

University Alliance represents 19 higher education institutions with links to more than 20,000 UK businesses including 14,000 SMEs. This document forms our submission to the Innovate UK Inquiry of the Lords Committee on Science and Technology.

Summary of key points

- Universities support smart investment in innovation. As well as bringing research into the commercial sector, they act as hubs for entrepreneurs and investors and supply business with knowledge and talent. They also help local innovators obtain funding from various sources through a 'one-stop-shop' model.
- Plans to integrate the Research Councils and Innovate UK into UK Research and Innovation (UKRI) may help to increase mobility between universities and industry. However, the government needs to be clear about defining the 'I' in UKRI and preserving the Innovate UK brand.
- Retaining the organisation's business-facing role is essential, as is understanding innovation as more than the commercialisation of research.
- Grants should continue to be offered for talent-related programmes and SMEs. A loans model would have an adverse effect on demand.

1) The importance of innovation and innovation funding

1. The nexus between innovation and economic performance is well known. Two-thirds of the UK's productivity growth between 2000 and 2007 was down to innovative businesses – which grow at twice the speed of non-innovators. Innovation makes firms more resilient during periods of economic fluctuation, more able to compete over time, and less likely to fail.ⁱ
2. There is also a high rate of return from spending on innovation. Every pound invested in R&D by government attracts an increase in private funding of between £1.13 and £1.60.ⁱⁱ Where institutions succeed in obtaining public funds for innovation-linked activity, the private sector promptly 'crowds in'.

2) The role of universities

3. Universities occupy a unique position in UK innovation. As anchor institutions, they bring leadership, continuity and connectivity to local ecosystems at a time when the focus of public policy is increasingly regional.
4. When people look at universities' contribution to the innovation landscape, they often focus on research commercialised through spin-outs. However, this is just one aspect of what universities do. Our *Creating innovative regions* report found that universities also:

- a. act as physical hubs where entrepreneurs and investors meet;
 - b. provide knowledge and talent for business including SMEs;
 - c. help innovators navigate and access funding through a 'one-stop-shop' model.ⁱⁱⁱ
5. In many instances, universities are not the final destination of funds derived from Innovate UK and other sources but instead act as channels for support to reach businesses. Alliance universities are particularly adept at sharing expertise with local firms and linking entrepreneurs to a wide network of public and private support. This is crucial for smaller businesses which are often more reliant on revenue from the surrounding region than their medium-sized counterparts.^{iv}
6. Innovate UK must consider universities as natural partners in the innovation ecosystem, not just for the commercialisation of knowledge but through all of the wider contributions they make (i.e. skills, space, leadership).

3) The value of Innovate UK

7. Innovate UK is an important institution with a distinctive role. Its business-facing identity is well understood by its customers. It has the institutional expertise and memory to respond to business need and 'draw in' applied and near-to-market research from the demand side. This is very different to the 'push out' model operated by the UK Research Councils.

4) Higher Education and Research Bill and UKRI

NB: The Higher Education and Research Bill sets in motion the unification of research and innovation funding bodies. Innovate UK will be integrated into a single UK Research and Innovation (UKRI) agency along with the seven Research Councils and knowledge exchange funds currently provided by the Higher Education Funding Council for England (HEFCE).

8. Instinctively, we believe that that the closer integration of research and innovation could lead to some positive outcomes such as increased mobility between universities and industry. A more joined-up, strategic focus will help to counter some of the disincentives – for example, attitudes within Research Councils and expectations in the Research Excellence Framework (REF) towards academic publication records can penalise academics who have spent significant time outside academia in business.
9. However, the government needs to take account of the nature of 'innovation', as compared with 'research', and the specific objective that Innovate UK was set up to achieve. Retaining its business-facing role is essential, as is understanding innovation as more than bringing research into the commercial sector.

10. In reshaping the research and innovation system, we urge the government to consider the following principles:
- a. **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.
 - b. **Branding.** Businesses are familiar with the Innovate UK brand and it is important that it is retained within UKRI.
 - c. **Connectivity.** Collaborations between universities and businesses often happen in the broader innovation space e.g. product design and development or transfer of people through Knowledge Transfer Partnerships (KTPs). Having a body with the expertise to make connections from all sides is vital. Skills and absorptive capacity are a significant part of UK innovation and must not be side-lined.
 - d. **Governance.** There needs to be a sense of common purpose as well as clear lines of separation between Innovate UK and the Research Councils. We are pleased that the government wants to see business representation on the UKRI board.
 - e. **Innovation ecosystem.** Successful foreign models for innovation funding use a holistic model (often called an 'innovation ladder') to describe all parts of the journey. An 'innovation ecosystem' concept for the UK could help bond the sense of common purpose and roles for different organisations.

5) Future funding models

11. Following the 2015 Spending Review, Innovate UK will convert a significant portion of its portfolio of grants into loans and other financial products. Against this backdrop, we will be satisfied if grant funding for talent-related programmes and SMEs is maintained. Moving to loans-based models for talent schemes would likely hit demand and uptake, particularly among SME recipients who are typically risk averse and time poor.

ⁱ Nesta (2010), *Rebalancing act*; Department for Business Innovation and Skills (2012), *Annual innovation report 2012: Innovation, research and growth*; Nesta (2009), *Business growth and innovation: The wider impact of rapidly-growing firms in UK city-regions*; Department for Business Innovation and Skills (2014), *Innovation, skills and performance in the downturn: An analysis of the UK innovation survey 2011*; McKinsey (2013), *Innovation matters: reviving the growth engine*; and Enterprise Research Centre (2014), *Innovation, innovation strategy and survival*

ⁱⁱ Economic Insight (2015), *What is the relationship between public and private investment in science, research and innovation?* A report commissioned by the Department for Business, Innovation and Skills

ⁱⁱⁱ Faye Taylor (2016), *Creating innovative regions: The role of universities in local growth and productivity*, University Alliance

^{iv} Nigel Culkin (2016), *Entrepreneurial universities in the region: the force awakens?* International Journal of Entrepreneurial Behavior & Research, 22(1), pp 4-16