

Financing growth in innovative firms
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By email

amrc
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Dear Sir/Madam,

Association of Medical Research Charities - Financing growth in innovative firms consultation response

The Association of Medical Research Charities (AMRC) is a membership organisation of the leading medical and health charities funding research in the UK. We represent 140 medical research charities including the Wellcome Trust, Cancer Research UK and the British Heart Foundation.

In 2016, AMRC's members:

- invested over **£1.6 billion of research funding in the UK** - more than either the Medical Research Council or National Institute for Health Research;
- made **capital investments of £86 million** in the UK;
- contributed to the knowledge economy by funding the **salaries of over 17,000 researchers** in the UK;
- funded around a **third of non-commercial research in the NHS**; and
- recruited **170,000 patients** into charity funded trials.

The medical research sector has a crucial role to play in supporting the country's health and economic prosperity. Charity investment in R&D has a significant impact on the UK economy. Every £1 of public or charity investment in medical research generates monetised health benefits of 7-10p each year, forever, as well as 15-18p of additional benefits in the wider economy.¹

Medical research charities exist because the public choose to donate their money to support research to develop new treatments and cures. In 2016 over 8 million people donated to medical research in the UK.²

Sir John Bell's recent report (published after the launch of this consultation) to the Government about the future industrial strategy for the life sciences sector recognises that charities have much to offer and should be engaged in the leadership of the sector.³ AMRC sees critical synergies between the objectives of this consultation and Sir John's recommendations.

¹RAND Europe, Health Economics Research Group at Brunel University and King's College London (2014) Medical Research: What's it worth? Estimating the economic benefits of cancer-related research in the UK. Commissioned by: Academy of Medical Sciences, Cancer Research UK, the Department of Health and the Wellcome Trust
http://www.wellcome.ac.uk/stellent/groups/corporatesite/@policy_communications/documents/we_b_document/wtp056595.pdf

²<https://www.cafonline.org/about-us/publications/2017-publications/uk-giving-report-2017>

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640696/life-sciences-industrial-strategy.pdf

In response to the Treasury's consultation on financing growth in innovative firms, we set out our thoughts on the role and potential of the medical research charity sector as investors in UK companies.

We welcome recognition within the consultation that charities are starting to invest in companies as a means to further their charitable goals. A number of AMRC's members, as detailed in the consultation, are pursuing direct investment in companies to achieve maximum impact for patients from their investment. As the consultation identifies, this is a new and emerging area of investment in areas with high social returns where other investors may lack the risk appetite to invest.

There is greater legal certainty about the ability of charities to make social investments. In his review of the Charities Act 2006, Lord Hodgson recommended that a power for charities to make social investments be confirmed in statute⁴ The Government asked the Law Commission to review this recommendation and the Law Commission considered the law relating to social investment by charities in a consultation paper published in April 2014. The consultation led to the publication of a paper in September 2014 which recommended the introduction of a specific social investment power. The Law Commission concluded that charities were likely to already have the power to make social investments by using a combination of their existing powers to spend money for their charitable purposes and the power to invest charitable assets for financial return. But, uncertainty about the extent of those powers in relation to social investment suggested it was sensible to introduce a statutory power to provide certainty. The social investment power was included in section 15 of Charities (Protection and Social Investment) Act 2016 and came into force in July 2016.⁵ The intention of the Government when introducing the power was described by Lord Bridges:

"The power ... is a permissive one which is intended to encourage trustees who can see the potential of social investment but have lacked the confidence to take it further. By providing a framework in law, the power of social investment will give confidence to charity trustees to add social investment to their existing armoury."

The nature of the medical research charity sector is changing. We see a trend within our membership towards charities that are more ambitious, more focused, and more networked than in the past, embracing disruptive change and driven by an overall patient centric approach aimed at delivering meaningful patient benefits. To this end, charities are looking at new ways of funding research, we call this 'Passion Capital'.

Passion Capital describes a shift in funding behaviour away from the traditional response mode funding of research towards one that uses the methods and rewards of financial investing to support innovative research. It brings together the passion of a charity looking to support vital research that will change lives, with the due diligence and active management of an investment approach. Charities that use the Passion Capital approach fund research in universities, spin outs and companies, often via developing partnerships of funders, researchers and companies. We see Passion Capital as 'charities being effective and equal partners in the commercialisation of research'.⁶

In adopting passion capital approaches, research charities want success on behalf of their patients and often invest with the aim to achieve transformative 'moonshot' goals. In doing so charities are often willing to take risks that other funders or partners may not.

⁴https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/79275/Charities-Act-Review-2006-report-Hodgson.pdf

⁵<http://www.legislation.gov.uk/ukpga/2016/4/contents/enacted>

⁶<http://www.amrc.org.uk/our-work/working-with-others/working-with-industry/passion-capital>

It is vital that new interventions made available by Government in order to boost growth of innovative firms seek to harness the untapped potential in the charity sector. There is significant investment potential within the sector which, if leveraged effectively, could enable charities to be key contributors towards addressing the UK's current imbalance in available capital.

There is an opportunity for Treasury to introduce policies that enable charities, or their donors, to act as direct investors. An example is providing greater quantum of tax relief for charitable donations/investments (i.e. raise the tax deductible threshold amount allowed for charitable donations). Alternatively, a change to the Enterprise Investment Scheme (EIS) and Social Investment Tax Relief (SITR) rules could allow for charity donors to receive EIS equivalent benefits if investing in charity sponsored entity or project. This change is also achieved by expanding rules governing SITR.

The report also highlights the challenges faced by pension funds, which are also faced by charities - bringing enough money together to make a difference, bringing trustees on board, finding experienced fund managers who can help make the right kind of investment. We suggest that Treasury seeks to develop tools and information that will support all potential funders, rather than just focusing on pension funds.

However, charities should not just be viewed as a source of direct capital. Charities have the potential to assist leveraging different sources of capital into larger, more impactful funding over the long term. For example, the investment of Alzheimer's Research UK (ARUK) in the Dementia Discovery Fund helped the fund achieve, together with funding from Government and industry, on launch a minimum critical size and brought to bear the research experience and scientific expertise from within ARUK as well as of other funders. The proposed Dementia Research Institute offers the potential for ARUK and the Alzheimer's Society to leverage through their own charitable fundraising activities public funding from the Medical Research Council (MRC), with the aim of achieving a much greater funding size and overall impact.

The consultation defines patient capital as "long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses". We suggest that patient capital should be defined as "long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses and achieve highly beneficial outcomes for society".

AMRC stands ready to help medical research charities to play their part both in taking forward the objectives of this consultation and Sir John Bell's proposals, aligned with their charitable purposes.

Should you have any questions or comments, please do not hesitate to contact my colleague Dr Cat Ball at c.ball@amrc.org.uk.

Yours faithfully,



Aisling Burnand MBE
Chief Executive
Association of Medical Research Charities