilled talent at a local level is vital to driving scale-up growth. When we look at our scale-up community, the skillsets that they are looking for are social skillsets needed in business, commercial awareness and technical skillsets. Depending on what sector, of course, there is going to be a dialling up of the technical skills that are needed, and we do not necessarily have sufficient coming through our pipeline or, indeed, within the broader community, with those sorts of skills, so we need to continue to focus on what we are doing in the education system and in STEM.

As Scotland is doing, computer science should be mandated at a school level, so that we really build that up inherently in the skillsets that are coming through the system going forward. Our scale-ups are very high providers—more so than their peers—of internships, graduate employment and PhD employment, and they also employ internationally. We want to make sure that the connection between universities and schools into these businesses is made better, so that they can see where the opportunities are and what the skillsets need to be.

We recognise the importance of the apprenticeship schemes that support businesses like scale-ups employing apprentices. There is a mix of things that can be further harnessed and evolved and, in terms of international talent, it is about how we quickly get the talent needed into the scale-ups by fast-tracking some of the visas by using data to pinpoint these businesses early in their journey. There is a mix of factors. They are also very hungry for the right non-executive directors who have scaled before, and also connecting to their peer-to-peers. There was a question earlier about how you translate what scale-ups are doing across the scale-up economy. Peer-to-peer networks are important as well. There is a range of factors but no silver bullet. I am happy to subsequently pick up with you some of the details behind what I said there.

James Wise: As mentioned, skills are the most important point to the success of any business. Access to skills results in everything else: access to finance, access to markets and success. There are two areas that we think about at the scale-up stage: first of all, as mentioned, those experienced people who have been through the cultural, operational and infrastructure challenges of scaling up a business very quickly. Naturally, because the UK has a smaller group of scale-ups than, say, the US, China or some of our Asian competitors, it means that we need to continue to have access to experts in that space.

We mentioned one of the challenges that may arise post the Brexit transition. Right now, if you want to hire someone, whether in the UK or across the European Union, in a VP-level role, it normally takes between four and five weeks for one of our organisations; if they want to hire people outside of the current zone, such as in the US, it can take 14 to 16 weeks. Partly, that is just finding the right person but a lot of that is the bureaucracy cost and the process of running through a visa process. Making sure we have access to that talent is really important.

The Government have already flagged the importance of visas for academics, particularly those with PhDs in relevant subjects, and we are incredibly supportive of that. Also, considering how that managerial talent from expert organisations that have been through this can be attracted to and brought into the UK as efficiently as possible is really important, because those people are multipliers. They train people locally and it means that our overall scale-up sector will succeed as a result.

The other aspect of this is broader technology skills generally. We have mentioned that scale-up organisations, while not always tech businesses, are almost always tech-enabled. This is a skillset that we want to see much more broadly across the economy. People rightly focus on things like the apprenticeship scheme, but some of the core skills that you need in a scale-up—things like sales and marketing, operations and engineering—are skills that Britain has in abundance. Perhaps, because we have not had as many organisations like the Googles and Amazons of the world that have shown how you can scale a tech business, people do not necessarily have the same experiences of doing sales or marketing in tech.

Instead, thinking about programmes that we can put in place, some of which already exist, to help people make that transition and that switch—whether they be small businesses like those in the hospitality space that are thinking about how they manage online events, as much as they do in-person events, to tackle Covid, or, at the higher end, breakthrough scientific progress in the biotech space, where they need an experienced VP of finance or CEO who can scale the business in a new type of market—that level of training for people who have experience but need to switch is still an area in which we could invest more, and one that would benefit the scale-up community a lot.

Catherine Lewis La Torre: I would add one thing to that. I am sure that James is too modest to describe this, but when scale-up companies receive venture capital, they are not just having capital; they are also having access to know-how and expertise as to how you successfully go along the scale-up journey. In addition to building the technical and business skills, that mentoring and knowhow that can be provided alongside the capital is also one of the ingredients that leads to a more successful outcome for scale-ups as well.

Q140 **Charlotte Nichols:** Just to follow up on that, I wanted to know if you had anything that you wanted to add in terms of how the industrial strategy could be adapted to address the concerns that scale-ups have about access to skills. Is there anything that was not covered in your previous answers?

Irene Graham: There are clearly some elements that need to continued, like the Careers & Enterprise Company. We need to look at how we also embed, as I said, computer science into the education system more fully. There is a way in which the private and public sector can work together in connecting the university R&D environment with our scale-ups and the skills that that brings. That is something that UKRI and Innovate UK will be very well placed to provide, and also through the Scaleup Directors Programme that is working very well.

As I said, I will feed more detail into you on that rather than take up the time now, but there are several things that can be levers that are pulled, and we are also discussing some of that as part of the FinTech strategy review, so will come back to you with some written responses on that as well.

James Wise: The industrial strategy is still evolving, but one of the areas we are seeing is this interplay between the industrial strategy and DfE’s later-stage education programmes, so everything from thinking through whether we need more technical universities and what they look like in order to align with the skills that we will need to pursue in the industrial strategy, but also looking at our existing MBA programmes and working with that sector to think about how we can broaden it out, make it more accessible to people and make it more relevant to modern skillsets, in line with that. That is a convening role rather than necessarily a resourcing and directing role. That is an area that I would love to see the industrial strategy push harder on.

Catherine Lewis La Torre: This is a slightly different angle but we do have a group of talented and skilled individuals who are sometimes overlooked because they do not appear to have the qualities of a more traditional entrepreneur. We did some research into this recently, looking at how difficult it is for entrepreneurs from BAME backgrounds to raise the capital that they need to start and scale a business, despite the fact that they have, on average, a higher education and have invested more money in their businesses than white entrepreneurs.

There are some wasted-talent pieces in this equation that we should try to investigate further, because we need to really fire on all the cylinders that we have available. If there are ways to break down barriers for people who are already skilled and have ambition to be more successful, that is something to look at as well within the context of the industrial strategy.

Charlotte Nichols: That is really interesting and something that I will write to you about separately in a capacity outside the Committee.

Q141 **Mark Pawsey:** I want to stick with this issue of skills and leadership for people running start-ups. I speak as somebody who ran a small business for a number of years before becoming an MP. I was always far too busy to give any thought to personal development or training myself. There was always much too much to do to be able to give any thought to that.

How do we encourage people running successful, growing businesses to give some thought to their personal development and to acquiring skills that will make their businesses perform better? As well as encouraging them to do it, how do we steer them? Where should they go? What kind of landscape is there for some development training that will provide a return not only on the funds that they might invest in that training but, more importantly, on the time that it will take? Irene, your institute works very hard on that, so how do you get people to take it seriously?

Irene Graham: There are a number of things in that question, so let me try to unpack them. The positive aspect is that our scale-ups are very focused on how they develop their team, their senior management team and themselves. One of the things they most value is access to peer-to-peer networks and being able to meet their fellow growing businesses locally. We have seen important steps with Innovate UK and BEIS and some of the programmes that are now emerging now. I have mentioned some, including the Scaleup Directors Programme from Innovate UK and the peer-to-peer activity and leadership that have emerged in BEIS in supporting those activities.

What we must do is always crowd in and work with the private sector. One of the things we try to do is to evaluate what is working and available. There are thousands and thousands of programmes for businesses. We have mapped around 200 that are scale-up-focused against their challenges, but within that number there are about 60 that we have endorsed. That is the Goldman Sachs 10,000 Small Businesses programme, the Stock Exchange ELITE programme and the British Library activity.

What is important is that we create a joined-up escalator of support, much as we talk about an escalator of finance, and connect those businesses in. We have spent a lot of time educating local areas that have now developed specific scale-up programmes as well. We need to see that momentum of local programmes connecting into the private sector programmes and make sure that we have the right peer-to-peer environment. Our scale-ups want mentorship and peer-to-peer and to be able to direct their resources to the right training, and we are trying to identify that through our ScaleUp Support Finder.

Q142 **Mark Pawsey:** If a very ambitious entrepreneur wants to get their business growing, where should they start? Do they approach their LEP? Should it be their Growth Hub or their local council? How do we signpost these people to think about and head off in the right direction?

Irene Graham: That is the role of a relationship manager. From a Government point of view, having a local relationship manager within the Growth Hub can really connect into the different Government resources. Having specialised relationship managers locally is really important. The same is happening in the banking industry. We see a number of our banks now have high-growth-segment relationship managers, and how we create that in a hub and cluster locally is very important. We are seeing good things within Engine Shed, Alderley Park and Babraham that do that, and we have to have that point of contact.

One of the things is how you roll out a relationship and engagement strategy with these businesses. The other is how we leverage data better. One of the things that we have been pleased to see and that needs to be accelerated is the use of HMRC data in messaging to our scale-up community to direct them towards resources that are available to them. That is important. It is a combination of factors and how we relationship-manage them in the private and public sector in that regard.

Q143 **Mark Pawsey:** Catherine, is the challenge of identifying good leaders limiting the growth of scale-ups in this country? Is it just poor management and leadership holding back our entrepreneurial businesses?

Catherine Lewis La Torre: Attitudes are changing to what leadership is. There is certainly more openness within the entrepreneurial community around lifelong learning. The important point is the one you nailed earlier, when you asked, "Where do people start?" That is why local networks are really important. When they hear from peers what training and education they have been on and how impactful that has been for their business, it is a spur to action to do something. Certainly, anything that we can do to grow leaders or to improve leadership skills has to be beneficial for the economy overall.

Q144 **Mark Pawsey:** James, is there work that your organisation can do in helping develop those skills amongst the businesses that you are investing in?

James Wise: Yes, certainly. The most successful businesses that we have seen are those that provide training to their employees. If you look at the ecosystems of entrepreneurs coming through in these scale-ups now, many of them have already been through a venture-backed start-up, where they have had an active board member who has been there to support the organisation. Making sure we have more opportunities for people to go through that process, which may mean with local angels and investors rather than larger venture capital funds initially, which has been supported through multiple administrations and the work the BBB does around angels, but also giving them access to those people through remote learning and remote lifelong internships as well, is an area that we would be very keen to see more of. One of the areas that is coming through for all of this is that the opportunity to learn, start a business, adapt and develop new digital skills is there throughout people's lives. Right now, we do not have an infrastructure to support that.

Q145 **Mark Pawsey:** Would you make the requirement to pick up these additional skills to work and learn a condition of you investing in a business? Would you choose not to invest in a business if there was an arrogant, know-it-all entrepreneur who says, "I do not need any further development. I know my market. I know what I am doing. This is a waste of my time"?

James Wise: The number one thing that we look for is a voracious appetite to learn. The great thing is that the speed of change in this space is quite phenomenal, partly because Britain's ecosystem is adapting. I do not want to suggest anything to the member, but compared with where we were maybe 10 or 20 years ago, starting a business is very different. You do have huge amounts of online resources now. People can advise you remotely. We see angel investors in some British start-ups today who are based across the world—people who have perhaps made some money building a start-up in a different geography but who now see opportunity in Britain. Making sure that we encourage and support that and connect people, not just physically in co-locations, which are important, but remotely, is really important. Part of that is a cultural shift and part of that is infrastructure that we can provide.

Q146 **Mark Pawsey:** Are there businesses that you might invest in but the leadership and management simply is not up to scale? Maybe they have a great product and they understand their market but they are just not willing to engage in the way we are talking about. Would that hold you back from getting involved with the company?

James Wise: Yes, 100%. When we think about investment and about where we want to take risk, we will take risk on new markets: brand-new technologies and opportunities. We will take risk there but we will also take risk on new products: things that have not been fully tested yet but still need to be developed. Where we will never take risk is on team, and that is the area where we always want to make sure we are working with the right people in the right space. Great managers and great leaders will go and train and develop their employees and their staff. When we are evaluating a founder, we are always asking if she can scale her team, bring in new people and provide training. We would never make it a requirement of our funding in terms of a legal requirement, but certainly, inherently within all of our investments, we are looking for people who can train and develop their staff.

Q147 **Alan Brown:** Irene, is there any way that public procurement can be improved to create more opportunities for scale-ups to work with the public sector?

Irene Graham: Yes, very much so. I am pleased to say that there is a Green Paper on that released today. Around £111 billion is spent by Government in the private sector, and the scale-up community gets about 2.1% of that, so there is a huge amount that needs to be really focused on in terms of how one simplifies and drives forward the opportunity for the public procurement sector in national and local government, building on some of what the Small Business Administration does well in the US.

There are some examples of good tools. The SBRI is a good tool but it is not deployed effectively everywhere across Government. Although there are procurement champions, it may not be their dedicated job. They may not be objectivised or measured on how they are driving forward engagement with scale-ups. Often, even if they want to do the right thing, maybe risk and compliance have further issues, so there is a lot to be done around SBRI, the social value Act, how we do more with UKRI and Innovate UK in working with these businesses through their programmes and the catapults, connecting businesses in, and also how we take the learnings from the FCA sandbox and bring them into other of our marketplaces, like the NHS, in a more effective way.

Again, there is a lot of detail to go into on this particular topic and I will send you some further insights into that. We are very happy that a Green Paper has emerged today, which is going to be vital to address as we move forward.

Q148 **Alan Brown:** You mentioned complexity but I have always wondered whether there is another issue in terms of a lot of public procurement now goes for economy of scale. If you look at the construction sector, there are big projects. By default, therefore, the main bidders have to be really large companies in the first place and, therefore, scale-ups have to be further down the chain.

Irene Graham: That is a very valid point. It is also about knowing what contracts are available. We see that scale-ups are in the supply chains of these large corporates. They are through the supply chain but predominantly in tiers 1 and 2. When a Government procures from a larger supplier, whether it is aerospace or construction, you need to make sure that they are then going to be mandated to work closely with scale-ups and bring them into that equation as well.

There is also a way of unpacking contracts that can allow them to be directly accessible by scale-ups, and how we use that connectivity and data to connect the scale-ups into those opportunities. Again, the sandbox that the FCA has is a good mechanism by which you can seek to bring scale-up businesses into other sectors of the economy. There is a lot of opportunity there and a lot of complexity in the way in which the contract process is operating today.

Q149 **Alan Brown:** That mandating process would just be a matter of writing that into the tender specification.

Irene Graham: Yes, exactly, and making sure that those larger corporates take action, know their supply chain and are more active with it. There is a real opportunity there.

Q150 **Alan Brown:** A live topic at the moment on public procurement and incentivising the use of UK supply chains is the contracts for difference options through the energy process. Quite clearly, that mandating could happen if the tender specifications are written correctly.

Irene Graham: It could do. We have seen, in other sectors like open banking, opportunities that open up the opportunity to bid into activities. Open energy is probably an opportunity for the future and how we take that forward overall.

James Wise: Very briefly on the procurement side, it is an ongoing problem. You also need to lead the horse to the water here. Making sure that founders of British businesses know that the Government are open to working with them is really important. There is a cultural and a role-modelling piece here.

The one other thing that I would mention along with tenders at the top end is what we do to empower frontline workers in particular at the bottom end to use the tools that are most relevant to them and how we can pre-approve processes. One of the things that I have been surprised by, at least during this pandemic, is that the adoption of new technologies has come at a pace that probably most people felt the Government could not move at.

We are using Zoom today and there was a huge movement in telehealth. That is partly because we let individuals choose the tools that work best for them. That is how new services definitely grow. If you look at large organisations, it is not always a $50 billion ACB discussion; it is at an earlier stage than that. I would love to see more of our frontline workers empowered and given the choice over the kinds of tools they want to use, as much as we dictate from the centre down about what kind of digital services and digital infrastructure they should be using.

Q151 **Mark Pawsey:** I want to move back to finance. We have heard quite a bit from our witnesses about finance today but, as MPs, I am sure that my colleagues will find that most of our interactions with businesses revolve around, "We are not getting the support that we need from our banks." I have a great example in my constituency of a highly innovative company with a pretty unique product that is growing very fast, and they are simply not able to get support from their traditional high street banks. They have switched from one high street bank to another. They have not looked at more innovative routes because that has perhaps not been suggested to them, but how could I best help them?

I am not sure that they are particularly profitable, because they are growing fast, investing a great deal and putting a lot of money into stock and equipment. Where should they go? What is the silver bullet for them?

What they are looking at, in fact, is a disposal to an overseas buyer, which would seem to me to be a huge disaster in that they developed the product range that they have, they are an asset to my local economy and the last thing I want is for them to be taken over by a foreign company. Catherine, perhaps you have some words of advice.

Catherine Lewis La Torre: That ties together a lot of the things that we have been talking about today, Mark. The first thing that the company needs to do is to work out the most appropriate type of finance for it. If what they are trying to do is not resonating with their local bank, it might be because they need equity rather than a loan, and they might need to lock in some longer-term capital to help them reach their ambitions. That means that they have to knock on different doors than the banks. That could be business angels, for instance, who support these types of businesses. It could also be a regional fund, if they are operating in the region. It does not necessarily have to be straight equity. There are a lot of hybrid offerings, where the solutions are a combination of debt and equity to help get that business to where it needs to be.

There is an awful lot out there. The question is how you match what is out there with the needs of the company, and there are some tools that have been put in place. I talked about the Finance Hub, and we spend more time now thinking about how we drive people to the Finance Hub so that they can get the information they need to explore different opportunities.

Once they have identified what type of business they are and what type of finance they need, there are some routes out of that digital journey to say, "You might want to talk to a business angel, a VC fund or a regional fund." It is about joining the dots again and driving people to where the information is, so that they can make informed choices. Often, the default choice, because that is the way it is has happened in the past, to go to the local bank is not always the most fruitful source of funding for many businesses.

Q152 **Mark Pawsey:** Irene, if I speak to this company about business angels or a VC fund, if I am honest I am not sure they would know what I was talking about. How do we bridge that gap?

Irene Graham: There is a big focus on education, both for the businesses and for the investors. The investors need to understand what is available and the sector aspect, and the businesses need to be brought that education. That is why, to Catherine's point, we have worked very closely with the British Business Bank on the Finance Hub but also the regional network that the British Business Bank has. Working with the LEPs, the regions and the devolved nations, putting in education that raises awareness of the types of finance, and doing that also in roundtables, physically and online, is going to be important going forward.

I mentioned the relationship management approach. Interestingly, we are seeing a real recognition by scale-ups of the role that banks and their advisers are playing now in trying to connect them to other sources, and some banks do that very well. We need to see that across the country and to keep them informed of what is available.

I just want to pick up something that came up earlier. I want to focus on the angel side. We need to build the capacity of our angel network around the country. In Cambridge, you have one syndicate there that invests £30 million and you have multiple syndicates. We do not have the same across the country. One of the things that we have been focused on with DCMS, working with the British Business Bank, is really understanding the angel networks locally and in regions, and building capacity around that angel network to give more people the opportunity to think about investing in these businesses, connecting to syndicates and networks that are there, and then also to enable the businesses to get connected to them.

We are working on a pilot of a scale-up programme in the creative sector. I will give you more detail on that because it is an interesting model for thinking about how we replicate that elsewhere, and it is designed to educate both the businesses on investment as well as the investors on sectors in their local economy that they could invest in and build capacity in the investor base, including those of us who may not be angels today and how we become one tomorrow. That is a really important programme because angels contribute around £29 billion to the scale-up economy, and that is those growing at £10 million-plus, so they are big contributor to that growth. You then have the follow-on funding.

Q153 **Mark Pawsey:** James, do you have any thoughts that we have not heard as to how I might help, support and advise this dynamic business in my constituency?

James Wise: First, please direct them to my website and email address. I am very happy to talk to them. I was not expecting to get a deal flow out of this meeting today.

Mark Pawsey: I do not want them to miss out on the opportunity.

James Wise: The real point that you raise is that the national infrastructure around our banking system is very strong, but bank debt is not an appropriate way to finance the vast majority of these businesses. With equity financing, we take a minority stake, we do not take personal liability and we expect no payment back before exit of the company, which can be 10 years. It is a really important form of finance and yet, if you look at the national infrastructure that we have around our banks versus the national infrastructure that we have around equity investing, it pales into insignificance. If we want to have a productive and high-growth economy, we do need to make sure that that similar level of infrastructure is scaled out.

Irene makes a great point about local angel networks. These have grown in particular because of EIS and SEIS changes over the last decade, but also because individuals who have been successful want to be part of their community and want to give back. Making sure that those local networks are supported through innovative schemes that have already been mentioned, as well as flagged and highlighted through connections with local schools and universities, is really important as well. There is an education piece to play here, for sure, but there is also an infrastructure piece.

Q154 **Chair:** It seems blindingly obvious that the banks should be told to provide the signposting. I know that they have a commercial role to play as well but, if everyone needs a bank account in order to be able to do business, there is also a wider role there for them.

Irene Graham: Just to add to that, there is a referral process in place that is administered through the British Business Bank. If a bank declines the business, they are put through that referral process. In the equity space, what we need to see is more joining up of the equity providers locally in making those connections better. That is something that is certainly a focus for us with the equity players going forward, and I know it is something that has come up in other evidence as well.

Q155 **Chair:** Irene, if you want to write to us on that, there might be a useful recommendation from us off the back of this work around how to do that or at least to try to persuade people to do that.

We have a couple of minutes left, so I just want to ask a few closing questions. First, Catherine, on British Patient Capital, the Committee has noted that there is a debate going on about the future governance of British Patient Capital and whether it should be privatised. Irene said that it should be a joint venture with the private sector. What is wrong with its current structure? Why are we having this debate?

Catherine Lewis La Torre: There is nothing wrong with the current structure. At establishment, the idea was that the company would be incubated, if you like, within the British Business Bank while it developed its track record. As we said earlier, developing a track record will take many years because of the timelines involved in making investments and then realising them out the other side.

There was just an idea at the time that, once you have something that is successfully crowding in capital from the private sector and that has a successful track record, from a Government perspective that might be considered job done. Should the private sector then be operating efficiently in this market, it could be a time for British Patient Capital to go into the private sector itself, rather like the trajectory of the Green Investment Bank.

That is not to say that it will happen, and it is also very early days. We are now in year three of British Patient Capital and we are still developing our track record. We have our first external investor, the Nuclear

Liabilities Fund pension plan, which has provided £250 million for us to invest alongside Government funding in venture and growth capital. That could be another route to attracting pension capital to replace Government funding, but that would not necessarily mean a full privatisation of the business itself.

There are lots of different options that could play out in the future, but we are not really focused on that piece right now. We are focused on building the track record and the credibility of British Patient Capital in the market.

Q156 **Chair:** Presumably, if it stayed within your organisation, you would be able to have more of a mandate about how it functions in the future and ensure that it remains patient. Would there not be a risk, if it were to be privatised, that, over time, it could go off in different directions?

Catherine Lewis La Torre: If there was any privatisation, you would want to be sure that there would be a commitment to it maintaining the existing mandate to be a patient, long-term investor; otherwise, that would be fundamentally taking something away that has been built within the ecosystem. That is a very important part. What form that privatisation took would be very important to guarantee that that mandate was respected.

Q157 **Chair:** I am just going to ask one final question to each of you. We have noted today that the gap between supply and demand of capital was estimated to be around £15 billion. We have had evidence from Stephen Welton from the Business Growth Fund, who said that there is an "inadequacy of UK growth capital flows compared to other countries". If there was one thing we could do to be better at this, what would be the priority thing to do?

Catherine Lewis La Torre: I am sorry to say that there is no silver bullet here, so there is no one thing that we could do that would put the wrongs to right. It is about having a co-ordinated approach to everything that we are currently doing, assessing what works really well and doing more of that.

Q158 **Chair:** Irene, perhaps not a silver bullet but, if there was a priority, what would it be from your perspective?

Irene Graham: There are two priorities. One is that you must build on what we have today in Innovate UK and the British Business Bank, and scale them up and give them the scale that they need to be the co-investors and catalysts. That is really important.

The other is unlocking institutional funds. That is where the pool of capital is currently in play. DWP consultations have been undertaken. It is really important that the Bank of England looks at a productive finance mandate as we look at the institution in terms of what we need to do to unlock that, both in terms of regulatory legislation but also in educating our institutional investors and getting that pool of knowledge up for these growth companies. That institutional investment piece is vital. Canada has cracked it and we need to be able to do the same here. That will be a number of levers but it is a critical lever, while building on the British Business Bank and Innovate UK.

James Wise: Building on what was said, at the final stage of financing, it is about reforming some of our public market and equities options—in particular, the FTSE—to make sure that they are in line with what is best practice for technology companies looking to list today, and in particular reviewing how they protect shareholders over management, and making sure that the FTSE, which is flat over the last decade, can rival other indexes like the Nasdaq and S&P 500, which are already up three times.

Chair: Thank you so much, everyone. There was a bit of irony at the end there, where we need to scale up the institutions to help scale-ups to scale up, but there we are. Thank you, Catherine Lewis Torre from the British Business Bank, Irene Graham from the ScaleUp Institute, James Wise from Balderton Capital, and my colleagues on the Committee, as always, for your time this morning. That was extremely useful and we will be reporting on this in the new year. Have a lovely Christmas, in the meantime, as best you can.