## How can we build a fit for purpose patient capital industry?

**Dermot Campbell, CEO of Kuber Ventures, responds to the most recent Treasury consultation on supporting innovative businesses.**

The Treasury consultation, Financing Growth in Innovative Firms - known more commonly as the Patient Capital Review - has now been published, and Chancellor Philip Hammond has urged "everyone with an interest… to respond".

The backdrop to the review is the gap between Britain's record in creating a fertile environment for start-up businesses and its performance helping those companies that are ready to take the next step and, it is hoped, become substantial commercial or industrial operations.

Put simply, Britain puts a huge amount of effort into helping start-up businesses, with the result that this is an area in which the country possesses a global leading edge. High-net-worth individuals (HNWIs) and other private investors have been encouraged into start-ups by generous tax breaks.

However, when it comes to scaling up companies the record is cloudier and was not helped by legislation in 2015 that restricted tax-efficient investment under the Enterprise Investment Scheme (EIS) to companies that were no more than seven years old.

This created real difficulties for companies that needed to scale up and they will be hampered in their growth ambitions, unlike their peers in better funded countries that often proceed to become world-beating powerhouses. We could point to the UK's failure to create a larger number of 'unicorns' (whose valuation exceeds $1bn), as evidence of this policy's limiting effect.

## Treasury dismisses Woodford-backed patient capital ISA

The current regime is ideally suited to "lifestyle businesses". These are businesses that fit in with the entrepreneur who founded them and trundle along with no huge growth expectations, supplying the revenue needed to sustain the founder's lifestyle.

Such enterprises have their place in any economy but scale-up businesses have a central economic role. Investment in such businesses generates real growth and substantial wealth creation, and the UK is currently doing too little of it. The result is a business-finance system with something of a hole in the middle. Start-up investors are reasonably well catered for, as are investors in large companies, who can buy and sell their shares on a well-developed and liquid secondary market. What is missing is a primary market in which new investors back businesses that are ready to scale up

Hence the review, which aims to usher in an age of what may be called "patient capitalism", in which investors with a long view help scale-up firms to grow into world-leading businesses. In this, the Treasury is motivated by the knowledge that fixing the scale-up investment problem could produce a long-term, dramatic change in the economy.

In particular, the successful scaling-up of businesses is seen as key to improving Britain's suboptimal productivity performance, with output per hour standing on average 18 percentage points behind that of the other members of the Group of Seven leading advanced economies. As the consultation states, firms that successfully scale up "increase productivity by introducing new ideas into markets".


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## What is to be done?

One suggestion in the consultation was a new National Investment Fund, which would seek to "crowd in" outside investment through a public-private partnership. My view is investor reluctance to participate in a vehicle without a successful track record will make it more sensible to set up such a fund as a subsidiary of the government's British Business Bank.

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