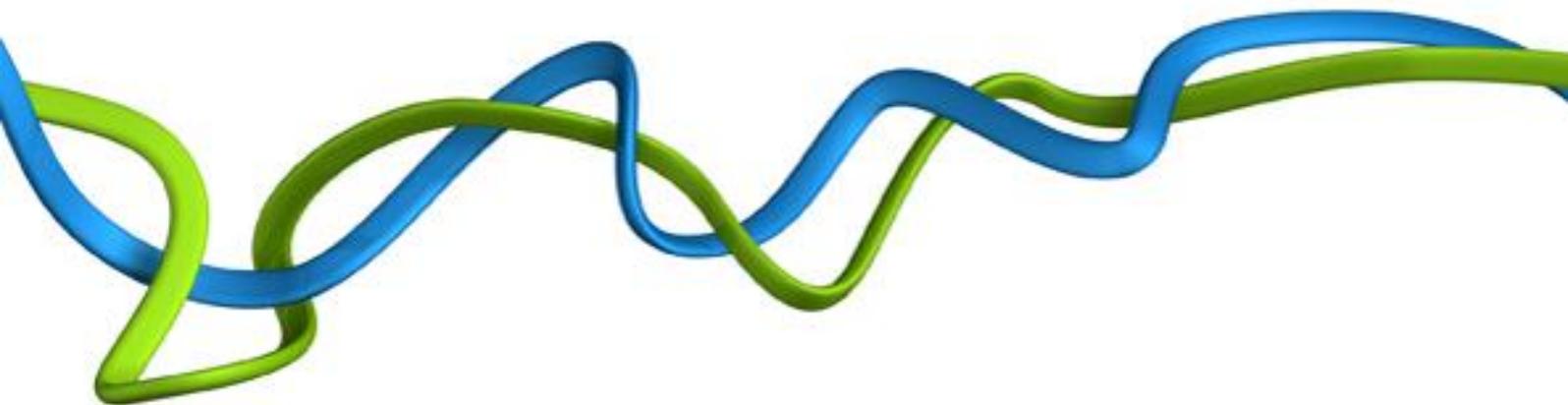


Review of the Small Business Research Initiative (SBRI)

Department of Business, Energy and Industrial Strategy

Submission from the Royal Academy of Engineering

February 2017



About the Royal Academy of Engineering

As the UK's national academy for engineering, we bring together the most successful and talented engineers for a shared purpose: to advance and promote excellence in engineering.

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Introduction

- Public procurement provides a crucial opportunity to stimulate innovation and the Academy welcomes government's recognition of this, both by conducting this review and the inclusion of Improving Procurement as a pillar in the Industrial Strategy. However, the perception remains that public procurement decisions continue to prioritise low cost over best value, and risk aversion hinders the introduction of innovative solutions. In 2014 the Academy published a report entitled *Public projects and procurement in the UK* which set out how an engineering systems approach could help the UK government meet its tactical, operational and strategic objectives for procurement. Its key findings remain relevant and could usefully inform this review and the wider Industrial Strategy consultation.

Q24. What measures could the government take to improve the structure and design of SBRI?

- SBRI offers companies the opportunity to receive full cost contracts to develop and test innovative solutions to problems faced by the public sector. For small innovative companies being awarded a contract from real customers can help them demonstrate their own feasibility as functional companies, including by demonstrating a revenue flow. Unlike funding from many innovation grants, the contracts awarded by SBRI cover full costs and do not require match funding from another source, factors which are appealing to small companies. Nevertheless, despite characteristics which should be favoured by small innovative businesses, SBRI has not yet met the expectations placed on it by government.

Q25. How can government improve its use of SBRI?

- The utilisation of SBRI has varied considerably between government departments and agencies, but the overall consensus is that SBRI has been significantly underutilised. Action needs to be taken to increase the use of SBRI across all appropriate government departments and agencies. Government has a role in articulating to its departments and agencies that investment in innovation is a means of fuelling our future prosperity and that responsible risk taking can deliver better value for the UK from procurement. Consideration should also be given to the provision of incentives, financial or otherwise, to increase participation.
- The Academy has heard concerns that a perceived lack of clarity regarding the leadership, ownership, funding and governance of the scheme may have contributed to SBRI not fulfilling its potential. Clear and vocal leadership of the scheme across the whole of government would be welcome, along with strong partnerships between Innovate UK and the participating government departments and agencies. This would be delivered most effectively by assigning responsibility for the overall coordination and implementation of SBRI to a Cabinet minister.
- To encourage increased participation and effective use of SBRI, best practice from departments and agencies that are perceived as having successfully utilised the programme should be shared. As has been demonstrated in the US, success of the

scheme requires that the public sector officials involved have the specific skill sets to be intelligent lead customers. It will be essential that the necessary support and training is provided to ensure public sector participants are able to fulfil the role of intelligent lead customers.

- As for public sector procurement in general, a cultural tendency towards risk aversion may be a contributing factor to why SBRI is not fulfilling its potential. Establishing and accepting an appropriate level of risk is essential if opportunities to stimulate innovation provided by procurement are to be exploited. SBRI's phased development programme is designed to minimise risk by allowing for a more mature assessment to be made of risk, programme requirements and costs. There is a role for government to promote greater understanding of the way SBRI operates within its departments and agencies. Visible support from a Ministerial Champion and Departmental Champions tasked with promoting the benefits of SBRI would be helpful.

Q26. How can government raise the profile and awareness of SBRI to help more businesses commercialise their innovative ideas?

- There is a need for the profile and awareness of SBRI to be raised among target businesses. It is notable that several SMEs within the Academy's network were unaware of SBRI, despite knowledge and experience of other Innovate UK schemes. The Academy has previously stated that a reinvigoration of SBRI to emphasise its potential role in improving procurement, alongside its role in stimulating R&D and innovation, would be welcome. Consideration should be given as to whether the name 'Small Business Research Initiative' satisfactorily reflects the nature of the scheme to the target audience of innovative businesses.
- The promotion of SBRI needs to be expanded and should be shared via the many existing business networks throughout the UK, including the Sector Leadership Councils and regional business networks. SBRI should also be promoted through the supply chains of large companies who already have contracts with government departments and agencies.
- It is well established that the landscape of publicly funded schemes to support businesses is complex and there is a clear need for simplification. As detailed in the Dowling Review of Business-University Research Collaborations, businesses, especially SMEs, could be deterred from applying for support due to the sheer complexity of the funding and support landscape. Consequently, it is crucial that any reinvigoration of the scheme does not further complicate an already complex landscape. Innovate UK has made considerable progress towards tackling the complex innovation support landscape and is therefore well placed to ensure any reinvigoration of the SBRI scheme will achieve maximum impact.

Q27. How does SBRI compare to any other innovation programmes you are aware of? Does it offer something better or different?

- SBRI is novel as it is an innovation support scheme with a clear emphasis on procurement. As already mentioned, public procurement provides a crucial opportunity to stimulate innovation and the government's inclusion of Improving Procurement as a pillar in the Industrial Strategy is welcomed. However, it is clear that government could

do more to use the limited budgets and complex specification often associated with public sector procurement as a catalyst for driving innovative solutions across government.

- SBRI appears to operate in a largely one directional manner, requiring the identification of problems by government departments and agencies for which they have an appetite for innovative solutions. By operating in such a one-directional manner the flow of innovative solutions into government is restricted. Forums in which companies and entrepreneurs can present innovative ideas to government departments and agencies should be encouraged. Such activities could then be used to shape SBRI competitions. The Academy would welcome the opportunity to explore how it could support the development of such activities with government and Innovate UK.

Q28. Are there areas of the public sector where you think SBRI has particular relevance and is underused?

- SBRI has a particular relevance to areas of the public sector that have a near monopoly in the UK market, such as health and defence. In comparison to the health sector, the defence sector has made more progress using procurement as a tool to drive innovation despite the clear need and opportunity to improve both procurement and innovation in the NHS. The Industrial Strategy's focus on procurement in these two key industries is welcome. However, all areas of public sector should be encouraged to explore how innovative solutions could be used to address problems.

Q30. Are there any other comments you would like to make about the SBRI programme?

- Navigating public sector procurement in the UK is not simple, especially for inexperienced SMEs who are often time and resource poor. Once SMEs are engaged with the SBRI programme, regardless of whether or not they are successful, consideration should be given to providing guidance to these companies about how to navigate the wider public procurement environment.
- SBRI could be better integrated with other knowledge exchange activities. SBRI could be used to facilitate the formation of new partnerships for commercial exploitation among potential bidders. As recommended in the Dowling Review, SBRI could also be used to introduce unsuccessful bidders to the opportunities collaboration can bring, and the variety of support schemes available, of which they may have been previously unaware.
- Large companies can act as traction engines that pull through the development and innovations of smaller companies in their supply chains. Government should explore if large companies already involved in public sector procurement could be incentivised to drive innovation in their supply chains as part of SBRI.