

Rt Hon Jeremy Hunt MP

Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

13 October 2023

Dear Chancellor,

Re: Autumn Statement 2023

Margaret Thatcher was instrumental in the birth of UK biotech. Recognising that the US was stealing a march in this exciting new area of science, she created Celltech¹, a government-backed company tasked with ensuring our world-leading academic life sciences expertise and capabilities would be commercialised and the UK would capture the economic and health benefits for generations to come.

As the Prime Minister noted in his speech at Conference, we now have a thriving innovative life sciences and biotech sector that is the largest in Europe. We are attracting expert American venture capitalists to invest in our companies because they realise the science is as good if not better than what they can find at home. Equity investment in the sector rose from £286 million in 2012 to £4.5 billion in 2021, before the illegal invasion of Ukraine hit financial markets resulting in a severe fall in investment.

Your Mansion House Reforms promise to unlock significant new UK-based capital, crucially helping to ensure our start-ups and scale-ups do not get pulled across the Atlantic and lost to our ecosystem forever. We are now at an inflection point where UK born and scaled companies such as Immunocore and Autolus are receiving regulatory approval and manufacturing their next-generation cell and gene therapies here in the UK to export around the world. A virtuous circle is forming and your action means pension savers stand to benefit, as do NHS patients.

The science has also progressed since Thatcher's day, with artificial intelligence and engineering biology transforming what's possible. The government has clearly recognised their importance. A new government-backed company like Celltech is not needed to capture the benefits for the UK anymore, but government still has a key role in creating the right environment for innovative companies to start, scale and stay here, especially as it is no longer just the US that is stealing a march, but China and many others too.

I hope the following are helpful indicators of what you could deliver in the Autumn Statement to create the right environment for innovative companies.

¹ Geoffrey Owen and Michael M. Hopkins. *Science, the State and the City* (Oxford University Press, 2016)

A competitive tax relief regime for R&D intensive SMEs

Your quick and decisive response to our concerns about the cuts to SME R&D tax reliefs at Autumn Statement 2022, announcing an enhanced rate for R&D-intensive SMEs at Spring Budget 2023, was vital to prevent innovative SMEs from being severely handicapped by well-intentioned efforts to cut the fraud perpetrated by other sectors.

We are grateful, but we must acknowledge that the enhanced rate of 27p for every £1 invested in R&D is lower than the 33p enjoyed pre-April 2023, and not as competitive as Australia (45p) or France (30p), which are seeking to attract our companies to their shores. We are also very concerned that SMEs are facing uncertainty on how the 40% R&D intensity threshold and overseas expenditure restrictions will be applied because there is no guidance available yet. This is impacting investment and hiring decisions now.

Your reforms to the R&D tax relief regime will ensure the support is targeted to highly innovative and R&D-intensive businesses that are building the industries of the future, such as life sciences, biotech, AI and engineering biology. I appreciate the fiscal headroom is a challenge but with the savings generated by the cut for normal SMEs, I urge you to reinstate the original relief rate of 33p for R&D intensive SMEs.

Ensuring the Mansion House Reforms are a success

We are committed to working with you, Sir Jon Symonds and all others, including the government's Life Sciences Investment Envoy, Dr Dan Mahony, who is also our Chairman, to ensure the Mansion House Compact and reforms are a success.

As a key interlocutor between government, investors and the life sciences industry, we can provide a unique role and perspective. To this end, we and Dan, working with the Government's Office for Life Sciences, are holding a series of events to bring together life science venture firms to ensure they are all ready and equipped to productively engage fully with the pensions industry.

We are lucky to have a few high quality and expert life science investment funds in the UK, but we need to grow them and their number with more financial and human resources. The pension funds will hopefully provide the former, but we believe a small, targeted intervention to nurture the next generation of investors is needed to address the latter. A fellowship programme to prepare mid-level life science VCs to establish their own funds would be highly impactful.

As we build the financial and human infrastructure to deliver the Mansion House Compact, we must keep the pipeline of innovative life sciences and deep tech companies healthy. A competitive R&D tax relief is needed, as is the equity investment delivered to scale-ups by British Patient Capital's Future Fund: Breakthrough programme. It has committed £111m to nine Life Sciences companies and seven Deeptech companies and leveraged £724m in private capital. However, it is now depleted and Future Fund: Breakthrough now needs refilling to keep the pipeline of innovative companies healthy.

I eagerly await the outcome of the LIFTS competition and other news of progress of the other elements of the Mansion House Reforms at the Autumn Statement. We know there has been great engagement with these initiatives and high-quality applications to LIFTS, which merit ambitious investment and support from government. Should this be beyond the £250 million originally envisaged, I hope you will give them your full backing to ensure the winning bids include life science investors that our sector can champion.

I would be very happy to meet with you and/or your officials in the coming weeks to discuss these ideas further, and BIA stands ready to assist the Government in any way it can.

Yours sincerely,



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CC: Rt Hon Michelle Donelan MP, Secretary of State for Science, Innovation and Technology
Rt Hon Kemi Badenoch MP, Secretary of State for Business and Trade
George Freeman MP, Minister for Science, Research and Innovation
Kevin Hollinrake MP, Minister for Enterprise, Markets and Small Business
Rosalind Campion, Director, Office for Life Sciences