

CBI submission on Innovate UK's proposed integration with Research UK

1. The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi the CBI communicates the British business voice globally. CBI members span sectors including pharmaceuticals, telecommunications, software, aerospace, chemicals and other materials, defence, automotive, oil & gas, and food.
2. **Innovation underpins prosperity. While better alignment between basic research and commercialisation is needed to strengthen UK innovation, integrating Innovate UK into Research UK risks diminishing the impact of Innovate UK and undermining progress made in recent years.**

Innovation is essential to keep UK growth on track – unlocking productivity and prosperity

3. The UK economy is growing solidly, posting growth of 2.2% over 2015. But the recent ramping up of global risks shows that headwinds to the recovery remain significant. Productivity remains low by comparison with other developed countries, and lost ground during the recession. The UK needs a strong and sustainable innovation ecosystem to build productivity and ensure growth stays on track.
4. Individual businesses which innovate or adopt innovations can gain competitive advantage, for example through cost savings or improved products. Innovative businesses are more likely to have higher levels of productivity and to export their goods and services. The benefits of innovation are not restricted to the innovating business however, but also spill over in a variety of ways into the wider economy. Innovation intrinsically involves risky investment, and the return on this investment is only partly captured by the innovator. The social returns from business research and development based on these spillover benefits have been estimated to be two to three times larger than the private returns.
5. Government therefore has a critical role in supporting innovation, and in helping to de-risk some investment in innovation, in order to ensure that the balance between costs and benefits of innovation aligns with the benefit to the economy as a whole. This is one of the explicit reasons for the protection which the science budget has had in recent years, and is also the rationale for the establishment and subsequent growth of Innovate UK as the national innovation agency. Expressed as a proportion of GDP, public funding in the UK for R&D of all kinds – including university research – is lower than in any of the other G8 countries and has declined in recent years, and at nearly £5bn the science budget is an order of magnitude greater than that of Innovate UK. Despite the constraints imposed by Innovate UK's limited resources it has succeeded in developing into an important and valuable catalyst of business innovation.

We need to improve the linkages between research and commercialisation for the UK to become a leading innovation nation

6. Academic research can provide raw material for business innovation, and the UK has a world-leading research base. Not only do UK researchers account for a very high proportion of the world's most highly cited articles, but the World Economic Forum's Global Competitiveness Index ranks the UK 4th for business-university collaboration – and 2nd for quality of research institutions.
7. The environment for business-university collaboration has been strengthening steadily, thanks to measures such as the Higher Education Innovation Fund (HEIF), the introduction of an 'impact weighting' in the Research Excellence Framework (REF) and the development of the role of Innovate UK, which has supported a significant volume of collaborative research and development involving both businesses and universities.

8. The UK's innovation ecosystem has also been strengthened by the emergence of the growing network of Catapult centres, which have added depth to the institutional infrastructure to support nearer-market development and the commercialisation of research, particularly in manufacturing. Nevertheless, this infrastructure remains thinner in the UK than in a number of countries, as is illustrated by the differential distribution of EU R&D funding: compared with countries such as France and Germany, UK universities receive a very high proportion of these funds, businesses a rather lower one, and 'research institutes' (such as ONERA in France or the Fraunhofer Institutes in Germany) a very much lower one.
9. Promotion of a broader and deeper infrastructure for innovation and commercialization is therefore a major national priority. We also need better linkages between the academic research and business innovation communities, and in particular more coherent pathways from research to commercial development. There has been some progress in that direction, but as both the Dowling and Nurse reviews have pointed out, there is still scope for closer communication and collaboration across the spectrum of translation between research and innovation. Both reviews rightly called for closer collaboration between the Research Councils and Innovate UK. However, a large proportion of innovation takes place independently of research outputs, and excessive fixation on pathways from research to commercialization can obscure this fact and distract from its implications.

But integration of Innovate UK into Research UK risks jeopardising recent progress for UK innovation

10. Innovate UK is a crucial element of the UK's system for promoting business innovation, particularly since the disbandment of the English Regional Development Agencies. There are grounds for concern that moving £165m of its resources to new and currently untried financial products may undermine the progress it has made in recent years, and reduction in the level of grant funding could have wider consequences. The introduction of new financial products will involve a period of transition for the organisation and pose challenges for its leadership. These challenges could be exacerbated by major changes in its governance and institutional structure which would be a distraction from the task in hand.
11. As the Nurse review stressed, Innovate UK has a different customer base from the Research Councils as well as differences in delivery mechanisms. Its success is based on the fact that it is a business-led, business-facing organisation whose mission is to support business innovation. It is right that it is recognised as such and funded independently of the Research Councils which, although support for competitiveness is one of their objectives, have a fundamental focus on supporting excellent academic research. The Chief Executive of the new Research UK proposed by the Nurse review will be a distinguished scientist but may lack any background in, or experience of, business.
12. The chief obstacle to Innovate UK's fulfilment of its mission is the insufficiency of its budget, which should be doubled by the end of this parliament, and tripled in the longer term. When core funding for Catapults is stripped out, it has less than £350m to undertake its other programmes and activities. Given the comparative size of the innovation and science budgets, integration of Innovate UK with Research UK carries the risk that the former's influence would be dwarfed and its impact distorted. There is a strong case for improving the links and level of coherence between Innovate UK and the Research Councils, but the case for integration has not been made.