



Department  
for Education

The Earl of Selborne GBE FRS DL  
Chairman of the Science & Technology Committee  
House of Lords  
LONDON  
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Department for  
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Our ref: PS

Your ref:

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Dear Lord Selborne,

## **THE FUTURE OF INNOVATE UK**

Thank you for your letter of 30 June setting out the findings of the House of Lords Science and Technology Select Committee investigation into the future of Innovate UK. I must begin by emphasising the importance the Government attaches to the work of Innovate UK. At the Spending Review last year we protected the total spend on innovation for the duration of this Parliament. Our priority remains for it to drive productivity growth across the UK by supporting innovative businesses.

I recognise that the proposed creation of UKRI, including Innovate UK's integration, is a substantial reform, but I believe there is a strong economic imperative for us to ensure it delivers maximum impact. We need to ensure research and innovation combine together at the heart of our new Industrial Strategy. In addition, with the UK preparing to leave the European Union, we need more than ever to maximise the outputs of our science base, to drive economic growth and to create a thriving, high productivity, economy.

The strength of the UK's world-class research is clear for all to see. To fully realise our potential we need to respond to a changing world, to anticipate future requirements and ensure we have the structures in place to exploit the knowledge and expertise we have for the benefit of the whole country. I believe that only by bringing Innovate UK into UKRI can we do this most effectively.

I fully recognise that innovation is a complex, non-linear process, and that much innovation occurs business to business. However, it is clear that there is not a simple divide between business-led innovation and researcher-led science. There are many areas of common interest, and Innovate UK already works closely with the research base on a wide range of joint programmes to deliver impact. For example, the Biomedical Catalyst – a joint Medical

Research Council and Innovate UK venture – is one of four Catalysts in operation. It has been incredibly successful, leveraging over £1bn in private finance through the commitment of £250m of public money. Knowledge Transfer Partnerships, which encourage collaboration between businesses and universities, have so far been supported by £70m, of which Innovate UK has invested £60m alongside £10m from the Research Councils. Another example is the Innovation and Commercialisation of University Research (ICURe) pilot programme, which is funded by Innovate UK and HEFCE. This aims to accelerate the commercialisation of UK academic research, and has already supported the formation of 21 new companies, sharing in £5m public funding and raising over £5.4m in private investment. During 2015/16, the Research Councils committed £290m to Innovate UK programmes for academics working on business-led collaboration projects. There are several further examples of joint working including Innovation and Knowledge Centres and multiple university links with Catapult Centres. Overall, across Innovate UK's portfolio, some 55% of all projects by both number and value involve research base partners.

We know that bringing together research and business-led innovation in this way can be very powerful. Collaborative projects, supported by Innovate UK, with two or more academic partners have twice the economic return compared to those with no academic partners.

However, our current structures are getting in the way of joint working. The Urban Living Partnership spans Innovate UK and the seven Research Councils and will harness the strength of UK research and innovation to make city life more healthy and sustainable. Regrettably it took a year to set up owing to the complexity of working across eight legal entities. More broadly, Sir Paul Nurse concluded in his independent review that there was a need to address the gap around our historic weakness at commercialisation, with a need for a smoother pathway for innovation. Dame Ann Dowling pointed out in her review that complexity in the current system acts as a barrier both for researchers and businesses, particularly small businesses.

I recognise that Innovate UK has a distinctly different mission and culture from the Research Councils and Research England. This is a good thing and must be protected: Innovate UK is not, and will not become, the commercialisation arm of the Research Councils, and this reform is not narrowly focused on commercialisation. Nor are we looking to distort the focus of Research Councils or Research England (for example shifting the balance away from fundamental research, or on funding excellence).

Equally, I have no desire to see Innovate UK merged with delivery bodies that focus on financial markets. Their role is more about spotting the opportunities and providing the right wider access-to-finance conditions for economic growth. There is close working and collaboration between Innovate UK and the British Business Bank with the two organisations serving different elements of the innovation ecosystem.

In the Bill we have brought before Parliament, Innovate UK will continue to be our innovation agency, maintaining its outward facing role and continuing to collaborate with a range of partners. We have included multiple safeguards, such as specifying its business-focused mission on the face of the Bill, specifying a board which both balances both research and business interests and which will include a specific innovation champion. Beyond the Bill and White Paper, I know John Kingman, the interim Chair, shares my vision. Together we will ensure this becomes a reality as we establish the leadership and finer detail of UKRI going forward. We want Innovate UK to continue to go from strength to strength, and UKRI to be an organisation which supports this.

So our proposals will safeguard what works about our current structures. However, I believe that only bringing Innovate UK into UKRI will allow us to remove the barriers to greater joint working between research and business at all levels:

Strengthening UKRI, by bringing into it Innovate UK's expertise, enabling UKRI overall to develop a much more powerful approach to strategy. UKRI will combine data and evidence spanning research and innovation and use this to identify the most pressing challenges and opportunities, sensitive to the needs and strengths of our research base and, crucially, our businesses. It will also make it far easier and quicker to create cross-cutting funds which span research and innovation to address these challenges. UKRI will be able to act as a champion for innovation with more weight than Innovate UK alone. This is our best opportunity to ensure innovation is at the heart of UKRI's on-going dialogue with government, as well as domestic and international partners.

Establishing a more effective and higher impact environment for end users, including businesses, as well as researchers and universities. UKRI will be able to help develop the high level skills required to support future industry and research needs, to ensure the UK remains at the cutting edge in both, working closely with Office for Students and the devolved administrations. More broadly, UKRI will be able to look across the current complex translation and knowledge exchange funding landscape in order to ensure it is as simple and easy to navigate as possible. UKRI will be better able to support effective brokerage and networking in order to help build collaborative partnerships between universities, researchers, and businesses.

Taken together, I strongly believe that the creation of UKRI will bring benefits to businesses, researchers and to the UK a whole. Businesses will be able to more readily identify possible research partners. They will benefit through the better alignment of the outputs of research with business needs, for example on technology, data and also skills. Researchers will benefit from a greater exposure to business and commercialisation expertise so they can achieve maximum impact. It will be simpler to find and form partnerships, and there will be easier movement between academia and business. The UK will benefit from a more strategic, agile and impactful approach across UKRI's over £6bn portfolio, which responds to real-world challenges and opportunities. This will ensure research and innovation play their part at the heart of the UK's industrial strategy.

You also raised the issue of stakeholder engagement. You will be aware that at the beginning of the year we sought views on the integration of Innovate UK into the new body. The consultation involved workshops held around the country and an on-line request for comments. The views given were taken into account as we developed our proposals and we subsequently set out our approach in the White Paper and Bill.

With the Higher Education and Research Bill now before Parliament, in addition to scrutiny before the Commons and the Lords, we are working to develop practical arrangements for the creation of UKRI. We are working very closely with Innovate UK, the seven Research Councils and HEFCE in taking this work forward. We are also developing comprehensive plans to engage further with stakeholders over the coming months to seek input on the detailed arrangements and to ensure the priorities of business and innovation community are fully taken into account. We will be engaging directly with businesses and also their representative groups as part of this work.

Finally, you asked about New Innovation Finance Products (NIFPs). As set out above we are committed to addressing key science and innovation challenges and opportunities for the UK despite a difficult economic climate. This includes looking to achieve better value for money and a more direct return to the taxpayer from the funding provided. We are carrying out appropriate research and are co-developing NIFPs with partners including Innovate UK and the British Business Bank, to ensure that they fulfil their purpose and that risks and the benefits are taken into full consideration.

It would appear that some witnesses giving evidence to the Committee believed that NIFPs will be directly replacing existing grant-based funding. That is not the case. Innovation requires different types of support depending on their proximity to market. Grants will still be there to support early stage and riskier innovations. NIFPs will be part of a continuum of funding between grants and the point at which the market will provide appropriate finance or investment. The appetite for risk when granting loans or other forms of finance will be a key component of ensuring that NIFPs fulfil their purpose effectively. We are working to assess the acceptable levels of risk, the best finance terms and the appropriate accounting status for NIFPs.

The pilot products will be announced by the end of this year, and once rolled out, a key part of the pilot will be to monitor and evaluate take up so that we understand the demand for various types of support and can refine the products to ensure that they deliver what our evidence suggests is needed. Part of the evaluation process will also include exploring the impacts on and implications for Innovate UK's priority sectors and technology challenges.

I very much look forward to continuing to engage with you, the Committee and other key stakeholders as we progress these reforms. I am confident that together we can design a research and innovation organisation that will build on our current strengths and put the UK in a strong position to meet and exploit future challenges for the benefit of the country as a whole.

Yours ever,

A handwritten signature in black ink, appearing to be 'Jo', written in a cursive style.

**JO JOHNSON MP**