

## Innovate UK's Integration with Research UK

### Russell Group response to the BIS consultation

#### Summary

- We welcome the Government's stated intention to "strengthen collaboration" between Innovate UK and the research base. There is potential for Innovate UK to work more closely with world-class universities to tap into existing centres of excellence and maximise the impact of Innovate UK's investment. Closer relationships with the Research Councils could unlock additional synergies between Innovate UK and Research Council funding streams.
- However, we are not convinced Innovate UK needs to be merged into Research UK to achieve this closer working relationship with either the Research Councils or universities.
- If Innovate UK is merged into Research UK then it should retain a completely separate budget within Research UK and must not be integrated without its concomitant funding. The way in which Innovate UK is governed and its accountability is structured will also need careful consideration under the new proposed model.
- The conversion of grants to loans could introduce additional risks for universities in participating in collaborative projects and could make it harder to attract matched funding from businesses. Other financial instruments being considered for Innovate UK, including taking equity stakes in the outcome of projects, will almost certainly add further complications for how Innovate UK is managed, whether businesses and universities will be willing to engage and whether Innovate UK will be able to deliver truly innovative technologies in future.
- In the context of a flat-cash settlement for Innovate UK we would not wish to see a reduction in funding available for collaborative programmes with universities as such programmes deliver a high return on investment and bring radical ideas from basic research through to market.

#### 1. Context

- 1.1 We welcome the opportunity to provide evidence on the impact of integrating Innovate UK within a new overarching body, Research UK. Innovate UK has close links with universities and runs a number of funding streams which involve academic partners. Russell Group universities in particular are major partners in Innovate UK programmes and projects, participating in a range of initiatives to provide businesses with access to finance, knowledge, equipment and skills. Our universities help to underpin Innovate UK's success in accelerating research and technology closer to the marketplace. It is therefore important the impact on universities of any restructuring of the innovation funding landscape is sufficiently considered.
- 1.2 In the context of the proposal to integrate Innovate UK with Research UK, other changes are also being made to the way in which Innovate UK operates including converting a proportion of their funding from grants into other financial instruments such as loans and equity stakes by 2019-20. This could have significant implications for the way in which Innovate UK's

programmes are run and for the success of these programmes in driving innovation and collaboration between universities and businesses.

- 1.3 Our response to this consultation therefore outlines our views on both the announcement to integrate Innovate UK with Research UK and the changes announced to Innovate UK's funding systems in the Comprehensive Spending Review settlement.

## 2. The impact of integrating Innovate UK with Research UK

### Opportunities

- 2.1 We welcome the Government's stated intention to "strengthen collaboration" between Innovate UK and the research base. Innovate UK has now become established as a key part of the UK's innovation landscape and its activities complement research and innovation activity funded through the Research and Funding Councils and elsewhere in Government.
- 2.2 We welcome the fact that Innovate UK's funding commitments with universities are starting to increase and we also welcome the emphasis in Innovate UK's five-point plan to work more closely with the research community and across Government to help turn scientific excellence into economic impact.<sup>1</sup>
- 2.3 There are clear opportunities for Innovate UK to work more closely with the UK's leading universities to tap into existing centres of excellence, avoid duplication, and maximise the impact of public investment. For example, some of the most recent Catapults being established appear much less well linked in with universities, and their overall model for engaging with excellence in the research base is unclear. We are concerned that the value of Catapults will be undermined if engagement with the research base and academic networks within the UK's world-leading universities is not at the core of their remit.<sup>2</sup>
- 2.4 Evidence suggests that where academic partners are involved, the return on investment in Innovate UK projects more than doubles.<sup>3</sup> Furthermore, the High-Value Manufacturing (HVM) Catapult, which was developed principally out of existing academic centres of excellence in proximity to industrial critical mass, has been very successful, having exceeded its target for private sector support (with a 48% contribution from industry), worked with over 1,500 businesses since its inception, and delivered £15 of net benefits to the UK economy for every £1 of Government core funding.
- 2.5 This suggests that **more extensive linkages with key universities across Innovate UK programmes could help to bring ideas from basic research through to market ahead of our competitors, and drive up the return on investment which Innovate UK funding achieves.**
- 2.6 Innovate UK should continue its work to build closer links with Research Councils, HEFCE and others to ensure that priorities and funding streams are complementary, helping to

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<sup>1</sup> Innovate UK 5-point plan (July 2015):

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/451645/5-point\\_plan\\_July\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/451645/5-point_plan_July_2015.pdf)

<sup>2</sup> See Russell Group response to the Hauser Review of Catapult Centres for more details:

<http://www.russellgroup.ac.uk/media/5097/50-russell-group-submission-to-hauser-review-of-the-catapult-centres.pdf>

<sup>3</sup> For example, Collaborative R&D projects with two or more academic partners deliver £9.67 per £1 invested.

bridge the gap from fundamental research through to proof of concept and commercialisation. **Closer relationships with the Research Councils could unlock additional synergies between Innovate UK and Research Council funding streams.**

- 2.7 **However, we are not convinced Innovate UK needs to be merged into Research UK to achieve this closer working relationship with either the Research Councils or universities.** Indeed, keeping the two separate could ensure the roles of Research UK and Innovate UK remain clear and that both are able to focus on the critical challenges and priorities in their own areas of expertise while working with each other on areas of overlap. For example, Innovate UK could accelerate its work with the Research Councils to explore areas where projects in receipt of Research Council funding for innovation (such as through Impact Acceleration Accounts) can receive follow-on funding from Innovate UK later down the line.

### Risks and challenges

- 2.8 Whilst the integration of Innovate UK with Research UK presents a number of opportunities to maximise further the impact of the investments which are being made, there are also a number of significant risks and challenges which should not be overlooked. We urge the Government to consider these risks carefully so as to protect the vitality, autonomy and comparative strengths of the current UK research and innovation funding system.
- 2.9 Crucially, if Innovate UK were to be merged into Research UK, there would need to be a **complete and permanent separation between Innovate UK's budget and ring-fenced funds for science and research through the Research Councils.** In addition, should responsibility for QR funding also be placed with Research UK, the separation of budgets for Innovate UK, Research Councils and QR would become even more critical. In our response to the Green Paper, we recommend the implementation of measures to protect the principle of dual support.<sup>4</sup> We therefore welcome Government's stated intention that Innovate UK should retain "a separate budget": this should be an immutable principle of any new structure.
- 2.10 Furthermore, **we would not wish to see Innovate UK integrated into Research UK without its concomitant funding also transferring into Research UK.** It would be counterproductive to fund Innovate UK at the expense of investment in basic research, without which the development of new technologies and products from excellent research would not be possible.
- 2.11 **The way in which Innovate UK is governed and its accountability is structured will also need careful consideration under the new proposed model.** We note RCUK expressed reservations in its green paper response that: "The nature and scope of the new body Research UK would be changed significantly by the addition of either or both [HEFCE's research functions and Innovate UK]."
- 2.12 The Government's stated intention in the CSR is that Innovate UK "retain its clear business focus" and, given the primary remit of the Research Councils to fund basic research, this implies the need for a distinctive set of expertise and experience in the executive team of a new umbrella body.

### 3. Other changes to Innovate UK funding streams

- 3.1 Alongside the intention to integrate Innovate UK with Research UK, the CSR announced Innovate UK's budget will be protected on a flat-cash basis and that a proportion of Innovate

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<sup>4</sup> See: <http://www.russellgroup.ac.uk/media/5359/response-to-the-higher-education-green-paper.pdf>

UK's funding (£165 million) will be converted from grants into loans and other financial instruments by 2019-20.

- 3.2 There is currently no guarantee that funding streams universities access will not be affected by the move from grants to other financial instruments as we understand all options are being considered. The most significant funding streams for universities include: Catapult centres, Knowledge Transfer Partnerships (KTPs), Catalysts, Collaborative R&D and Innovation & Knowledge Centres. We therefore urge Innovate UK and BIS to consult closely with universities before making any changes to the nature and operation of funding streams they access.
- 3.3 The current grant system has worked well so far, and as outlined above, Innovate UK programmes involving universities have delivered a high return on investment by leveraging in significant private funding. In making decisions about the type of financial instruments which it may be appropriate to introduce and which funding streams they might apply to, a number of factors need careful consideration. In particular, it will be critical not to disincentivise investment in earlier stage R&D by introducing onerous terms and conditions on funding, as it can take years to develop research to the point of commercial potential.
- 3.4 **The conversion of grants to loans could introduce additional risks for universities in participating in collaborative projects and could make it harder to attract matched funding from businesses. This could have a knock-on effect on the success of collaborative projects and the ability of universities and businesses to work together to drive innovation and bring new products and services to market.** It is certainly not clear how projects could be supported by loans from Innovate UK unless the risk profile of projects is reduced accordingly – and the closer to commercial risk rates that this is taken, then the less likelihood there is of truly innovative technology being developed. It would not be appropriate, for example, to convert grants to fund proof of concept activities to loans or other financial instruments. Such a move would exacerbate the existing significant gaps in the UK's funding pipeline to take a research idea through to a final product or service.
- 3.5 **Other instruments being considered include Innovate UK taking equity stakes in the outcome of projects, which will almost certainly add further complications both for how Innovate UK is managed and whether businesses and universities will be willing to engage.** If Innovate UK is required to manage equity stakes then this would be a radical departure from the current business model, creating a quasi-private equity house. This would require a new set of skills in the management team and could also put Innovate UK into competition with existing PE businesses. Having Innovate UK as a potential third owner in technology developed between other business and university partners is also likely to diminish the attractiveness of engagement with Innovate UK – both at the outset and if/when further rounds of investment are required from external backers.
- 3.6 The flat-cash settlement along with an intention to protect, and potentially increase, funding for Catapults is likely to place increasing pressure on Innovate UK's budget over the period of the Spending Review settlement. In this context, **we would not wish to see a reduction in funding available for other collaborative programmes with universities;** particularly because such programmes deliver a high return and help to maximise Innovate UK's investment.