



HOUSE OF LORDS

Science and Technology Committee

Corrected oral evidence: Financing and scaling UK science and technology: innovation, investment, industry

Tuesday 1 July 2025

10.15 am

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Members present: Lord Mair (The Chair); Lord Berkeley; Lord Drayson; Lord Lucas; Baroness Neuberger; Baroness Neville-Jones; Baroness Northover; Lord Ranger of Northwood; Viscount Stansgate; Baroness Walmsley; Baroness Young of Old Scone.

Evidence Session No. 17

Heard in Public

Questions 203 - 214

Witness

I: Louis Taylor, CEO, British Business Bank.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witness

Louis Taylor.

Q203 **The Chair:** Welcome to this morning's meeting of the Select Committee on Science and Technology. We are pleased in our first session to have as our witness Louis Taylor, the CEO of the British Business Bank. You are very welcome.

As you know, this inquiry is examining the well-known problem of UK science and technology companies not getting the financing and scaling that they would like to have and, therefore, going overseas. Perhaps you could start, when you introduce yourself, by telling us about the British Business Bank's overall strategy for turning more start-ups into scale-ups and convincing them to stay in the UK. Where do you feel you have further to go to achieve that?

Perhaps you could also say something about the significant increase in funding that the British Business Bank has received as part of the recent spending review. What will your priorities for that new funding be? You told the House of Commons that the lack of scaling up is driven primarily by risk aversion in institutional investors. How do you think the Government are addressing that? Are they going far enough when we have seen such a long-term outflow of capital?

That is quite a lot of questions. We will ask some more during the session, obviously, but perhaps you could start by introducing yourself and addressing those immediate questions.

Louis Taylor: Thank you. As you say, I am the chief executive of the British Business Bank. You have asked a range of searching questions covering a range of things.

Let me start with the bank and your questions about how we plan to have more scale-ups in the UK and how we plan to get them to remain here. The bank is 10 years old. Over that time, it has built up a range of capability to be able to offer financing solutions that are, I hope, catalytic to private money at pretty much every stage of a company's development. We have everything from start-up loans through to some scale-up capital. You mentioned the incremental capital that we have just been given; I can talk about the extra stage that that will allow us to participate in.

Through a range of some lending and quite a lot of equity investment—from pre seed into funds that are going up to series A funds, then from series A to B—we are starting to do direct investments into those companies that are coming through our fund investments, so that we know what they are and who they are. Going back to my earlier point, instead of being able just to write a cheque for £15 million into, say, £50 million of fundraising, the money that we have just been awarded as part of the industrial strategy growth capital will allow us to write a cheque of

up to £50 million or £60 million into a round of, say, £200 million. That is genuine scale-up capital.

All of our programmes are helping to ensure that we have a vibrant start-up community and companies that are ready to scale up. The UK is quite successful at that: 850,000 new companies were registered at Companies House last year, so we do not seem to have a problem with individual entrepreneurialism. The issue is when they come to need institutional capital and the difficulties of getting that to scale up. The bank is trying to address that through continually seeding and putting a slice of money into venture and growth equity funds; we are hoping to magnetise private money alongside that. We have been pretty successful at that, although we are the largest UK investor in those funds; broadly speaking, in a free market economy, we should be thinking about how much we want a government institution to be the largest investor in that market.

By investing in those funds and crowding in private money, we have been helping companies get to the genuine scale-up stage, but a lot of the private money that has been magnetised so far has been overseas money—particularly from US venture capital funds—rather than UK institutional money. The problem has been that companies tend to gravitate towards where their capital came from so, when they have pretty much exclusively US money on their cap table, that is when they start to gravitate towards the US. Just as they are becoming economically interesting, they leave the UK, but we need to retain them. Our latest mechanism is to move from just seeding funds, and hoping to magnetise private sector money alongside that, to setting up a new regulated vehicle, aggregating some UK institutional money and actively investing it into UK scale-up companies. We are in the middle of that process at the moment.

The Chancellor authorised us, back in November, to go ahead with what we are calling the British Growth Partnership. We now have a regulated entity that has gone through the full FCA process. We have a data room open, with institutions in there looking at the potential for investing. The Chancellor said at that investment summit that we would be investing that fund by the end of this calendar year; we maintain that we will be on course for that.

That individual fund is not going to solve the whole problem but it will create an opportunity for a number of influential pension funds to get into the market and to understand what it is to own these scale-up companies. It is about having them understand the development track and giving them the opportunity to write a much bigger cheque at a later stage when they really are in series D or E, pre IPO. It also gives them the opportunity to realise that they should be involved even earlier and that they should be in the funds in which we are investing in a way that they are not at the moment, largely for fee reasons; I am sure that we will come back to that in a moment.

The short answer to your question is that we have a range of interventions at each stage. We are pretty good on the start-up to scale-up end. We are trying some different mechanisms to get more UK institutional money as a counterbalance to overseas money—not to replace it totally, but as a counterbalance. We are doing that at a time when the Government have managed to get this very much on the agenda of investment institutions. We are creating pension institutions through consolidation that would have the resource to manage a range of different private asset classes, including venture and growth. The Government are giving the bank the money to be able to seed all this, and there is a bias to action. So it feels like a moment when there is an alignment of promising factors, but we now have got to execute.

Q204 Baroness Young of Old Scone: Can we talk a bit more about the British Growth Partnership? I am interested in hearing your explanation of the fee reasons. What sort of scale are you anticipating taking this vehicle to?

Louis Taylor: For the first fund, we have said that we are looking to raise hundreds of millions of pounds. That remains the case, but this is not something that we see being a singular fund. We hope that it will start to mimic the flow of money into pension funds and that we will have other, successor funds. We are trying to have a fund that is sized in a way that is commensurate with the market's ability to absorb the money in a relatively short space of time, such that we can go back for a second fund.

The first fund is focused on direct investments at series C but, to my earlier point, we want these institutions earlier in the funds, from seed right the way through to series B as well, allowing them to select the companies that really are going to succeed in the way that we have. Historically, we legislated or regulated defined contribution schemes in a way that encouraged trustees to lower the cost in terms of fees for running those pension funds, and being able to pay fees on a fund of funds, which is really what we are talking about, if we want to get these funds invested. That was not possible from a competitive point of view for any of the pension funds. Fee caps have been removed, but it also requires pension fund trustees to prioritise net-of-fee returns over the costs that they are incurring on investing money, in addition to having the risk appetite to be involved in private markets more than they have been. There is evidence that this is happening as regards the first Mansion House compact but also the most recent Mansion House compact.

The fee issue is a competitive one. We have locked everybody into a point whereby the first mover will be seen as risky and uncompetitive, with the risk that they lose the assets under management to someone who has not changed their fee, even though they are offering an asset mix that potentially offers lower net-of-fee returns in the end.

Baroness Young of Old Scone: Do you see it as part of your role in this initiative as influencing the institutional pension schemes and other institutional investors? If so, how are you going to go about it? At the end

of the day, if they do not perk up enough, would you be in favour of mandation?

Louis Taylor: We have a role in all this. It is largely to demonstrate the track record of our own investments. As I said, we are the largest investor in UK venture and growth equity funds and the most active direct investor in later-stage life science and deep tech companies. So the demonstration of the track record is important. The opening up of our investment track record for these institutions that do not have expertise in this part of the market themselves is another way of convincing these institutions to get in. Do they back our track record? Do they think we are a credible investor? We are going to find out soon, because we have these institutions in a data room. Whether they choose to sign up is going to be the test of that.

Baroness Young of Old Scone: We know of three institutions that are already interested in this. What is your hunch as to how many you will get in?

Louis Taylor: We very much hope it will be more than three. There are significantly more than three in the data room. Three have chosen to allow their names to be put into the public market ahead of doing due diligence. So there is still a risk that they will not be in, but we are quite confident that we have a good rapport with them and they will come in. But there are others as well. It will be less than a dozen—probably less than 10—in the first fund. But we hope this is something whereby, as I say, we will start to mimic the flow of money into DC pension schemes and we will have successor funds, potentially with slightly different mandates: a combination of founder funds as well as directs.

Baroness Young of Old Scone: Will you be publishing performance data for each of these funds to encourage subsequent rounds?

Louis Taylor: The bank will be an investor in the fund itself. So we will be 20% of the fund. That will all be reported in our overall reporting, but it is unusual to report detailed data on each individual fund, particularly in venture, which is so illiquid and where valuations can be so judgmental. However, the investors in the fund will absolutely get quarterly performance updates from us.

Baroness Young of Old Scone: To go back to mandation, are you on the fence on that one?

Louis Taylor: It is interesting. To go back one small stage to risk appetite, it is the underappreciated by our own institutions of the wealth of opportunity that there is in science and tech-led innovative companies in the UK that is quite extraordinary. If there was a realisation of the goldmine that they are sitting on, mandation should not be necessary, because these are fabulous investment opportunities. Not everyone will be a winner but venture is a parallel game, and these are professional investors who would understand that.

We have managed to get to a position where, even now, because of the dialogue that has been going on in the past two years because of the mansion House compact, the Edinburgh reforms, the proposed legislation, which does not mandate but has reserved powers to mandate, already the question in investment managers' minds is no longer, "Should I invest in UK innovation?", but "How do I best invest in UK innovation?" That is a very important mind shift.

Q205 **Lord Lucas:** Why, as a country, should we give tax relief to people to invest overseas? If they are taking tax relief, why should they not invest that money in the UK?

Louis Taylor: Tax policy is certainly not something that the bank is responsible for. There was an interesting article in *The Times* in January by the chief executive of M&G, Andrea Rossi, who addressed this point. Rather than necessarily mandating, his suggestion was that because, when we contribute into a pension scheme, we get it in pre-tax income, if your manager does not invest a portion of that in the UK, you start to claw back some of that tax benefit. You are not mandated to invest in the UK but, if you do not, there is a consequence—a sort of negative incentive. It is an interesting idea, because it is likely to be positive for the Treasury or the Exchequer either way: you either claw back the tax or you get greater growth. That is an interesting idea, but it is not the bank's position to talk about tax policy.

The Chair: Do you see any drawbacks? What you have just outlined sounds rather attractive.

Louis Taylor: Again, I am no tax expert but as somebody who is trying to promote investment in scale-up companies, I do not see too many drawbacks to that, no.

Lord Lucas: Are you empowered to convene those DC pension funds, understand from them what they need to invest in a vehicle like the BGP, and then pass that on to the Treasury? Or is that a job for the Chancellor?

Louis Taylor: We are regularly in contact now with a range of pension institutions. We have spoken to over half trillion pounds of pension assets over the past year-and-a-half as we have been preparing to launch this endeavour. So we have dialogue with them. "Convene" implies getting everybody together, but we do not seek to do that because, from our point of view, in trying to set up this vehicle, we need to be able to protect the commercial confidentiality of individual institutions. A collective meeting is unlikely to be productive. We talk individually to these institutions. Of course, in making the case to the Treasury to allow us to do this, we have aggregated the feedback from those institutions about why they have failed to be in this part of the market historically, and why the solution that we are putting forward may address the issues, or at least remove the excuses, if not cajole them into actively investing.

The Chair: In the context of what we have been discussing, how are you

planning to address the potential fiduciary concerns that some, perhaps many, institutional investors might have before signing up? I am thinking of pension funds in particular.

Louis Taylor: In relation to whether they are going to meet their duty to their pensioners?

The Chair: Yes, indeed.

Louis Taylor: I do not think there is any incompatibility here at all. Nobody is suggesting that any pension fund puts 50% of its money into venture. We are talking about low single-digit allocations to growth. There is consensus in the pension industry now that not only do we need higher levels of contribution into DC schemes to get people the pensions they expect but those contributions need to be invested more for growth than they currently are to get the returns on that investment. We are talking about an asset class that can produce strong returns as a proportionate part of an overall pension scheme with a mix of assets. That is not incompatible at all with the fiduciary duty of trustees both to generate the return, which is their fundamental purpose, and to do it in a risk-mitigated way.

Q206 **Viscount Stansgate:** The LIFTS programme is another vehicle that intends to crowd in private sector investment but with a private fund manager. The bank has discussed scaling the first LIFTS fund up to, I believe, £1 billion. If I am right, it is currently about half that, with one institutional partner. Are you hoping to secure more, given the Mansion House commitments, or use this as a pilot to start more funds in future?

Louis Taylor: LIFTS was part of a two-pronged strategy under the previous Government. The first prong was that they talked to us about the British Growth Partnership, which we have now launched under this Government and which is, as you said, managed by the bank, as well as having a private sector equivalent. In the end, the bank is trying to be catalytic to the private sector and in five to 10 years' time, we would like to see a range of private sector imitators and competitors to the British Growth Partnership, in a way, to the extent that the Government may be able to stand back because the private market is doing what we want it to do. So LIFTS was the first step in that move.

You are right that we contemplated it being up to £1 billion: £250 million from us and £250 million from Phoenix, with Schroders managing it and looking to raise another £500 million. We are not near £1 billion but we are at more than £500 million. There are two partners now and we hope that more still will join that endeavour.

Viscount Stansgate: Several bids were made into the LIFTS programme, were they not? Could you give us some insight into how you chose the successful one, what happened to proposals that did not make the grade, and could there be more co-investment under this model if this is successful?

Louis Taylor: The process was effectively a public procurement. We put out a tender for fund managers with a mandate and solicited bids and got bids. I did not directly review the bids at all, but I chaired the investment committee at the end with the recommended proposal. As I understand it, there were several non-compliant bids that did not meet the criteria, so that narrowed it down very strongly. We did due diligence on several bids and, under scrutiny, they were not all what they seemed to be.

Initially, we were going to go with two different fund managers and to split the £250 million. All the work was subject to getting legal agreements in place and, unfortunately, one of the fund managers and the investor were unable to reach a legal agreement. We had reserved the ability to put all the money into either of those managers, which ended up being the case. We are working with the other manager on the possibility of investing in a similar strategy, although not under the LIFTS umbrella. So, we are, effectively, looking at another bid as well.

Lord Lucas: Could this sort of model extend to universities running funds for their alumni and their spinout companies to regional mayors running local funds with your support and tuition?

Louis Taylor: We might do that under a tender process. We are willing to look at fund proposals. One of the things we have been trying to change at the bank is that we have grown up with a very programmatic operating mechanism and have ended up with a range of programmes, all of which have their own criteria and a hypothecated pot of money. We are trying to get out from under that because we need more flexibility to be able to operate in the market. So, to go back into more invitations to tender is perhaps a bit suppressing of opportunities from the market. We would rather have the market come to us with a range of opportunities we can look at, including local authority funds or university-focused funds. We over-index on university spinouts already, but there is room for more.

Viscount Stansgate: My colleague raised the question of mandation, which you have dealt with. Was that the route followed or not? Should the emphasis be on a certain percentage of pension funds being invested in science and tech companies or on trying to consolidate local government pension funds together, or both?

Louis Taylor: The intention of the consolidation of local government pension funds is to enable them to be investors in science and tech companies, because having a bigger asset base allows them to employ resource to manage a range of different asset classes that at the moment they are perhaps underresourced to do. It will require them to build up some expertise in those asset classes.

It would be remiss of me not to say that, of the private market asset classes—infrastructure, real estate, private equity and venture—venture is by far the most difficult. So, even if we get sign-up from all the pension funds to invest in private market assets, my bet would be that

infrastructure and real estate are where they will go first, and then private equity. Venture is quite a hard sell.

Q207 **Lord Berkeley:** Looking at responsibility and who is responsible for guiding businesses from one stage to the next stage of raising money, is that something your bank should be doing or does Innovate UK start it off and then responsibility moves to the bank and then to the National Wealth Fund? Some people have suggested that you should be a kind of concierge service—I do not like the word. My second question is, what is happening on the strategic public investment forum?

Louis Taylor: On providing guidance to companies on moving through the stages of finance, it is important that there are a range of sources of advice and guidance. Personally, I think that those should be primarily private sector-driven, for example by chambers of commerce, advisers to companies such as accountants, a range of investors, and, frankly, the banks that companies bank with, whether they are challenger banks or the major banks.

On what the British Business Bank does, we are not regulated to give formal advice, so we stop short of that, but we have an online service called Finance Hub, which allows companies to understand the nature of the finance they need and then guides them to the delivery partners that we work with in that particular type of finance. They can then go to a regulated financial institution for the type of finance they need. We hope that that allows them to be able to know who they can trust, because you can spend half an hour googling sources of finance and you end up with a huge number of questions such as, "But who do I trust and what finance do I want?"

The Finance Hub website gets a little over half a million hits a year; if you think about our business population of 5.5 million, with a huge number of sole traders in that who are probably not borrowing, and quite a lot who would probably get serviced by the private finance market, we are probably getting pretty decent coverage already. But we are not there to give advice and we do not have the resource to do so.

The strategic public investment forum is a Chancellor-led initiative to bring together regularly the CEOs of the public finance institutions, of which the bank is one, including the National Wealth Fund, Innovate UK, UK Export Finance, Homes England and British International Investment. We welcome this. Last summer, there was a bit of a review of the landscape of public finance institutions in the context of the creation of the National Wealth Fund. That was an opportunity for everybody to define quite clearly what we do and what we do not do in a way that is quite joined up. But there is more join-up to do and that forum could be very helpful in that.

An example of the join-up we need is embedded in our own spending review bid in that we are seeking to collaborate far better with Innovate UK, which is giving grants at an early stage to research projects and very early-stage companies at a pre-commercial stage, and which has the

expertise, in effect, to do due diligence on the technology. We are looking to Innovate UK to provide us with a pipeline of tech-diligenced opportunities across the lines of the eight industrial strategy sectors that we can then bring a commercial lens to and commercialise the ones that—

Lord Berkeley: Do you see yourself as taking a lead in that?

Louis Taylor: It is joint leadership with Innovate UK. I am highlighting that there is a lot of collaboration but more to come from the public finance institutions. In among all the debate about whether they should all be merged, it is far more important that the culture of collaboration is working than the structure of how it all sits together.

Q208 **Baroness Walmsley:** You said you want the bank to invest more in companies where the technology has already been validated by Innovate UK. Are you planning to track those referrals as part of your key performance indicators?

Louis Taylor: We absolutely can track them. In fact, two summers ago, with Innovate and UKRI we jointly published a report on companies that had received support from any of us, up to all of us, with a Venn diagram of all those. So we do track this, but we just want to increase the metabolic rate of all that.

Baroness Walmsley: Are you happy with how well you have done on that so far?

Louis Taylor: I am happy that the companies that get serial support through the stages from Innovate to us actually perform far better than ones that do not. However, the selection process should yield that; if it did not, we would be kind of worried. But we should be much closer in terms of the quantum of opportunities, so embedded in our spending review bid was a request for £100 million to add to our nations' and regions' investment funds, focused on 12 clusters where Innovate UK is very embedded. We will be seeking to pursue opportunities in those 12 clusters.

Baroness Walmsley: Did you choose those clusters or did they?

Louis Taylor: We chose them jointly.

Baroness Walmsley: Building on what you just said to Lord Berkeley, what about referring companies to private investors or procurement opportunities, or even to the Intellectual Property Office?

Louis Taylor: We are on the board of some of our companies or are a board observer, so there is the opportunity to have much closer interaction on the day-to-day business that they do. Most of the intervention from the bank is through delivery partners, so the fund managers to whom we are seeding are primarily focused on that. We are seen as a really valuable investor on companies' capitalisation table for our ability to bring opportunities. At the same time, government

procurement is a different undertaking; we cannot change those processes.

- Q209 **Lord Ranger of Northwood:** I will just declare that I am an angel investor, and I have a microscopic investment in a fund in which the British Business Bank has invested as well. I just want to dig into the Innovate UK relationship; it sounds like that is improving, but how smooth is the handover and relationship between you? It seems that it could be quite symbiotic in terms of where they bring the business to and where you look to invest.

Louis Taylor: You are correctly picking up that there is an improving relationship with the organisation. There is a new executive chair at Innovate UK, whom I met briefly yesterday. We are having dinner in two weeks' time. With his predecessors, both his permanent and interim predecessors, we signed an MoU with Innovate to make sure that we improved relationships and to give our colleagues, particularly those at the front line, an understanding of what behaviour we want to see between one organisation and the other. So I am confident that this is improving, but there is a way to go.

From talking to Tom Adeyoola, the new executive chair of Innovate, we are very much eye to eye. The way I described it to him is the same way that I described it to Lord Vallance, and I described that pipeline of tech diligence opportunities to you. There is broad agreement around exactly that. Apart from anything else, it would all help to make venture a more accessible asset class for investors, if there is a pool of opportunities. One of the complaints from investors is that it is difficult to find the prince or princess in among the frogs. What about having a bigger pool? The cost of due diligence is the way I would put it.

- Q210 **Baroness Neville-Jones:** You said earlier that, in a free market, there is an issue about the extent to which a public sector organisation should be active. I hope I have not traduced what you said, but that is what I understood you to be saying; there was a question about the nature and size of the role.

Louis Taylor: I am pointing out the size of the role.

Baroness Neville-Jones: The question that I therefore want to ask you is that some people have argued for the British Business Bank to be given more powers—to take a lead or set the price. That would be quite a big step in market-making activity. What is your view on that? If you do not agree, are there are other things that the BBB could nevertheless do?

Louis Taylor: Our direct investment business is relatively new, from the last four years or so, so we did not feel that we should be leading rounds straight off. However, we are at a point where, in certain sectors, we feel that we have the expertise, the track record and a portfolio of companies that give us a lot of insight. That means that, going forward, we probably should be open to leading rounds and pricing those rounds. I think you

will see us start to do that a bit more. This is all part of the evolution of the capabilities of the bank, as I said.

Baroness Neville-Jones: Can you do that on your present legal base?

Louis Taylor: There is no legal bar to us doing it. Particularly with this new industrial strategy growth capital, there are fewer restrictions around other than on the eight sectors.

Baroness Neville-Jones: What do you see that road leading to? Would it lead to bigger deals or a wider spectrum of activity? Where would it give you a comparative advantage?

Louis Taylor: It is the award of the money in combination with making the rest of our capital permanent, fungible and more flexible. Going forward, the organisation as a whole will be more able to respond to the market. Our previous programmatic nature meant that we excluded a lot of deals because we could not fit them into the criteria, and we were quite an exclusive organisation. This just allows us to be more inclusive: if it is a good piece of business, we will figure out a way to get it done. Whether it is a good bit of business is the fundamental question. If it is, how do we best get it done?

Baroness Neville-Jones: Is size an issue? One of the things you hear about the UK is that we do good things, but they are all bit too small and they do not really support the upscaling market. Is that where you are heading?

Louis Taylor: We regularly publish research that consistently shows that UK companies raise about half of what their US equivalent companies raise for every round of fundraising. So we think that there is an ability to offer better capitalisation to our companies, which allows for some expansion. If UK institutions woke up and were interested in investing, we think that there would be scope for them to invest now—at least to an extent—without causing valuations to spike and returns to fall, which would be a self-defeating undertaking.

Nobody should be in any doubt about the gradual nature of this. It is a long-term undertaking, but we have to start somewhere. Too much money would be damaging—whether or not it is more damaging—just as not enough money is damaging. We think that the bank will write bigger cheques sometimes. Actively managing third-party money allows us to write a cheque on the bank's account but to bring some third-party money along as well. On Lord Mair's point, that third-party money carries a fiduciary duty to generate returns, and some of our own money that we are managing for the Government may have a policy outcome that we are seeking to drive with the money, but we can manage that because the programmes in which we are investing are largely commercial.

Baroness Neville-Jones: If the route that you have been sketching develops, will it also kick-start other investors that are still inactive? What about the debt market and the banks? Will it also lead to other forms of

finance?

Louis Taylor: We hope that it will kick-start other investors. The mandate that we have for the industrial strategy money is to try to crowd in private money 3:1. Actually, over its 10-year history, the bank has managed better than 4:1. I cannot guarantee that we will be able to put all this money in, as the market risk appetite goes up and down. The bank's risk appetite and its advantage in the market is that we have a consistent risk appetite through the cycle.

We have a different range of interventions on bank financing and debt financing, and we have been quite successful in helping the challenger banks to grow their business to the point where, for the last four years of our *Small Business Finance Markets* reports—we put it out every year—the challenger banks have given the majority of SME lending relative to the big five high street banks. The growth of sources of debt finance for small business has been a feature **of the UK market**. I would say that at the moment, certainly there is more equitable distribution of debt finance around the UK relative to GDP than for equity. Debt is available around the UK.

Baroness Neville-Jones: Is that because it is available from high street banks?

Louis Taylor: The challenger banks as well, because they are around the country. There are branch networks, and a lot of lending happens online as well, in a way that equity investment does not; equity investment is very concentrated in London. We have done quite a decent job in helping to get debt to companies. I would say that at the moment—I refer to the same report that I referred to before—demand for credit is pretty much in balance with supply, albeit in a market where investment ambition is a bit suppressed. Were there to be a more buoyant economy and greater demand for borrowing, I do not know whether the banks would step up.

Q211 **Lord Drayson:** Before asking my questions, I declare my interest as an investor and director of UK technology companies, including Locai Labs and Freevolt Technologies. Mr Taylor, you said earlier that we are seeing a picture of the UK losing companies just as they get to the point when they are making serious economic impact. It is very positive to see that the British Growth Partnership is focusing on the series C direct investments. You said that you had the ability to invest 25% in a £200 million round, with a maximum £50 million investment. Where, typically, would you see that other £150 million coming from? Would it be from UK or foreign investors?

Louis Taylor: I would hope that it would be a combination. What is important is that there is a counterbalance of UK capital relative to overseas capital, particularly US venture funds. With the UK economy, at so many levels openness is the key to its future success, whether it is openness to academics coming to our universities to maintain their quality, right through to our capital markets being open as well. But it is

important that we have domestic participation in those markets to a greater proportion than we do at the moment.

Lord Drayson: So what tools do you see that you have and will deploy to ensure that these companies are sticking to the UK in a way they have not in the past? For example, are you considering using golden shares as have been used in other companies such as Rolls-Royce, British Aerospace and Airbus? I declare an interest as a former non-executive director of Airbus. Why not use golden shares now?

Louis Taylor: The things that restrict a company's ability going forward to take its own strategic course tend to be a turn-off for other investors. The round at which we might invest and put in place a golden share may not be the last round of financing that a company needs and may discourage others from coming into subsequent rounds of financing. We still believe that the underlying commercial attraction of the transactions should be the thing that is attracting investors in.

As I said, I think we have changed the question in investment managers' minds about investing in the UK, and how best to invest in the UK. Our view is that, if we get investors into series C, they will see the good companies and see the opportunity to write a bigger cheque to a company that they have already lived with for a period; they have seen the development and can decide whether they want to put money in.

Lord Drayson: But that has not been the experience over the past 10 years.

Louis Taylor: But they have not been investing in the series C companies.

Lord Drayson: But where we have seen UK companies get to series C and beyond, we have still seen this worrying trend of them going offshore UK. For example, we are waiting to see where Revolut will list. Can you speak to how you see the difference between investment, ownership and control in those companies? We have had evidence from other countries that take a much more robust approach to ownership and control when they see that it is in the national interest. For example, in France they have been very successful in the past 10 years in building "le French tech" through having a very clear idea of their national interest in ensuring that French tech companies—which are supported in part by the French state through the initiatives that it has taken—stay in France. What are you going to do to make sure that these companies stay and grow here?

Louis Taylor: I will come to that just in a second. Can I just give you an example for your previous question of Pragmatic Semiconductor? It is a UK company, and it came out of Cambridge with technology to make semiconductors on a flexible polymer substrate rather than silicon—so it is a fraction of the cost. It wanted to raise £180 million to put a fab plant in Durham, and they did that. We had been in several of the much earlier rounds, but we could put only £5 million in ourselves—but both M&G, a

UK institution, and the National Wealth Fund were able to write cheques of £40 million and £60 million respectively. Our view is that the money that we have just got through the spending review to write £50 million or £60 million cheques will allow us sensibly to do what the National Wealth Fund did there. We have already invested at three stages in this company and we know the company; writing a bigger cheque is an easier thing to do than to cause an institution to set up a new capability to do that. So £100 million out of that £180 million is UK capital—therefore there are institutions out there that are thinking about this, and we hope that there will be more. That is the endeavour that we are undertaking.

I come back to your point about the difference between investment, ownership and control. The Government have taken a view around AI, for example, which is perhaps more akin to how you describe the French experience. There is sovereign AI and Matt Clifford's report, with the 50 recommendations to the Prime Minister, which were all adopted. We will be collaborating with the sovereign AI function in government to find investments to create effectively utilities for the AI industry all to cluster around and to be able to develop their businesses. There is a willingness to look at that as part of the industrial strategy. I am not sure yet whether we will do it in the ways that you are describing. I do not think that we have an explicit mandate from government to do that.

Baroness Walmsley: What you have just said about the depressive effect of the golden share idea indicates a rather worrying attitude to confidence in the UK economy. Is that the case, and what can we do about it?

Louis Taylor: I do not think, with respect, that it is a lack of confidence in the UK economy—it is just whether you are investing in a company that is going to act in the interests of all the shareholders if there is one that has the ability to veto things that may be in the interests of the other shareholders. That is the issue.

Q212 **Baroness Northover:** This is about skilled investors in science and technology companies. You have addressed that to some extent already. It is often pointed out that in the United States you have all the investors clustered in Silicon Valley and Boston, for example, looking at what is coming through and often ready to invest at the drop of a hat, from what we have been hearing. Yet in the United Kingdom there seem to be problems in having that skill.

You have talked, of course, about the closer relationship with Innovate UK, which would help to inform those investors, which is obviously extremely important, but I wonder what else you might be doing to attract and develop some of those skilled investors so that the potential of the new science and technology companies can be properly assessed.

Louis Taylor: I am afraid, as with other questions, there are many facets to this issue. At the early stage, we find angel investors disproportionately powerful in this space. The bank over-indexes on university spinouts. We were involved in the 2022-24 period to the extent

that 24% of our investment was in university spinouts; 17% of our portfolio during that time was university spinouts, rolled into 10% for the broader market. Yet out of those deals, the biggest proportion came from the regional angels programmes—angel syndicates investing in university spinout businesses at an early stage. Those angels are disproportionately powerful because they not only bring money but have largely been entrepreneurs themselves and can bring expertise and networks, which can be incredibly powerful in helping to accelerate companies' development. So we are putting more money behind regional angels' syndicates, trying to professionalise them and bring more people into those syndicates as well, particularly female investors, who are more likely to back female founders, where the underinvestment in female founders is well documented and, frankly, outrageous. At the early stage, we are doing that.

We see a role for US VC houses, which are strong, powerful innovation investors, to bring their expertise to the UK. But when they come, they need a team which can access local opportunities and hit the ground running. If there is an opportunity for us to pitch to US investors, "You can come over to the UK. We'll cornerstone a fund, but you will be able to raise a fund from UK pension money in an innovation economy that is, proportionate to GDP, pretty much as good as the US, or as close as anybody else gets to the US", that ought to be an attractive prospect for them.

Baroness Northover: Are you able to bring in expertise into the bank itself?

Louis Taylor: We are able to do so but it is not easy. We need people who want to do more than just look at the financial rewards they are going to get. But there are plenty of other things that they can get their teeth into. Because of the size we have reached and the scale we are, pretty much anybody who sets up a fund in the UK will come to us. We have the best book of work in the business. People can join at an early stage. We will accelerate their capabilities as financial executives, they will become rounded and broad financial professionals, and they will work on some of the best deals. If they end up going into the private market, well, we are a national economic development bank. Part of our function is to provide the market with talent, and they will leave us with experience of venture, hopefully evangelism about venture, and will want to stay in venture in the private market and help to grow the private market ecosystem with expertise.

Q213 **Lord Drayson:** Mr Taylor, I am a bit concerned to hear your enthusiasm for bringing US investors, venture investors, into the UK because we have seen that a number of those have been successful in coming into the UK and then managing their investments to go to the US—so much so that you will have heard of the Delaware flip that is taking place. Have you considered trying to recruit UK nationals who are currently in Silicon Valley to come back to the UK with their expertise, rather than their whole fund, in the current context of what is going on in the United

States?

Louis Taylor: There is lots in there. The first thing is that in seeking to attract US investors, we are looking to bring their expertise, with the understanding that they will be raising local capital rather than US capital, which we hope would mitigate the desire to flip those companies over into the US. So the counterbalance of UK capital may be a differentiator here to what you are saying. The second thing is that we back first-time fund managers. We have an extremely successful programme, which we are going to double, to make sure that first-time fund managers, who have a lot of experience in setting up their own fund for the first time, are often focused on particularly innovative subsectors and early-stage companies as well. Making sure that we have a supply of them coming through is important.

To your point about encouraging people back from Silicon Valley, if there is that opportunity to get a really big cornerstone investment from the bank, which is a subsidised programme to an extent or is regarded as such, we catch up on the subsidy at a later stage after a hurdle. But having a cornerstone with a suppressed early return, making the return to private investors coming in enhanced and, for a period, de-risking it, could be quite attractive. As regards the political situation, I am probably not going to go into that too much but, as I said previously, the UK as an innovation ecosystem is as close to the US as you are going to get.

Lord Drayson: It certainly is.

Q214 **Baroness Neuberger:** Thank you for what you said about female entrepreneurs and funding, because that is a big deal. The scale-up problem has been known for at least a decade. We are doing a huge amount now to try and fix it, of which you at the British Business Bank are a part. Do you think it is going to be enough to fix it, and how do you see this progressing in the next few years?

Louis Taylor: The important thing, as I said earlier on, is that this is a long-term undertaking. We have to start somewhere. It is a snowball effect. If good opportunities get financed in the UK, more opportunities will come to the UK to get financed. We want to encourage UK pension funds to come into this part of the market but we do not want a tidal wave suddenly, because that would be damaging. It needs ambitious but steady progress. We are kickstarting this. If more pension funds have this question in their minds, "How do I best invest in the UK?", that is a really good way to get there.

In terms of ambition, the growth partnership is our big initiative here. Aegon, one of the institutions that has announced that it is working with us, said that it would put the investment into its biggest workplace DC default scheme. We want every workplace DC default scheme to have between 1% and 2% allocation to UK venture. That is our undertaking here. Having Aegon lay down that challenge to the industry is quite helpful, really.

Baroness Neuberger: That is brilliant. So 10 years from now, how will we judge that we have got it right, or be at least sufficiently on the right track that we have made a difference?

Louis Taylor: We will track the number of scale-ups that have been financed here. There are a range of measures that we can track.

The Chair: Mr Taylor, thank you. Despite the great heat in this room, you have remained cool under the many questions. Thank you for coming to give evidence. We very much appreciate it.

Louis Taylor: Thank you.

The Chair: We are now going to pause this session before we bring on the next witnesses.