



30 June 2016

Dear Ministers,

The future of Innovate UK

As you know, the House of Lords Science and Technology Select Committee of which I am Chairman has recently conducted a short investigation into the future of Innovate UK. We have not been able in the time available to us to consider all the issues raised by witnesses and therefore this letter concentrates on the most important. The transcripts from our oral evidence sessions are available online, along with a number of written submissions made to us. I trust that you will read these carefully.¹

In the following three paragraphs we have summarised our main concerns about the substance of the proposals. This is followed by a section which sets out our concerns about the process the Government has followed to reach this point. The remainder of the letter pulls out the key pieces of evidence we have received which have led to the conclusions we have drawn.

Summary of findings

We have serious concerns about the integration of Innovate UK into UK Research and Innovation. With the exception of the Government itself, none of our witnesses gave an unqualified welcome to the proposals. We do not believe that the Government has consulted effectively with Innovate UK's stakeholders to achieve buy in for this proposal. The Government's case for integration appears to be based on a flawed linear model of innovation where Innovate UK functions as the commercialisation arm of the Research Councils.

The simultaneous commitment to using £165 million of Innovate UK's budget for new finance products, before first defining what form these products will take, has added to concerns amongst Innovate UK's stakeholders and uncertainty about the future effectiveness of the organisation. The Government should explore alternative ways to stretch the Innovate UK budget, such as the use of equity, which would require Innovate UK to exist as a separate organisation. We believe that there is good reason to retain Innovate UK as a fully independent organisation and to hold back on making commitments to new finance products until they have been thoroughly piloted.

The evidence we have received has raised serious concerns about the Government's plans to incorporate Innovate UK into UK Research and Innovation. We would urge you to think

¹ <http://www.parliament.uk/documents/lords-committees/science-technology/InnovateUK/InnovateUK.pdf>

again about the proposal as a whole, particularly as these changes would now be taking place amidst the additional uncertainty generated following the outcome of the EU referendum. If the Government nonetheless insists on moving forward with provisions to integrate Innovate UK into UK Research and Innovation in its Higher Education and Research Bill, additional measures must be introduced to protect Innovate UK's autonomy, funding and its business-facing focus. Innovate UK must retain its own accounting officer. These measures are essential in order to reassure Innovate UK's stakeholders that it is not turning away from the business community it so effectively serves.

Process

Before turning to the substance of the Government's proposals for the future of Innovate UK, I would like to make some comments on the process by which the proposals have been introduced.

Following the Nurse Review, the Government held a short consultation in February on Innovate UK's integration with Research UK.² Following this, the Government's White Paper, *Success as a Knowledge Economy* was published on 16 May and confirmed that Innovate UK would be incorporated (along with the seven research councils and Research England) into an umbrella body called UK Research and Innovation (UKRI). Hot on the heels of the White Paper, the Higher Education and Research Bill received its first reading in the House of Commons just three days later on 19 May.

The Government has not published a full analysis of the responses received to its consultation on Innovate UK's integration with Research UK. We would have expected a more detailed consideration than the half page summary the Government has provided.³ It was not until 7 June (over two weeks after the Higher Education and Research Bill had received its first reading) that the Government published its case for the creation of UK Research and Innovation.⁴

A policy decision of this magnitude which will fundamentally affect the future of the UK's innovation agency requires more considered consultation than it has been afforded. We explore below whether Sir Paul Nurse did in fact recommend the changes that the Government is seeking to make. But, whether or not the suggested changes were recommended by the Nurse review, it is clear that the process by which these proposed changes have made their way into a Bill before Parliament has been unsatisfactory.

Integrating Innovate UK into UK Research and Innovation – the Government's proposal

The Nurse Review

We remain to be convinced that the Government's case for integrating Innovate UK into UK Research and Innovation is sound. The Government claims that the proposed changes implement a recommendation from the Nurse Review. But we tend to the view expressed

² BIS: *Consultation - Innovate UK's Integration with Research UK*. February 2016

<https://bis.gov.uk/citizenspace.com/innovation/innovate-uk-and-research-uk>

³ As part of the summary of responses to an earlier consultation: *Fulfilling our potential: Teaching Excellence, Social Mobility and Student Choice*.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523420/bis-16-261-he-green-paper-fulfilling-our-potential-summary-of-responses.pdf

⁴ BIS: *Case for the creation of UK Research and Innovation*. June 2016

<https://www.gov.uk/government/publications/uk-research-and-innovation-business-case>

during our inquiry that the Nurse Review stopped short of making a full recommendation on this point. As Technologia told us:

“It [the Nurse Review] merely states that some issues could be addressed by integrating Innovate UK with Research UK and outlines key differences between the customer base and delivery mechanisms of the two entities. Our reason for reminding the Committee of this paragraph is that ideas sometimes acquire momentum without having been properly scrutinised.”⁵

The Nurse Review noted a number of issues, which it suggested could be addressed by integrating Innovate UK and the Research Councils into an umbrella organisation. The review also noted, however, that:

“Innovate UK has a different customer base as well as differences in delivery mechanisms, which Government needs to bear in mind in considering such an approach, and which this review, according to its remit, has not looked at in depth.”⁶

The Nurse Review did not consult on the future of Innovate UK and clearly indicated that further work was needed to determine the feasibility of this proposal. David Eyton from BP told us:

“We were surprised that the Nurse review made this recommendation, because it was not self-evidently something that was consulted on in the first place. We provided input; we did not comment on that issue whatsoever.”⁷

The Government has clearly not succeeded in taking a considerable number of interested parties with it in bringing forward its plans. In response to the Government’s consultation on Innovate UK’s integration with Research UK, the Royal Academy of Engineering stated:

“the announcement that government will ‘look to integrate Innovate UK into Research UK’ came as a surprise and generated significant disquiet among the engineering community, exacerbated by the lack of both prior consultation and detail accompanying the announcement. Consequently, the Academy is pleased that government is now consulting specifically on this matter. It is unfortunate, however, that government has not articulated a clear case for the proposed integration prior to, or as part of, this consultation. The engineering community’s view is that it is for government to set out the strategic objective that it believes the integration will help to deliver, rather than for the community to set out potential benefits of a structural change that it does not advocate.”⁸

In our view, in integrating Innovate UK into UK Research and Innovation, the Government has extrapolated a conclusion from the Nurse review and is seeking to make changes which have not been the subject of proper consultation.

Innovate UK must retain its business-facing focus

⁵ Written evidence from Technologia Ltd ([IUK0002](#))

⁶ Paul Nurse: *Ensuring a successful UK research endeavour: A Review of the UK Research Councils*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478125/BIS-15-625-ensuring-a-successful-UK-research-endeavour.pdf

⁷ [Q 5](#) (David Eyton)

⁸ RAEng: *Innovate UK’s integration with Research UK*. February 2016
<http://www.raeng.org.uk/publications/responses/innovate-uk%E2%80%99s-integration-with-research-uk>

In written evidence to the Committee the Department for Business, Innovation and Skills stated:

“Bringing together research and innovation funding functions under a single organisation, led by a strategic board comprising representatives from the respective communities, will help drive up awareness among research leaders of the needs and interests of the business sector, as well as enabling the business community to identify opportunities arising from blue skies research. The new organisation will create a simplified, accessible and co-ordinated research and innovation landscape which can improve the UK's productivity, accelerate economic growth and act as a focal point for both public and private sector research and innovation activities. A further advantage arising from bringing together research and innovation funders into a single organisation is that the centralisation of administrative functions, including grant application systems, will simplify processes for funding recipients.”⁹

The Committee recognises that it is indeed desirable that research leaders should be aware of the needs and interests of the business sector and also that the business sector should be able to identify opportunities arising from blue skies research. However it is essential to recognise that much research which leads to practical applications does not come from the university research base but from the commercial sector or from public sector research institutes. Evolutionary advances generated by business R&D are by far more common than revolutionary advances generated by the science base. Innovate UK must ensure that such research, which would not normally be described as at the cutting edge, is given sufficient support. It is equally important that we acknowledge where the greatest support is needed.

Our concern is that by integrating Innovate UK into UK Research and Innovation alongside the Research Councils, the Government is placing too much emphasis on the draw through of fundamental research to innovation. As we repeatedly heard during our inquiry, innovation is not a linear process. Dr David Hardman from the UK Science Park Association warned:

“The danger is that it reinforces the idea of linearity between science and research and innovation coming through from the universities. I am not undermining what universities do—it is very important—but a lot of innovation closer to market comes the other way, from within industry.”¹⁰

Stian Westlake from Nesta concurred with this view:

“It is very easy to point at our excellent universities and our relatively lower levels of business R&D and assume that there is a problem because we assume that technology must flow linearly from academics to businesses. However, as my fellow witnesses have said, that is a gross simplification of how innovation works. In fact the most significant driver of innovation and R&D in businesses is the kind of ecosystems that Innovate UK plays an important part in developing—the role of the supply chains and the role of customers. We must see those business-to-business elements as important.”¹¹

Technologia stated:

⁹ Written evidence from the Department for Business, Innovation and Skills ([IUK0001](#))

¹⁰ [Q 12](#) (Dr David Hardman)

¹¹ [Q 18](#) (Stian Westlake)

“We think that it is easy to overstate the role of previously generated university intellectual property here. In 2011 we undertook an analysis of UK patenting activity covering patents with priority years from 2007 to 2011. Of the 21,416 patents where the invention originated in the UK just 8% were from universities. In our consulting activities we see many collaborative projects where universities are active partners and crucial sources of knowledge, but relatively few where university IP is the starting point.”¹²

The University Alliance noted the need to define the form and purpose of Innovate UK:

“If its only purpose in the future is to exploit UK science and research then it will need to be re-conceptualised. At present, 20% of Innovate UK’s work is intended for this purpose with the remaining 80% being business-facing. In practice, however, only around 8% of Innovate UK’s work concerns commercialisation of research. While we support efforts to enhance this activity, it must be viewed as a relatively minor part of Innovate UK’s role.”¹³

The United Kingdom’s research base and universities perform very well and are consistently highly rated across all innovation league tables. As the Government’s written evidence to the committee noted, the Global Innovation Index 2015 placed the UK as the second most innovative nation in the world¹⁴ and this reflects the strength of the UK research base. However this might not reflect innovative performance *per se* and will not deliver the benefits associated with innovation if other aspects of the innovation system are weak. The same index placed the UK 23rd in terms of knowledge diffusion and 30th in terms of knowledge absorption.

Innovate UK therefore needs to retain its business facing focus. It needs to remain outward looking and open to collaborations with businesses and research groups across the UK and beyond. Any perception that by integrating Innovate UK into UKRI the focus shifts away from the business community towards the Research Councils would be highly damaging.

The differing needs of Innovate UK and the Research Councils

The Government has also suggested that the integration of Innovate UK into UK Research and Innovation will allow centralisation of back and middle office functions. Whilst we applaud the Government’s desire to reduce administrative burden we also note that Innovate UK and the Research Councils have distinct functions, modes of operation and requirements for staff skills. As Technologia told us:

“Innovate UK has evolved delivery mechanisms that are well suited to its customer base and to the types of project it funds. If the integration of Innovate UK with the research councils were to change the delivery mechanisms radically we think the results would help neither set of customers.”¹⁵

Professor Georghiou said: “The most successful innovation agencies, such as Tekes in Finland for example, are much more proactive and hands-on than is normal for a research council.”¹⁶

¹² Written evidence from Technologia ([IUK0002](#))

¹³ Written evidence from the University Alliance ([IUK0007](#))

¹⁴ Written evidence from the Department for Business, Innovation and Skills ([IUK0001](#))

¹⁵ Written evidence from Technologia ([IUK0002](#))

¹⁶ [Q 12](#) (Professor Luke Georghiou)

Differences such as these might make it impossible for the proposed merger to deliver the intended lessening of the administrative burden. Indeed Professor Jackie Hunter, Chief Executive of Stratified Medical and ex Chief Executive of the Biotechnology and Biological Sciences Research Council, told us:

“... Innovate [UK] is not as constrained as the research councils are in being able to offer competitive salaries. That would need to be looked at if Innovate [UK] were incorporated into UKRI, because trying to attract business people of the required calibre would require perhaps a different mode of funding salaries...

By trying to incorporate Innovate UK you will dilute the potential efficiencies gained by synergy with the research councils...”¹⁷

Professor Luke Georghiou from the University of Manchester expressed similar doubts:

“It [Innovate UK] will need, for example, to have different employment conditions for its staff to get people with the business experience that it will need to do its job properly. It cannot work exactly on the same basis. There is always talk of back-office savings, but I suspect that they are largely mythical and did not materialise in the past.”¹⁸

These are just a few examples of how the needs of the two organisations differ. We question whether, given their distinct functions, the integration of Innovate UK into UK Research and Innovation will achieve the savings that the Government anticipates.

Indeed in 2013, the Government’s own triennial review of Innovate UK, then called the Technology Strategy Board (TSB), considered the option of merging it with the Research Councils and concluded that this would deliver:

“no additional cost savings over and above those already achieved, or being considered, as part of the merger of TSB and Research Council back office functions.”¹⁹

It is unclear what has changed in the three years since the triennial review to alter this situation. Before putting forward the current plans for restructuring the research and innovation landscape, we would have expected the Government to consider whether existing organisations could provide a suitable home for Innovate UK. Nesta had noted speculation that Innovate UK might be incorporated into the British Business Bank,²⁰ whilst Professor Hunter told us:

“clearly the Government need to save money and cut the number of bodies with which they interact, but I am not sure whether other, perhaps more radical, options were considered. Looking at it from the business case, UKTI [UK Trade and Industry] interfaces with SMEs and business, and there could be real synergies for investigating the linkage between Innovate UK and that organisation. Other organisations such as NCUB [National Centre for Universities and Business] add to the complexity of the landscape. I am not sure whether these other, perhaps more,

¹⁷ [Q 24](#) (Professor Jackie Hunter)

¹⁸ [Q 12](#) (Professor Luke Georghiou)

¹⁹ BIS: *Technology Strategy Board, Triennial Review*, October 2013 p 45:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253593/bis-13-1073-triennial-review-of-the-technology-strategy-board.pdf

²⁰ Nesta: *Where next for Innovate UK?* February 2016

https://www.nesta.org.uk/sites/default/files/where_next_for_innovate_uk_final_0.pdf

radical alternatives were considered. Given that we have a £6 billion investment in R&D, I would have thought we need a very in-depth business analysis of the implications of what is going to be done.”²¹

New finance products

In addition to the proposed integration of Innovate UK into UK Research and Innovation, the Government has announced other plans which could fundamentally alter the way in which Innovate UK operates. In the November 2015 Comprehensive Spending Review the Government announced that Innovate UK would allocate £165 million of its budget to new finance products by 2019-20. Although the form that the new finance products will take is yet to be decided it is anticipated that this will involve a move from grants to loans. Dr Ruth McKernan, CEO of Innovate UK, assured us of the merits of exploring new finance products, telling us that Innovate UK planned to:

“evolve our funding models, recognising that other innovation agencies across the world use different tools. When we came up with evolving our funding models, we were enthusiastic about looking at things in a cautious and measured way. The allocation in the comprehensive spending review of £165 million of our funds to alternative finance products by 2020 is a very ambitious target for us. This is public money, so we need to know that we are developing the principles and the policy that allow us to do that properly.”²²

We were also encouraged to hear from Dr McKernan that Innovate UK might in the future consider purchasing equity in companies, “so that, as it grows and does well, some of that money is returned to public coffers to allow us to recirculate the money that we have spent? That is one way in which we could use equity very thoughtfully.”²³ By purchasing equity in companies, Innovate UK would be sharing the risk with the other equity holders – this would be particularly helpful for smaller companies.

As we heard during our inquiry there are risks in moving from grants to loans. As Dr David Hardman from the UK Science Park Association told us: “Loans and risk do not go well together.”²⁴ David Eyton told us:

“The key question is the level of risk that IUK is prepared to take. If it is set up like the Green Investment Bank, which invests on much the same basis as any other bank and takes very little risk, that is completely against the whole purpose of this thing here, which is trying to take some risk and to provide money to things that are not a guaranteed success. The question comes down to things like interest rates. The US Government has been prepared to take a \$1 billion hit on a company that did not work out and the loan was just written off. If you are prepared to do that, fine; at least you are really taking risk. The issue becomes one of the right balance between grant-giving, equity and loans. There are not many ways of putting money into a company. Is it appropriate for IUK?”²⁵

²¹ [Q 20](#) (Professor Jackie Hunter)

²² [Q 23](#) (Dr Ruth McKernan)

²³ [Q 24](#) (Dr Ruth McKernan)

²⁴ [Q 14](#) (Dr David Hardman)

²⁵ [Q 7](#) (David Eyton)

The BioIndustry Association told us: “Loans will not work for early-stage research in the life-sciences sector, which is too risky to be financed by repayable debts.”²⁶ The ABPI held similar views:

“A wholesale move from grants to loans has significant risks for the life sciences ecosystem, and is likely to adversely affect business innovators in the high-risk science and technology sectors.”²⁷

As such it will be important that loans do not replace grants. In considering options for new finance products, the Government needs to make sure that it engages fully with Innovate UK’s stakeholders. We were concerned by the BioIndustry Association’s evidence to our inquiry:

“There has been a lack of detail provided by the government about both the parameters of this policy development and the methods by which stakeholders can engage. It has therefore been difficult for the BIA and others to develop specific input as stakeholders have not been provided with details of models that are or are not up for consideration.”²⁸

Nonetheless we consider that it is appropriate to explore ways of returning some of the money invested by Innovate UK to the public purse where projects are successful and businesses flourish as a result. But the Government should not commit to a fixed sum whilst possibilities are still being scoped and before the scheme has been piloted. It is important that Innovate UK is allowed to proceed with caution whilst it tests new finance products. The Government should not craft its budget around savings achieved by using new finance products until they have been fully tested.

We also note, that in order to introduce new finance products, Innovate UK will need to acquire staff with different skills sets from the current employees. Dr McKernan told us:

“We are handling public money and we absolutely have to have the best experts who understand the credit and the terms and conditions of the loan. My organisation is very familiar and expert at the technical evaluation and the process, but we do not currently have that skillset, and we will have to share, borrow or build that skillset. It has to be done properly.”²⁹

The introduction of new finance products means that the financial operation of the Research Councils and Innovate UK is set to become even more distinct than at present. We therefore recommend that Innovate UK should retain its own Accounting Officer even in the event that it is integrated into UKRI.

This need for staff with a new skills set would seem to be incompatible with slimming down the administrative burden. Likewise the introduction of new finance products adds more complexity at a time when Innovate UK is otherwise focussed on simplifying its offering as set out in its 2016-17 Delivery Plan. A change in funding model will only accentuate the differences in the ways in which Innovate UK and the Research Councils operate. Professor Georghiou told us:

²⁶ Written evidence from the BioIndustry Association ([IUK0005](#))

²⁷ Written evidence from the ABPI ([IUK0004](#))

²⁸ Written evidence from the BioIndustry Association ([IUK0005](#))

²⁹ [Q 24](#) (Dr Ruth McKernan)

“My bigger worry is that it is carving a significant amount out of the grant budget but it is not a large amount for loans. You would need to create an infrastructure to administer those loans, you would put those firms under completely new kinds of scrutiny of their assets and liabilities rather than simply their performance on a product, and it could turn out to be a very top-heavy activity unless very well designed.”³⁰

The Government should explore alternative means of increasing Innovate UK’s budget

As we heard during our inquiry, Innovate UK is currently oversubscribed. Dr McKernan told us: “In some of our programmes we are able to support only the top 10%, and usually only 50% or so of applications are worthy of funding.”³¹

Public funding for innovation in the UK is low compared to that of other nations. Laura Smith from the CBI told us: “Innovate UK is underresourced for fulfilling its business-focused mission.”³² Given the level of demand, and the importance of supporting innovation, it is imperative a way is found to increase Innovate UK’s budget. Whilst we admire the Government’s goal of making the innovation budget go further by setting a £165 million target for the use of new finance products, we believe it should give serious consideration to alternatives. The Government should carefully explore the option of getting private finance in – possibly in the form of equity – at the portfolio level to allow risks to be mitigated and diversified. If Innovate UK were to offer equity to the market to allow the latter to invest at the portfolio level, it would itself need to be structured as a company. Therefore, if the Government were to follow this approach, it would seem essential for Innovate UK to exist as an organisation separate from the Research Councils.

Necessary safeguards if the integration goes ahead

Whilst we are unconvinced of the merits of the proposal to integrate Innovate UK into an umbrella organisation with the Research Councils and Research England, we are acutely aware that the Higher Education and Research Bill has already begun its progress through Parliament with provisions contained therein to integrate Innovate UK into UK Research and Innovation. Given the continuing concerns from Innovate UK’s stakeholders, the Government would be well advised to reconsider this integration.

If, despite the concerns raised by key stakeholders, the Government is minded to continue to drive through the changes related to the future of Innovate UK contained in the Higher Education and Research Bill, it must as a minimum ensure that three key features of Innovate UK are protected: its autonomy, its funding and its business-facing focus. We know that the Government recognises these as important features of Innovate UK and has sought to protect them in the Bill. The question, however, is whether these provisions are enough to protect Innovate UK as it is integrated into UK Research and Innovation alongside the seven Research Councils with their very different function and ethos.

The difficulty of integrating the different organisations

During the course of our inquiry we heard a number of concerns related to the difficulty of integrating these different organisations and we consider these below.

³⁰ [Q 14](#) (Professor Luke Georghiou)

³¹ [Q 19](#) (Dr Ruth McKernan)

³² [Q 10](#) (Laura Smith)

Innovate UK is a smaller organisation with a shorter history than the Research Councils. There is a risk that Innovate UK’s voice will be drowned out in UK Research and Innovation. David Eyton emphasised the need to focus on Innovate UK in the new organisation:

“Effectively, IUK is the start-up in the context of that behemoth [the Research Councils]. It is 10% of it; the other 90% is very stable. It is comparatively new and needs to really motor. Will it get the management attention and focus, which requires the quite different skills for governing innovation ecosystems from governing science? That is also the question for that body: the balance of skills on the governing body.”³³

Innovate UK and the Research Councils will lose their distinct focus and converge towards each other. Professor Georghiou told us, “Another key risk is that of mission drift and convergence—in both directions.”³⁴ Laura Smith told us:

“There is real concern about the huge disparity between the size of the budget between the existing research councils and Innovate UK, summed up by concern that Innovate UK’s influence would be dwarfed and its impact distorted. That was how members summed up the risks to us.”³⁵

The separate budgets of Innovate UK and the Research Councils may not be respected. Laura Smith explained: “There is a huge disparity between Innovate UK’s budget and the research budget, and therefore it should be protected.”³⁶ The Association of the British Pharmaceutical Industry (ABPI) suggested that, “Their [Innovate UK and the Research Councils] individual legal identities and budgets must be retained, perhaps through primary legislation.”³⁷

Innovate UK’s ability to operate and make decisions in different ways may be eroded. As Dr Virginia Acha from ABPI told us:

“I would be concerned if Innovate UK were brought under the same decision-making approach that a research council would be brought under, because they are making very different decisions. The problems are different and they need to be addressed as such.”³⁸

Innovate UK’s funding from other Government departments could be diminished. Dr McKernan said:

“There are also risks that I have not gone into. There are some other areas of mitigation where I still have concerns. For example, Innovate UK does a lot of work with many government departments. We manage about £300 million of funds in partnership with other government departments, for example the Aerospace Technology Institute through BIS, and we do a lot of work with DECC and DCMS. It is really important to safeguard those relationships and not feel the need to create something else because we have created a fracture in putting Innovate UK within UKRI.”³⁹

³³ [Q 5](#) (David Eyton)

³⁴ [Q 12](#) (Professor Luke Georghiou)

³⁵ [Q 12](#) (Laura Smith)

³⁶ [Q 16](#) (Laura Smith)

³⁷ Written evidence from the Association of the British Pharmaceutical Industry (ABPI) ([IUK0004](#))

³⁸ [Q 5](#) (Dr Virginia Acha)

³⁹ [Q 21](#) (Dr Ruth McKernan)

Such concerns are not new – many were expressed in response to the Government’s consultation on the integration of Innovate UK into Research UK in February this year. In response to concerns raised in the consultation, the Government chose to adopt the name UK Research and Innovation, rather than Research UK. We welcome this. In addition, the Government informed us that Innovate UK’s business-facing focus will be “protected on the face of the HE and Research Bill.”⁴⁰ This involves a commitment to including members with business and industry expertise on the UKRI board. The Government has also stated that there will be a continued separation between the research and innovation budgets. These assurances need to be clearly expressed in the Bill.

Further protections needed

The evidence we have heard suggests that if the merger is to go ahead, the Government needs to go further to protect Innovate UK and reflect its different status. Innovate UK must remain as autonomous as possible within the new organisation. It must have a clearly defined strategy and remit to guide its decision making. Its budget should be ring-fenced in order to more clearly protect it. In addition, as we suggested earlier in this letter, it should retain its own accounting officer. Its ability to manage funds on behalf of other Government departments must also be protected.

The Government should make a stronger commitment to business representation on the UK Research and Innovation Board. As part of this the Chair of the Board should have a business background, as is the case with the Research Councils currently. Innovate UK should remain as a separate legal entity with a separate mandate. It must also retain the ability to offer favourable terms in order to recruit staff with the skills sets and business experience it needs.

The Government needs to set out clearly how and when it will monitor and evaluate the impact of integrating Innovate UK into UK Research and Innovation. It also needs to set out a clear communications strategy for engaging with the business community, obtaining input and updating it as these important and fundamental changes come into force.

Conclusion

As I set out at the start of this letter, we have serious concerns about the integration of Innovate UK into UK Research and Innovation. The result of the recent EU referendum result has caused uncertainty in all sectors. The research and innovation sector is no exception and there is a need for the Government to move quickly to establish some future certainties. The referendum result to our minds only adds to the importance of not moving forwards with these proposals.

Yours sincerely
John Selborne

LORD SELBORNE

Chairman of the House of Lords Science and Technology Select Committee

⁴⁰ Written evidence from the Department for Business, Innovation and Skills ([IUK0001](#))

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