

# CaSE Roundtable with BEIS: R&D investment

Unattributed summary of CaSE roundtable discussion held on Friday 27th July 2018, kindly hosted by BEIS.

This roundtable discussion with officials from the Department for Business, Energy and Industrial Strategy and UK Research & Innovation was convened to inform the development of policies to achieve an increase in combined public and private R&D investment to 2.4% of GDP by 2027, and 3% in the long-term. The meeting brought together officials from BEIS, UKRI, DCMS and Treasury to gather insights from small and scaling R&D active or R&D based companies and funders on their choices and experiences investing in R&D, focusing on practical steps Government can take to improve the environment for R&D-intensive businesses to start and grow. It was also framed as a joint public and private endeavor with most countries having a split of around 1:2.

This summary is not CaSE policy but will form part of our ongoing programme of work for 2018 on reaching the 2.4% target and spending it well, with the aim of creating a thriving science and engineering environment in the UK.

## 1. Introduction on the 2.4% target

We heard about the Government's aim of increasing the UK's R&D intensity as an all economy target for R&D investment to reach 2.4% of GDP by 2027 and 3% in the long term. We heard that the target has been given a high political profile, including speeches from the Prime Minister, and the importance of this as a cross-government target. It was also framed as a joint public and private endeavor with an assumption of a 1:2 split in contributions.

## 2. Current strengths and weaknesses of UK policies and landscape

### Strengths

- EIS, SEIS, R&D tax credit, Patent Box
- International, connected nature of the UK
- English language and possibility to reach a large market
- World leading specialist facilities and hubs ie Harwell, Babraham, Pirbright
- Skilled people, including lateral thinking and strength in breadth of disciplinary expertise
- Innovate UK
- Basic research base
- UK legal system is respected, reliable, lower-cost (ie for conflict resolution compared to US) so good place to hold contracts

### Weaknesses

- Lack of government resource to administer some of these schemes (EIS/R&D tax credit)
- Weak market for some of UK's successful sectors
- Some sectoral and disciplinary funding silos
- Challenge of positive feedback loop to government from 'usual voices' who are already successful with government funding
- Risk averse culture in funders, people and government
- Communication and marketing of 'UK offer' at home and internationally

- Competition and conflict between Government departments' agendas

### 3. Improving the R&D investment environment in the UK

#### Themes

##### Simplicity, clarity and communication of UK offer

Many said that flagship UK infrastructure and policies to support R&D were not widely known about. Many felt that with potential international partners, investors or collaborators they had to first pitch for the UK as well as for their own business. Others attested to struggling to find out about support and opportunities available in their own start up and growth journey. For one, despite doing extensive online research about where to start up and choosing the UK, and then being based at an incubator in the UK, it took 6-7 months after starting to find out about Innovate UK. For another they had to try and sell the UK as a location to a potential international partner by educating them about the assets of the UK environment, such as the Patent Box.

The starting point was that there is a lot of good support and incentives in the UK, but the UK does not effectively communicate the UK offer internally or internationally. There were lots of proposals and suggestions for improvement of the system that are discussed later, but an overarching theme was that there would be significant benefits if the UK clarified and effectively communicated the UK offer at a top level and used differentiated and targeted communications to reach key audiences. This is not just a communications challenge, but also relates to functional improvement and join up across different parts of national and local government systems, messages, portals and opportunities, alongside creating the 'glossy pitch' and associated activities such as trade missions.

##### Government levers pushing in the same direction

The 2.4% target is a cross-government target as part of a whole government industrial strategy. The focus for delivering it is coming from BEIS which is responsible for two thirds of public R&D funding and is the department for business. However, many of the levers raised in the discussion that will be needed to improve the environment and achieve the R&D target sit in other departments, including Treasury, HMRC, International Trade, Home Office, Health, DCMS amongst others. In the discussion, many raised their experience of government actions competing against other parts of government creating hinderances and frustrations for businesses and diminishing effectiveness of positive government policies, funding and initiatives. More than removing hinderances, to achieve the 2.4% target and to improve the UK environment, departments across government will have to proactively enact policies and use funds to support this aim if Government's ambition is to be realized. Participants raised issues and proposals regarding DWP and pensions, DIT and trade missions, DfE and skills development, Home Office and migration, and procurement and innovation adoption across departments and public bodies.

Assessment of existing levers and proposals for improvement

ASSESSMENT	PROPOSAL
<p><b>R&amp;D tax credit</b> – Wide support for the tax credit as a part of the landscape. Some raised the perceived complexity of the process as a barrier due to the time needed to figure out how to apply, but then many found it straightforward for them to apply for themselves once they understood the process. There was wide agreement that the definition of R&amp;D needed updating to reflect current and future direction of R&amp;D undertaken by businesses as it is currently too focused on physical products.</p>	<ul style="list-style-type: none"> <li>• Review and update definition of eligible activity for R&amp;D tax credit, for instance it should include purchase of data for research purposes, digital infrastructure to support R&amp;D.</li> <li>• Increase speed and certainty of return to business applying to support small and scaling companies where cash flow is key by making the claim cycle shorter, consider options for preapproval or advanced assurance for SMEs.</li> <li>• Clear, simple communication that the process is not difficult and possible for companies new to tax credits.</li> <li>• Allocate sufficient resource within government to ensure the volume of applications can be processed with appropriate support to companies to remove functional disincentives.</li> </ul>
<p><b>EIS</b> – Enthusiasm for EIS as a great scheme and has been a major switch to unlocking investment in the UK. Concern again that due to volume of EIS applications and insufficient resource to process them in government, the process was slowing and putting people off applying. The sense was that this is an example of one part of government (HMT/HMRC) trying to make applying less attractive to minimize tax reduction, working against policy drivers elsewhere in government – including the 2.4% target.</p>	<ul style="list-style-type: none"> <li>• Allocate sufficient resource within government to ensure the volume of applications can be processed with appropriate support to companies to remove functional disincentives.</li> </ul>
<p><b>Innovate UK grants</b>– A great asset to the UK environment supporting companies to start and to grow – filling a gap where other funding isn’t suitable. Perception that funding can go to ‘usual places’ and when companies do not fit neatly into a specific theme, good ideas go unfunded. There was agreement this was a shared issue across the constituent bodies of UKRI that was both procedural and cultural and hope was that UKRI will tackle it. The time taken from initial application to receiving funding can be far too long for small companies, but also for fast moving</p>	<ul style="list-style-type: none"> <li>• Increase response mode funding in Innovate UK for ideas outside named themes or schemes, and ensure guidance for review panels and composition of review panels with individuals with interdisciplinary and entrepreneurial experience supports them to take appropriate risk on novel ideas. Carefully monitor success rates of flexible funds in Innovate UK (and Research Councils) to ensure there is sufficient funding to not only fund ‘safe bets’ but also take appropriate risk to support and drive innovation.</li> <li>• Speed up assessment process; update the application portal and process making use of current technologies (and even get an SME to create it),</li> </ul>

markets. Can result in funding being approved for projects that companies are no longer looking to do. The issue of payment of grants being quarterly and in arrears can also create cash-flow problems.

**Innovate UK pilots** – There was a strong reaction against converting grants to loans as there was the view that they supported and incentivized very different activity at different business stages – but praise for the pilot of new loan instruments that are being carefully designed to work in addition to grants in the Innovate UK portfolio. The view was these could fill another support gap in the landscape alongside equity in the lending market. Also, the investment accelerator pilot was viewed as successful and a good way of speeding up the route to private and follow on investment.

**Apprenticeship levy** – In theory a good idea but it is not yet fit for purpose with lots not working, particularly for smaller businesses and R&D based companies. The process is too complex and isn't flexible to meet employer training needs.

**Innovation campuses/science parks** – These were praised as a UK asset in their respective sectors, e.g. Harwell, Babraham, Pirbright, as they play an important role, not just as an attractor due to the strength of the research base and pool of talent, but for the creation of suitable lab space at a reasonable cost point for starting and growing businesses. They are particularly attractive as they also support collocation with the research base and other companies.

**UK export loan** – It was raised as an example of a potentially very attractive policy but that it was not widely known about.

remove need for any wet signatures or postal elements to applications.

- Consider options for payment in advance for orders placed rather than in arrears.

- Continue to work with businesses to ensure this significant investment is well used and becomes an asset rather than a hindrance to the business and skills environment in the UK. Particularly look at it to see how it can support the Government's ambitions to grow the UK's R&D intensity and knowledge economy.

- Incubator space and lab space for small companies is expensive to build. It was suggested that Government explore creative ways to support and incentivise creation of such space and facilities. This could be through supporting building costs which it has done to great effect at e.g. Babraham, or through other incentives e.g. for developers and working collaboratively with local and regional government. In the past, such investment has been successful when it has been strategically located where there is already known demand and relevant expertise and associated infrastructure, rather than on a 'build it and they will come' basis.

New policies and incentives to consider

IDEA	RATIONALE
<p><b>Introduce a subsidy for hiring R&amp;D staff through payroll</b> – e.g. Belgium has an 80% exemption of payroll taxes on salaries, leading to an effective reduction of employment costs, for qualifying workers.</p>	<p>Simple for employers and provides immediate relief and incentive that would lower barriers to growth in small firms and reward creating skilled jobs in the UK.</p>
<p><b>Regulators and regulation that support innovation</b> – CaSE has previously recommended that the UK adopts the innovation principle in all policy and regulatory decisions, meaning the question 'what impact will this policy or regulation have on innovation?' is consistently built into decision making.</p>	<p>It was raised that the UK needs regulation and regulators that keep pace with innovation and new developments through being engaged with their sector so that regulation supports sustainably innovation rather than being a hinderance – lagging behind new developments. This is particularly important if the UK is to pull research through to innovation, create new markets and be an first or early mover for new, disruptive technologies. The UK has a history of being able to do this well.</p>
<p><b>Make use of HMRC data on R&amp;D happening in the UK</b></p>	<p>HMRC has a full library of R&amp;D projects that have made use of R&amp;D tax credits in the UK. Some resource should be allocated and used to analyse the data including assessing ROI, this could be used to set a baseline in monitoring impact of industrial strategy and informing 2.4% policies and timelines, and grow the evidence base.</p>
<p><b>Patient capital</b> – Be bold in introducing reform to encourage and incentivise patient capital investment, including enabling/incentivising pension funds to invest, and explore options for direct investment from the population/public through income tax break for investment in SMEs or a form of crowd funded investment.</p>	<p>New initiatives on patient capital have potential and are much needed due to lack of 'long runway' for new and scaling companies in the past leading to early sale or moving out of the UK.</p> <p>Pension funds, including large public sector pension funds, would provide a ready source of substantial patient capital.</p> <p>The public already support significant investment in R&amp;D through giving to medical research charities. Could there be scope for creating a fund for the public to support other areas through giving which attracts income tax breaks or as an investment such as through creation of an innovation ISA or some other pooled fund to provide patient capital. This would enable more of the public who wouldn't participate in SEIS to support but also benefit from research and innovation success.</p>

## IDEA

**What is the UK's offer?** How would someone new to the system or considering their options (eg to start up, invest, locate) assess how attractive a location the UK is when compared internationally or how would they find out what options and support are available to them? Attendees considered the current UK offer to be dispersed and information and support hard to find unless you know what's there; and that proactive pitching is needed particularly in the context of Brexit. There are lots of good activities, opportunities, infrastructure, incentives etc but they aren't clearly articulated, visible to the right audiences, proactively 'sold' or pulled together to create a 'pitch' for the UK either online, or in other places. This will need to be addressed both to reach the 2.4% target but also to gain most benefit for the UK from Government's activities.

## RATIONALE

Too many different online pages with different parts of offer and don't coherently sell the UK and clearly set out the UK offer with clarity about support and opportunities available ([DIT website](#), [Britain is Great](#), [Great business](#), [DIT why set up in UK](#), [Schemes to help your business innovate and grow](#) (one of many guidance notes)). The pages largely get lost in the gov.uk site and the format of the gov.uk site isn't conducive to the kind of 'pitch' and collating of data and information in one place that is needed. Overhaul UK online offering both to package and sell the UK offer and to signpost relevant audiences.

Simple, clear comms needed with intelligent targeting (e.g. work with office space providers, incubators, known points of contact such as companies house, HMRC, embassies in the UK or UK embassies internationally). This must be accompanied with sufficient resource to support interest generated as a result.

Example of simple, clear comms was the [#makeinIndia website](#) and campaign.