Clarifying remarks given to the Committee at Oral Evidence on 07 November 2017

I write with reference to your letter of 14 November 2017 to the Chancellor of the Exchequer stressing the importance of boosting funding for science and innovation in the forthcoming Budget.

Firstly, I wish to take this opportunity to express my gratitude to the Committee for a letter that underscores the importance of sustained investment in research and innovation to accelerate business growth, boost productivity and create high-skilled jobs – laying the foundations for sustainable, long-term economic growth across the regions of the UK – and to endorse the many recommendations the Committee makes to government on how these ambitions are best fulfilled.

Notwithstanding our support for the spirit of the letter and the key messages it seeks to relay to the government, I must draw your attention to paragraph 35 – in particular the statement that ‘Innovate UK highlighted how its offering of loans to businesses, rather than grants, has encouraged a meaningful commitment from industry because it had to put forward funding of its own’ – to inform you that I believe this to be a misinterpretation of the answer I gave to the Committee when giving evidence on 07 November 2017.

At the abovementioned evidence session, I commented that:

“to help companies get their products launched—because what they really want is customers, not grants—we are introducing our loans programme […] we are just about to start providing loans for businesses who are ready to start making their products, to help them get over that last phase that gets them customers and helps them grow […] We are using all the tools at our disposal to solve the problems that companies have at different stages of growth”

This statement had been intended to illustrate that Innovate UK continues to broaden and diversify the types of support it offers to businesses in order to ensure that funding support for business-led innovation remains customer-focused, and allows companies of different sizes to benefit from an approach which matches their specific needs to the types of support best placed to deliver on those objectives. Its purpose
was to demonstrate that Innovate UK’s primary concern lies in enabling companies to achieve their goal of scaling up and expanding their businesses, irrespective of the means used to achieve it.

To this extent, our innovation loans pilot is a direct response to the specific demand of small and medium sized enterprises engaged in later stage research and development – typically at a later development stage than what we would support through grants – with a clear and demonstrable route to commercial success, who are seeking to scale up their activities and can afford the interest and repayments.

I ask the Committee not to interpret my remarks in any way as a diminution of the effectiveness or importance of grant funding in growing business-led innovation. I could have been clearer by saying that grant funding is and will remain an absolutely vital component of delivering on the government’s commitment to spend the equivalent of 2.4% of GDP on research and development in the UK by 2027, and will continue to form the mainstay of Innovate UK’s support for businesses in the years to come; I would point the Committee to the example of the Industrial Strategy Challenge Fund, an increase in funding of £2 billion per year by 2020 to 2021 spearheaded by Innovate UK – and the largest single increase in total government R&D investment since records began in 1979 – to be delivered through grants, testament to our faith in its effectiveness.

To illustrate how effective our programme of grant funding has been, I would point to the fact that, since 2007, grant funding to the value of £2.2 billion in businesses right across the country has returned up to £16 billion to the economy, helping more than 8,000 organisations realise the potential of new technologies, and creating around 70,000 new jobs (8 for each company we have worked with), none of which would have been possible without the £1.5 billion in matching private sector funding, which our grants have been instrumental in enabling businesses of all sizes to leverage.

I trust this letter clarifies Innovate UK’s position on this subject, and consent to it being published.

I am sending copies of this letter to the Chancellor and the Secretary of State for Business, Energy and Industrial Strategy.

Yours sincerely

[Signature]

Dr Ruth McKernan CBE
Chief Executive

cc. The Rt Hon Philip Hammond MP
The Rt Hon Greg Clark MP