

Innovate UK

Technology Strategy Board

Minutes of the 53rd meeting

Held on 21st July 2015 at Cisco, London

Attendance

Board:

Phil Smith (Chair)
Tera Allas
Mike Carr
Ruth McKernan
Hazel Moore
Ian Shott
Bob Sorrell
Harry Swan

Apologies:

Amanda Brooks

BIS:

Paul Hadley

Executive:

Kevin Baughan
Anne Dixon
Simon Edmonds
Dan Hodges
Guy Rickett
David Wilkes

Closed Session

Welcomes

1. The Chair welcomed the Board to its 53rd meeting. He passed on apologies from Amanda Brooks and noted that Paul Hadley, Deputy Director, BIS Innovation Directorate, would represent BIS, joining the meeting with the executive team at 15.30.
2. He reminded the Board that there had been a delay in confirming the renewal of Hazel Moore's membership and so formally she was attending in an informal capacity. The Board agreed.
3. The Chair reminded members of the need to declare any personal or professional interests that they may have in the business of the meeting and to withdraw should any of those constitute conflicts.
4. Ruth McKernan led the Board through a discussion on alternative operating models for Innovate UK and other matters in closed session. The following **actions** were agreed:
 - a. Provide 5-point-plan slides with revised language to demonstrate fit with emerging policy i.e. place, productivity etc.

- b. Provide wallet cards for Board and staff with hard-hitting numbers, facts and messages against the 5-point-plan, including e.g. data on crowding-in investment, best returns on investment etc.
- c. Develop appropriate narrative on the tool set and where alternative funding could be leveraged, through a short, pre-CSR document.
- d. Develop implementation plan for single Innovate UK brand across the Innovate UK family (e.g. Catapults and KTN)
- e. Identify external public comparisons between innovate UK and other similar agencies (e.g. TeKES or DARPA).

Paul Hadley and members of the executive joined the meeting.

Minutes of the 52nd meeting: TSB2015-03-11

- 5. The Board **approved** the minutes of the 52nd meeting.

Comprehensive Spending Review – Main Plan Paper: TSB2015-04-04

- 6. David Wilkes introduced the paper. He reported that the Chancellor had published the formal announcement of the Spending Review that morning with some challenging public expenditure reduction targets for unprotected departments. Departments were to be asked to identify programmes that absorbed 25% and 40% resource cut scenarios. There had been some, as yet unresolved, discussion about whether R&D will be treated as capital or resource. A 4-year review seemed the most likely. Paul Hadley reminded the Board that BIS was the largest unprotected department in Whitehall and with a Science Budget ring-fence, other resource budgets could be particularly vulnerable and he expected capital budgets to be similarly vulnerable.
- 7. David Wilkes described how the emerging Innovate UK CSR case had been structured around the 5-point-plan and how the individual economic cases for responsive, challenge and catapults had been framed that way on BIS advice. He explained that, in parallel, cases on simplification and alternative finance models had been worked up. He also set out the review process timeline.
- 8. The Board discussed the likely programme implications of a number of funding scenarios. In discussion, the following comment were made:
 - a. There was a risk that all future new activity could only be funded through bids to fiscal events, which were prone to underfunding and political expediency.
 - b. In a situation where announced programmes had to be curtailed or abandoned (likely in all but the most optimistic scenarios) the market place response would be substantial and loud and will also drive productivity in the wrong direction. A much smaller slowdown in programme last year resulted in significant ministerial objection and a high risk of reputational damage.

- c. In the lower funding scenarios, the negative economic impact on companies trying to grow would be much greater than the positive effect on the bottom line.
 - d. You can't cut your way to success. Businesses and economies need to invest to grow.
 - e. Innovation takes years to deliver and the macroeconomic evidence shows that cuts in innovation investment lead to falls in productivity and takes many years to recover from.
 - f. There was a need to work more closely with the sponsorship team to make the case.
 - g. The executive will continue to work on prioritisation for new programmes but a flat cash settlement would mean essentially no new programmes for 2 years.
 - h. The size of the Catapult proposal was disproportionate to the rest of the proposals.
9. Paul Hadley made the following comments:
- a. There was a need to be robust about legal commitments as Treasury may undertake a forensic audit.
 - b. It was possible that, to save money, a pause in new projects could be imposed like the one applied to Network Rail.
 - c. The Secretary of State is clear that innovation is important for UK global competitiveness but is sceptical about the value grants bring to that.
 - d. The government has stated that it wants the UK to be best place in Europe for competitiveness.
 - e. Ministers had asked for a proposal for grants to loans options expecting a high proportion of loans. The minister Jo Johnson was currently considering where in government an innovation loans programme would best sit.
 - f. This was currently the period of maximum uncertainty.
10. The Board discussed the respective roles of the Board and BIS in preparing spending review bids. Paul Hadley commented that this was the BIS process and that nothing had yet been submitted to Treasury. He stated that BIS valued the input from the Board and agreed to send the Board the final submissions on both grants to loans options and simplification (**action**).
11. In discussing the grants to loans agenda, the following comments were made:
- a. Write-off levels on loans are 25-50% or higher if really early stage. The Start-up Loans Company assumes some 40% loss.
 - b. Loans don't attract leveraged match-funding. Nor do they encourage the connectivity between smaller and larger companies that comes through the grant process.

- c. Grants make SMEs more investable while loans would be seen as a liability that would put off investors.
12. Ruth McKernan agreed to develop a shopping list of well-formed priorities and to consider how to keep the Board consulted as the process continues (**action**).

Comprehensive Spending Review – Evidence for Impact Paper: TSB2015-04-05

13. Dan Hodges presented the paper and the modelling that had been done to estimate the impact of Innovate UK programmes. He thanked the Metrics Working Group for its important input to the discussion. He explained that using NPV was the preferred way to make cases for economic impact, as this was most likely to be respected in Treasury and the model had been agreed with BIS and Treasury. In discussion the following comments were made:
- a. The crowding-in number is really important, as Treasury had believed that grants crowded out investment. If there is evidence that Innovate UK programmes leverage more investment than DARPA or TEKES then that would really useful to know (**action**).
 - b. Indirect (knock on) benefits of R&D programmes are always really important, more than the direct benefits.
 - c. It will be difficult to make a case for national investment into a programme where a large proportion of the value comes through indirect benefits.
 - d. There was a danger of conflating basic research with business R&D and commercialisation. Generally, “R&D” investment arguments tend to justify science more than innovation/translation. There was a need to disentangle the economic returns to innovation and science.
 - e. Research council supports turns money into ideas. Innovate UK support turns ideas into money.
 - f. Indirect innovation support (R&D tax credits) has been shown to be less effective than direct but some countries are going the other way. Both approaches have important roles to play.
 - g. Innovate UK programmes are already oversubscribed and if we increase our profile and outreach, this will only get worse. Programmes could double in size without diminishing returns because of the current demand. It would be good to make this this explicit.
 - h. The need to track growth of small growing companies after Innovate UK investment was on-going.
14. Dan Hodges reminded the Board that he would continue to work with the Metrics Working Group to develop metrics and track success against the 5-point-plan.
15. The Board agreed that it needed evidence to show the productivity opportunity cost of a flat cash outcome showing a plausible loss compared with a baseline or better outcome. It also requested some messages on the political, economic and reputational impact of a flat cash settlement. The Board agreed to update and

iterate these with the executive through the period up to the Spending Review (action).

Chief Executive's Report Paper: TSB2015-04-02

16. Ruth McKernan introduced her report. She highlighted the following:
- a. It was now possible to see the in-year finance position with more clarity and better understand the measures that could be deployed to make any necessary to land expenditure on the budget target. Anne Dixon reported that the new control measures had been explained to some of the better performing companies and they had expressed understanding and support for them.
 - b. The allocation letter for 2015/16 had been received which had not resolved the issue of programmes announced in past fiscal event for which no sufficient funding clarity had been received from BIS to allow them to go ahead. In such projects that are starting, only the first year's funding is guaranteed and this left government with a significant reputational risk. Other projects will be told that they cannot start unless BIS reassurance on the future budgets is provided. There was then a discussion about the risk environment regarding the Catapults.
 - c. Despite the Board's focus on the challenges of the Spending Review, a significant level of competition activity and normal business had been on-going.
 - d. In considering the issues surrounding the programme to consider investment in place, some interesting numbers had emerged on geographical investment spread, expressed per capita. When expressed this way the investment outside golden triangle looks a lot stronger although there was still a weakness in some regions.
 - e. The Dowling review had made a number of recommendations relevant to Innovate UK, which was regarded as a central institution for facilitating collaboration between research and industry. The Nurse review was asking some key questions about the boundary between research councils, funding councils and Innovate UK. The Board agreed that the emerging simplification agenda was a good one and, as it included work at the boundaries of several organisations, it would be good to get on the front foot on this and propose solutions.

AOB

17. The Board discussed attendance at Innovate 2015 conference.

Summary of decisions and actions:

No	Para	Action	Responsibility	Target date
1	4a	Provide 5-point-plan slides with revised language to demonstrate fit with emerging policy i.e. place, productivity etc.	Linda Wallace	August
2	4b	Provide wallet cards for Board and staff with hard-hitting numbers, facts and messages against the 5-point-plan, including e.g. data on crowding-in investment, best returns on investment etc.	Linda Wallace	August
3	4c	Develop appropriate narrative on the tool set and where alternative funding could be leveraged, through a short, pre-CSR document.	Kevin Baughan	August
4	4d	Develop implementation plan for single Innovate UK brand across the Innovate UK family (e.g. Catapults and KTN)	Linda Wallace	August
5	4e	Identify external public comparisons between innovate UK and other similar agencies (e.g. TeKES or DARPA).	Linda Wallace	August
6	12	Develop a shopping list of well-formed priorities for CSR and fiscal events and consider how to keep the Board consulted as the process continues	Ruth McKernan	August
7	13a	Seek evidence that Innovate UK programmes leverage more investment than DARPA or TEKES	Dan Hodges	August
8	15	Develop, update and iterate key messages throughout the period of the spending review	all	Immediate
9	16b	Provide a note on the possible consequences of further delay to formulation centre	Ian Shott	August