

Investing in UK R&D

There is broad consensus across the political spectrum to increase total investment in UK research and development (R&D). The Government has committed to meet a target of 2.4% of GDP invested in UK R&D within ten years, and a longer-term goal of 3%.

Increasing overall investment is the target. To deliver this we need an Industrial Strategy that will create a vibrant environment that fosters research and innovation throughout UK public services, universities and businesses and attracts global investment, incentivising companies to locate their R&D here. Only by doing this will we improve the health and wealth of the nation.

In 2015 **£31.6bn** was invested in R&D in the UK (up from £30.6bn in 2014)¹.

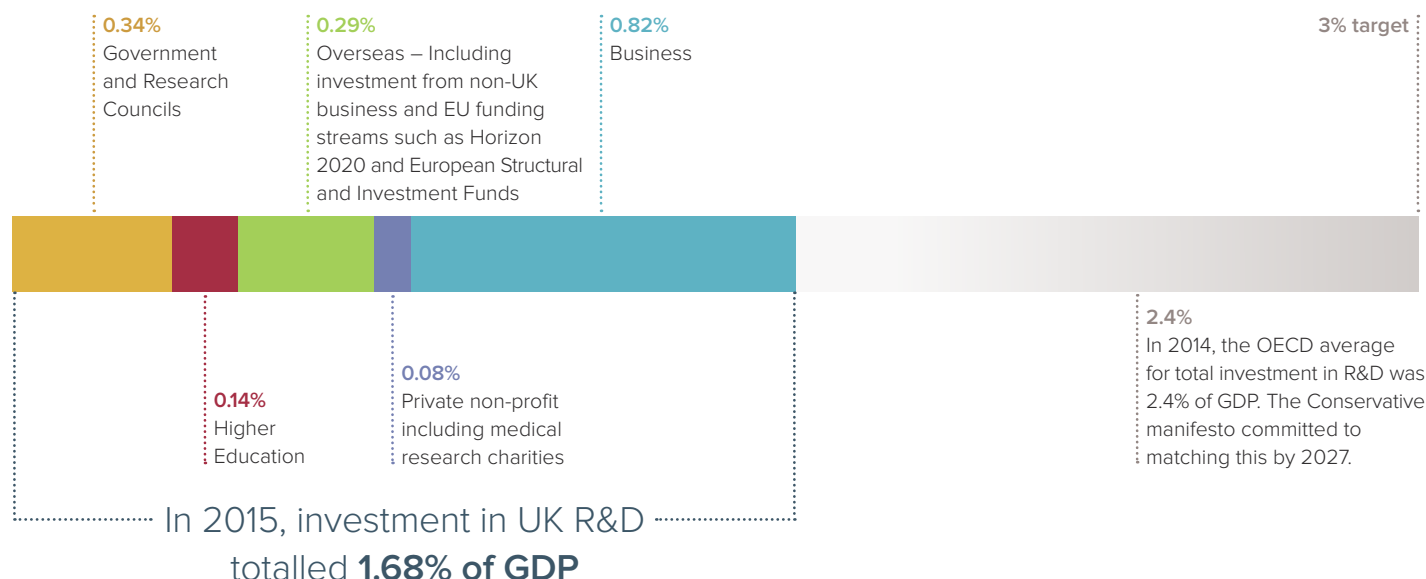
This document outlines the current investment landscape, why the 3% target is important for the UK and factors that should be considered to deliver it.

What is R&D?

R&D is defined as creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society and the use of this stock of knowledge to devise new applications and includes basic research, applied research and experimental development².

Innovation often draws on R&D, but R&D is not always part of the activity of innovation. An innovation is defined as the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations³.

FIGURE 1 Where are we now? Total investment in UK R&D as a percentage of GDP



Source: ONS (2015) UK gross domestic expenditure on research and development. Note – figures are rounded.

1. OECD Main Science and Technology Indicators (2014).
2. Frascati Manual: <http://www.oecd.org/science/inno/frascaticmanualproposedstandardpracticeforsurveysonresearchandexperimentaldevelopment6thedition.htm>
3. OECD Oslo Manual.

Why is investment in R&D important?

Research and innovation benefits people in the UK and around the world by underpinning our industries, creating jobs and applications that improve the quality of our lives and enriching our cultural wellbeing.

Innovation is instrumental in delivering the economic and productivity gains associated with investment in research. The UK's worldleading research base provides an excellent source of new ideas and discoveries, which, through

innovation can result in advances in our economy, social wellbeing and health. This boosts the capacity of the economy to produce more in the long term.

To innovate, we need to invest in research to drive new breakthroughs, and in the innovation system to develop these ideas into new and improved products, services and approaches.

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Around **25% of the world's top 100 prescription medicines** were discovered and developed in the UK⁴.

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Firms that consistently invest in R&D are **13% more productive** than firms that don't invest in R&D⁷.

The UK is a world leader in climate science, and the **second largest contributor of expertise to the Intergovernmental Panel on Climate Change (IPCC)** process that informs international decision making about climate policies⁵.

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The UK has a strong history of leadership in machine learning – a technology which shows promise of supporting **potentially transformative advances in a range of sectors** including healthcare, transport and public services⁸.

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The UK creative economy comprises an estimated **2.9 million jobs**, or 1 in 11 of all UK jobs⁶.

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4. BMI Research, "United Kingdom Pharmaceuticals & Healthcare Report, Q1 2016", p. 61.

5. Calculated from the annex of author and expert reviewers in the IPCC's Fifth Assessment Report. Total authors and reviewers = 1878, UK based authors and reviewers = 265.

6. Creative Industries Council 2016.

7. Cable, V (2014) Innovation and the UK knowledge economy.

8. Royal Society (2017) Machine learning: the power and promise of computers that learn by example.

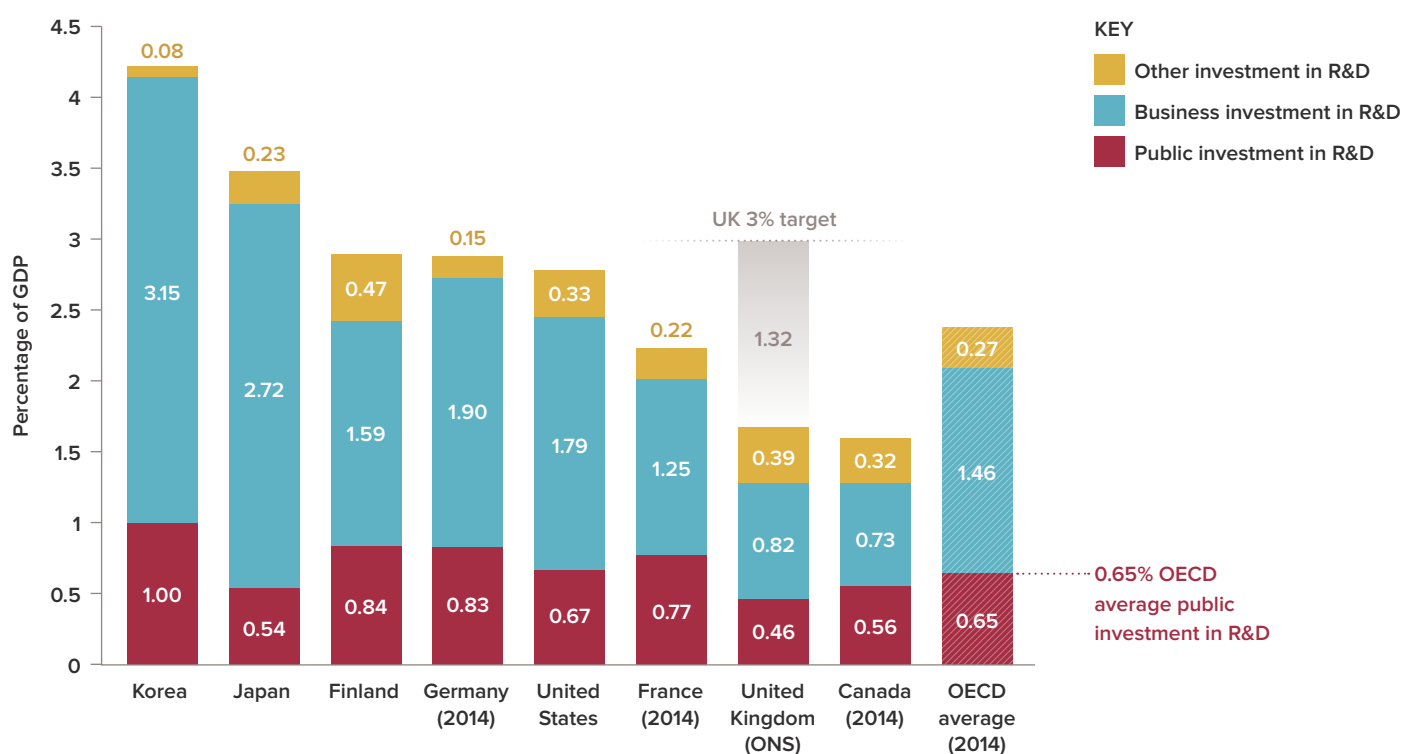
A race to the top: How does the UK compare to its global competitors?

Most companies, including those established in the UK, have to make global decisions about where to situate their high value R&D activities. In this highly competitive and internationalised environment countries must offer a competitive research, innovation and business environment if they want to attract skilled people and companies.

The UK invests a lower percentage of GDP in R&D than most of our competitors, many of whom have also launched specific strategies targeted at boosting their innovation performance, including increasing their R&D investment.

To compare data on investment with other OECD countries, publicly funded R&D has been grouped together. For the UK, public investment includes Government and Research Council investment as well as Higher Education Funding Council (HEFC) investment. Overseas, private non-profit and non-HEFC Higher Education investment are grouped under 'other investment in R&D'.

FIGURE 2 How does UK investment in R&D compare internationally?



Note – figures are rounded.

Please note, ONS data has been used for the UK for greater accuracy⁹. The latest available data has been used for each country. Some countries have not published data for 2015, in which case 2014 data has been used¹⁰.

9. ONS data has been used for the UK for greater accuracy (2015 data).

10. OECD Main Science and Technology Indicators 2015. Data comparator countries shown.

Future spending commitments

In 2015, public investment in UK R&D totalled £8.8bn – approximately 0.46% of GDP. In the 2016 Autumn Statement, the Government committed to investing an additional £4.7bn in science and innovation over a four year period as part of the National Productivity Investment Fund. By the 2020 – 21 spending period this would mean an additional investment of £2bn in R&D per year. This commitment was reaffirmed in the Conservative manifesto.

GDP is not a static figure, but if it remained at 2015 levels, this increased public investment would represent 0.57% of GDP, up from 0.46% GDP but not quite reaching the OECD average of 0.65%¹¹.

However the target of 3% of GDP also includes investment in research and development from business and non-profit organisations (e.g. medical research charities) and, while we know that government investment in research and innovation leverages other investment, this is harder to project.

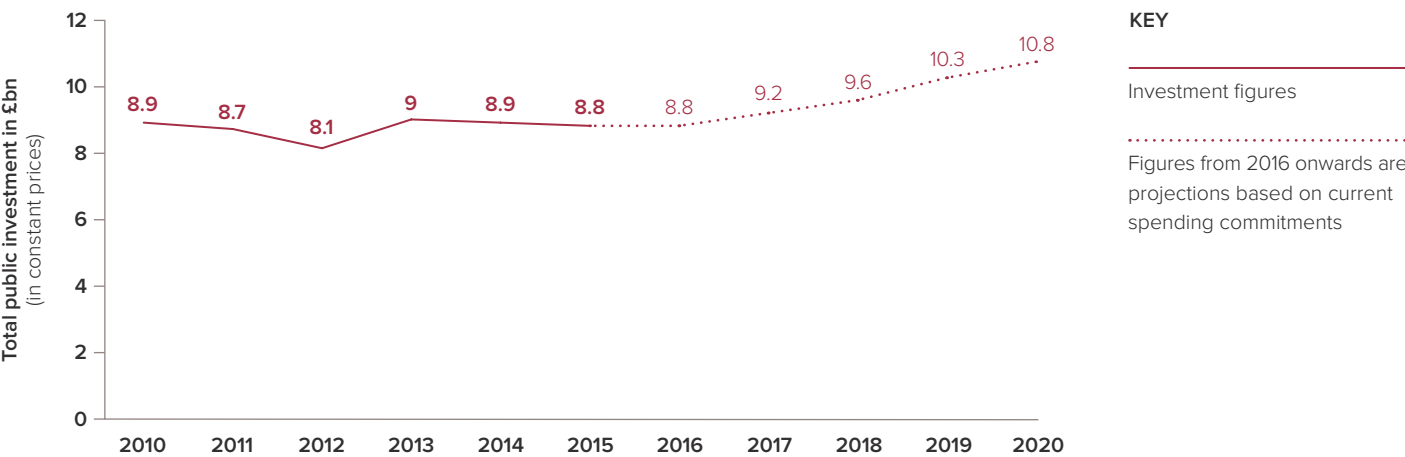
In 2015, public investment in UK R&D totalled **£8.8bn**.

Overseas investment, including investment from the EU (such as Horizon 2020 and European Structural and Investment Funds) also makes a significant contribution towards the target and leverages other investment. Future engagement with these funding programmes is not clear.

In the 2016 Autumn Statement the Government committed to investing an **additional £4.7bn in science and innovation** over a 4 year period.

Over the current spending period, Horizon 2020 and European Structural and Investment Funds have provided UK organisations with circa **£0.97bn a year**¹².

FIGURE 3 Public investment in UK R&D: 2010 – 2020



Source: Autumn Statement (2016) HM Treasury. ONS (2015) UK gross domestic expenditure on research and development.

11. OECD Main Science and Technology Indicators (2014).
12. Technopolis for the Academy of Medical Sciences, British Academy, Royal Academy of Engineering and Royal Society (2017) The role of EU funding in UK research and innovation.

Delivering 3%: Factors we need to consider

Recent increases in government investment in R&D are welcome, but this alone will not be sufficient to make the UK the most innovative country in the world. To develop an effective Industrial Strategy we need to better understand

the delicate and interconnected nature of the UK's research and innovation ecosystem to identify where changes to funding, infrastructure and regulation may have impacts on other aspects of the system.

Seed corn funding, small amounts of funding in areas where little funding is available, or funding that offers researchers mobility and encourages collaborations can have a bigger impact than monetary values might suggest.

There is considerable uncertainty over future EU investment in UK research and innovation. Research shows that for every €1 spent to support R&D by the European Commission, a further €0.74 will be invested by universities, companies or other stakeholders¹⁵.

For every £1 spent by the government on R&D, private sector R&D output rises by 20p per year in perpetuity, by raising the level of the UK knowledge base¹³.

39% of UK firms have difficulties recruiting staff with skills in science, technology, engineering and mathematics¹⁶.

In 2015, over half of the UK's research output was the result of an international collaboration and these collaborations are increasing in absolute terms, and as a proportion of the UK's research output¹⁴.

Changes to migration rules and regulation may impact on highly mobile and internationally collaborative researchers, entrepreneurs and the global workforce of large research-intensive businesses.

13. Jonathan Haskel, Alan Hughes, Elif Bascavusoglu-Moreau (2014) The Economic Significance of the UK Science Base A REPORT FOR THE CAMPAIGN FOR SCIENCE AND ENGINEERING.

14. Royal Society (2016) UK research and the European Union: the role of the EU in international research collaboration and researcher mobility.

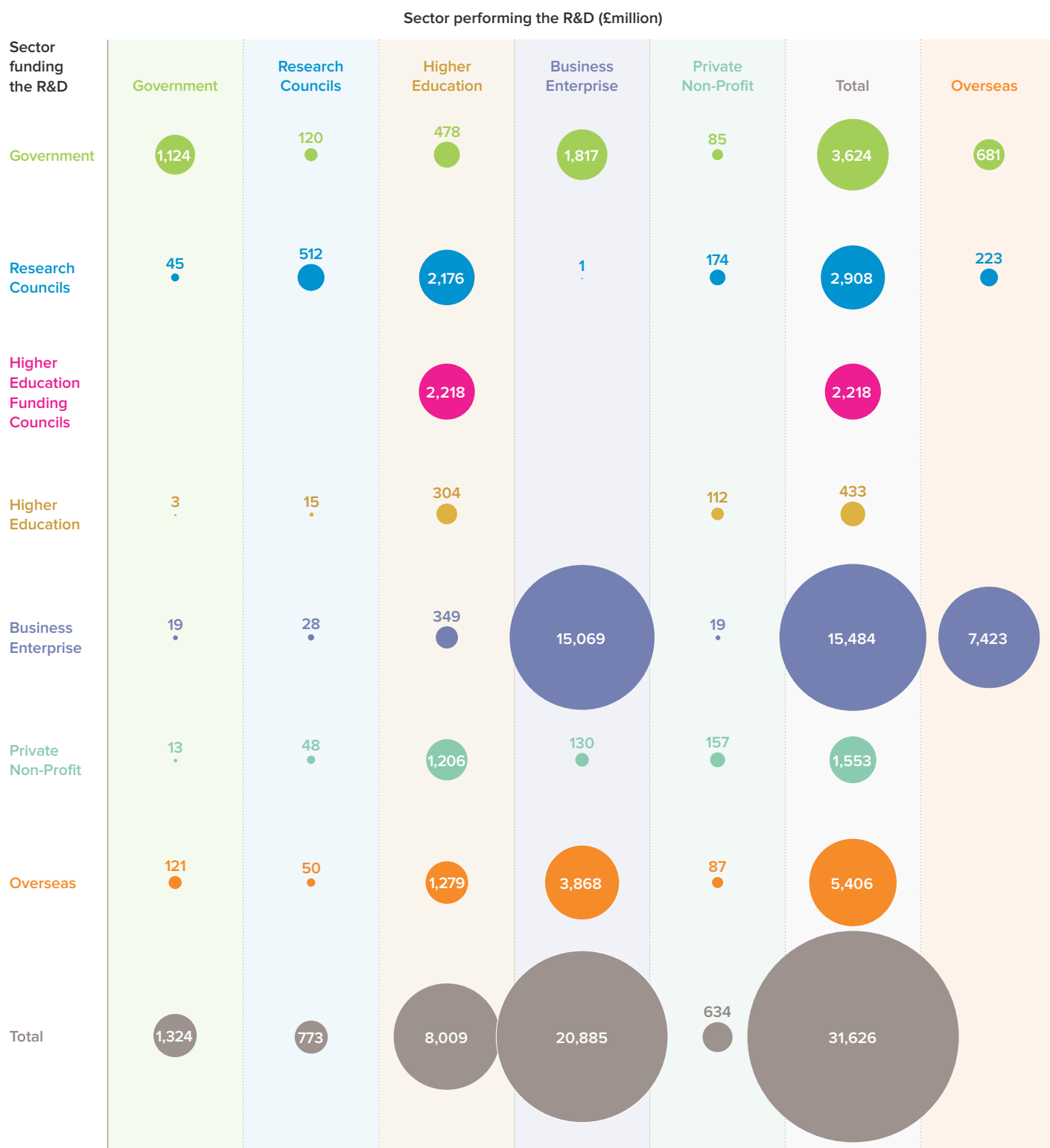
15. Adams J (2013) The fourth age of research. Nature, 497, 557-560.

16. CBI/Pearson (2014) Gateway to growth:CBI/Pearson education and skills survey 2014.

UK R&D is funded and performed by multiple organisations

R&D is funded and performed by many different players in its research and innovation ecosystem, with multiple interdependencies between these players. A successful Industrial Strategy should recognise and use these interdependencies to develop a cohesive system.

FIGURE 4 Relationship between funders and performers of UK R&D

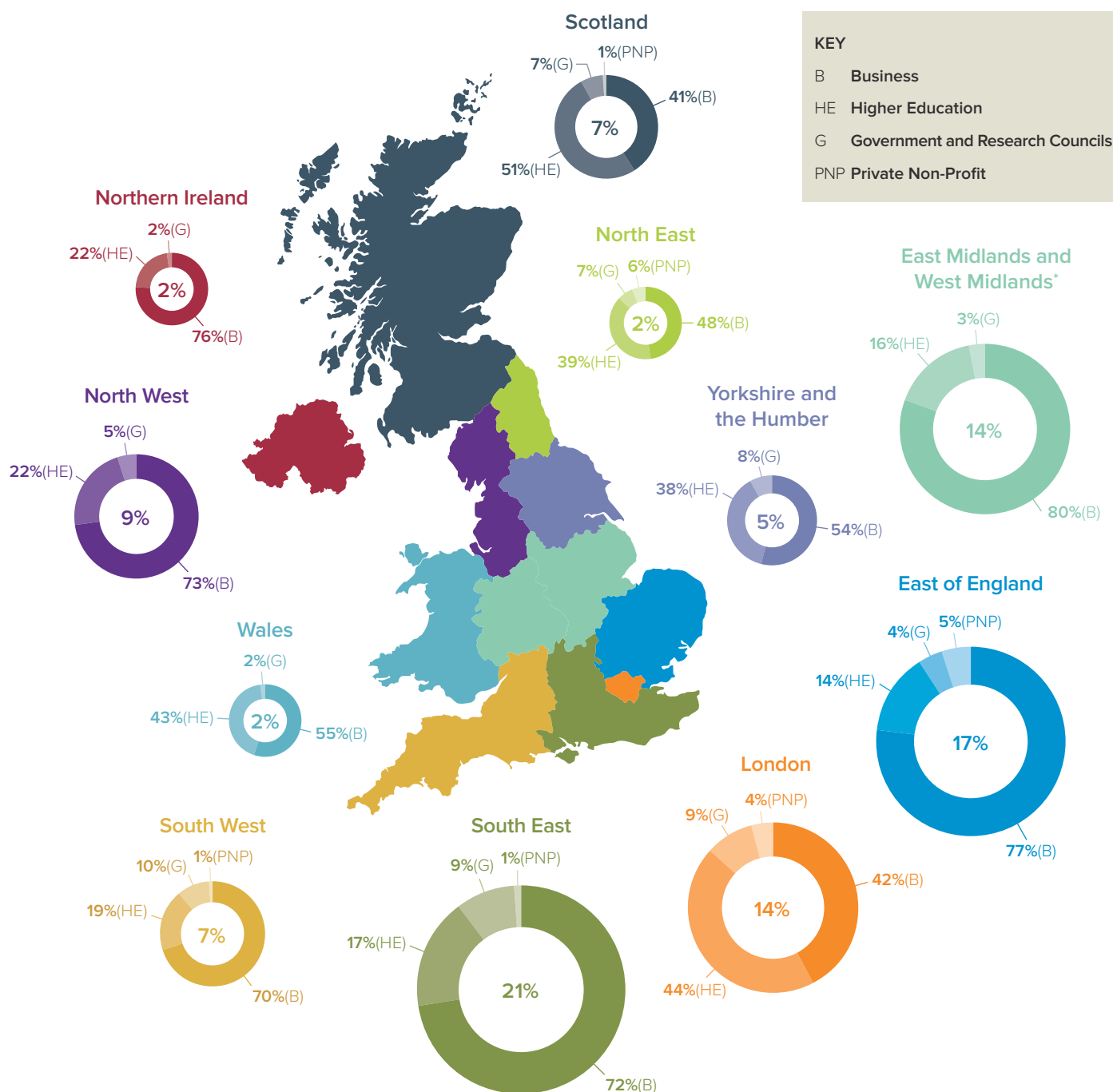


Source: ONS (2015) UK gross domestic expenditure on research and development.

Different UK regions have different strengths and dependencies

Different regions have different strengths and dependencies. A successful Industrial Strategy should present a national vision while recognizing that the UK and its industries are not uniform.

FIGURE 5 Where is investment in UK R&D spent?



Note – figures are rounded.

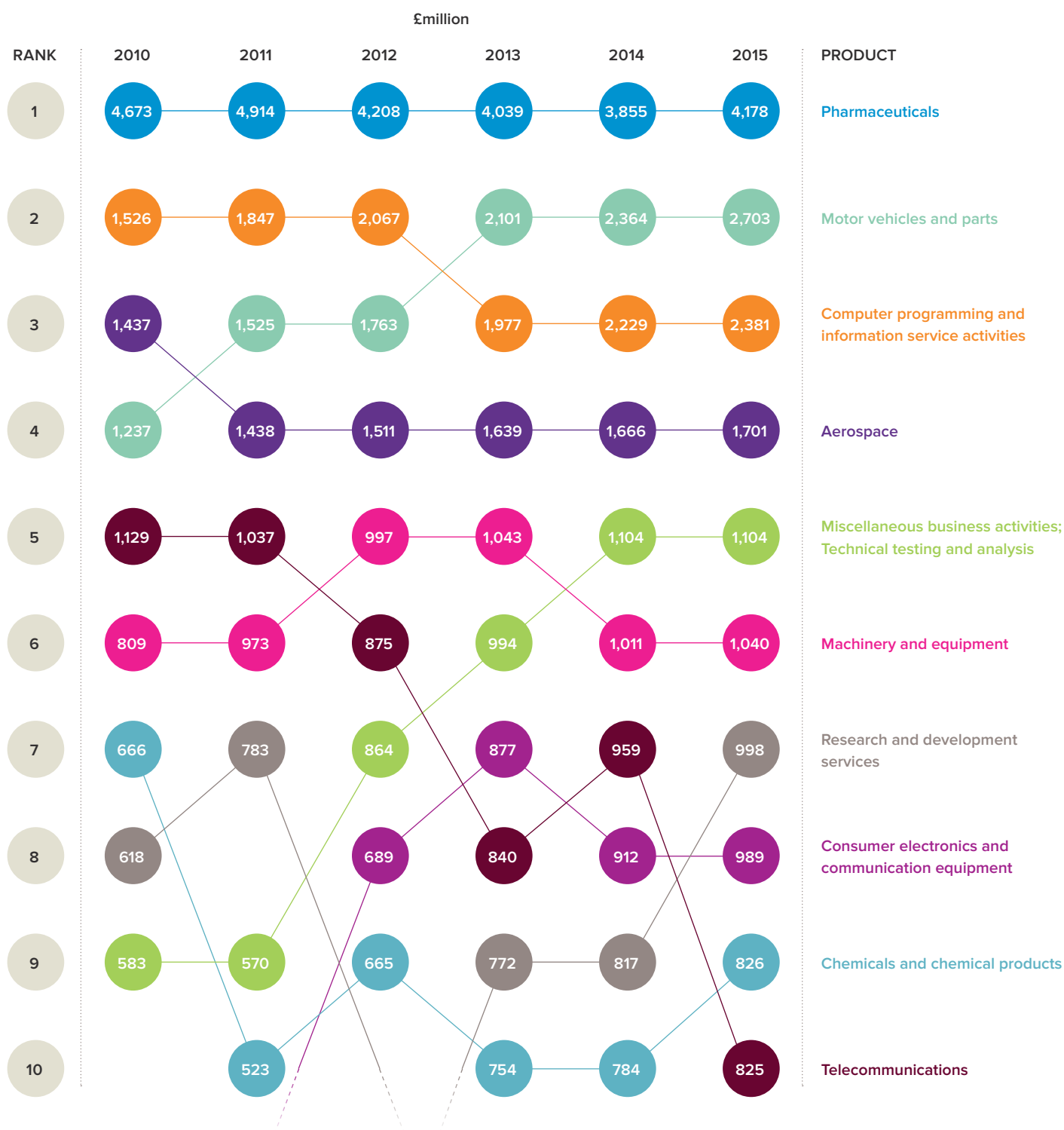
Source: ONS (2015) UK gross domestic expenditure on research and development.

*East Midlands and West Midlands regions' data were combined in 2015 due to confidentiality.

The UK's industries are not uniform and investment in R&D changes over time

The UK's industries are not uniform but change over time. A successful Industrial Strategy will need to consider how to capitalize on the existing strengths within sectors as well as taking advantage of upcoming opportunities in emerging sectors.

FIGURE 6 Top 10 business sectors performing R&D in the UK



Source: ONS (2015) Business enterprise research and development.