

Boosting finance for the UK's Industrial Strategy

THE ICAEW INNOVATION INVESTMENT CONFERENCE
CHARTERED ACCOUNTANTS' HALL, LONDON, 4 JULY 2018

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Connected capital

This summary has been devised for participants in ICAEW's Innovation Investment conference 'Boosting Finance for the UK's Industrial Strategy' at Chartered Accountants' Hall on 4 July 2018.

The conference is the first of its kind to bring together policymakers, government agencies, technologists, companies, investors and advisers since the government published its Industrial Strategy white paper in November 2017.

In this publication, we have linked the four 'Grand Challenges' in the strategy together with the 'sector deals' and the 14 challenges announced so far as part of the Industrial Strategy Challenge Fund, to which the government has committed £725m, with additional commitments by the private sector likely to take the total well above £1bn. We also welcome the recent creation of UK Research and Innovation (UKRI), which has brought together the seven Research Councils, Innovate UK and a new organisation, Research England.

ICAEW is collaborating closely with the government and many business organisations to ensure the success of the Industrial Strategy, which is intended to boost research and development (R&D), economic productivity and investment, particularly in the context of Brexit. It is encouraging that ICAEW's latest Business Confidence Monitor for Q2 2018 found that a general pick-up in business confidence at the time had underpinned the biggest increase in R&D budgets since 2014.

Thank you to all the participants in the conference and to my ICAEW colleagues who have organised it, in particular the Corporate Finance Faculty.

A handwritten signature in black ink that reads "Michael Izza". The signature is written in a cursive, slightly slanted style.

Michael Izza, Chief Executive, ICAEW

The UK in the world

The government published its white paper **Industrial Strategy: Building a Britain Fit for the Future** on 27 November 2017. Theresa May, the Prime Minister, and Greg Clark, Secretary of State for Business, Energy and Industrial Strategy, said that the aims of the strategy were to build on the country's strengths in a global 'new industrial revolution', address its weaknesses in economic productivity and embrace Britain's decision to leave the EU in order to 'trade more not less'.

The government considers ideas, people, infrastructure, the business environment and places to be foundations of the economy.

In this short document, we have grouped together three major elements of the Industrial Strategy: four '**Grand Challenges**', the new **Industrial Strategy Challenge Fund** and '**sector deals**'. Although these groupings require a certain amount of simplification, they are a useful way to summarise the implementation of the strategy so far.



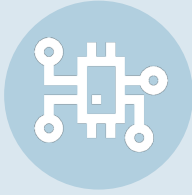
***Total UK R&D investment
as % of GDP (2016)***

1.7%

***Industrial Strategy target for
UK R&D as % of GDP by 2027***

(to at least meet the 2015 OECD average)

2.4%



AI AND DATA ECONOMY

'Putting the UK at the forefront of the artificial intelligence and data revolution.'



CLEAN GROWTH

'We will maximise the advantages for UK industry from the global shift to clean growth.'

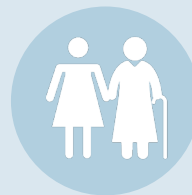
***One strategy,
four Grand Challenges***

The government has devised four Grand Challenges to put the UK 'at the forefront of the industries of the future'



FUTURE OF MOBILITY

'We will become a world leader in the way people, goods and services move.'



AGEING SOCIETY

'We will harness the power of innovation to help meet the needs of an ageing society.'

Boosting finance

INDUSTRIAL STRATEGY CHALLENGE FUND

For the Industrial Strategy Challenge Fund, the government has worked with businesses and academics to identify the core industrial challenges where the UK has a world-leading research base and businesses ready to innovate, and there is a large or fast-growing and sustainable global market.

The Industrial Strategy includes four Grand Challenges (as set out in the following pages). The Industrial Strategy Challenge Fund will be used to invest in 14 industry challenges that have been announced so far, with the aim that private-sector funding will also be committed to complement the public investment in each challenge. The 14 industry challenges were announced in Waves 1 and 2. Proposals for Wave 3 challenges are still under discussion.

The Industrial Strategy Challenge Fund is being managed by UKRI and delivered by its Innovate UK arm.

BRITISH PATIENT CAPITAL

Separate investment programmes from the Industrial Strategy include British Patient Capital, which is managed by the British Business Bank, the government-owned but independently managed development bank. The aim of British Patient Capital is to boost long-term investment in high-growth-potential companies.

The British Business Bank has supported more than £4bn of finance for more than 65,000 smaller companies and participated in a further £6.6bn for mid-cap businesses since it was launched in 2014.

Source: British Business Bank

The recent government review 'Financing growth in innovative firms' led to an additional £2.5bn of 'patient capital' being provided via the British Business Bank.

UK RESEARCH AND INNOVATION

The Industrial Strategy Challenge Fund is delivered by **UKRI**. Formed in 2018, UKRI is a new non-departmental public body that brings together the seven Research Councils, Innovate UK and a new organisation, Research England. UKRI will manage a total budget of more than £6bn. It published its first strategy and corporate plan in May 2018.

Innovate UK, the country's business-led innovation agency that is playing a central role in delivering the Industrial Strategy, has invested £6bn+ since 2007.

SECTOR DEALS

'Sector deals' are partnerships between the government and industry on sector-specific issues intended to boost productivity, employment, innovation and skills.

Sector deals have been announced for: life sciences, automotive, creative industries, artificial intelligence, nuclear and industrial digitalisation/'Made Smarter'. A sector deal for the construction industry is expected to be announced very soon.

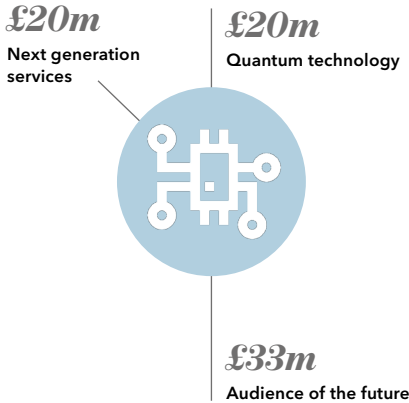
Sources: HM Government; ONS; OECD; Innovate UK

ESTIMATED PAST COMMERCIAL GROWTH FINANCE INVESTMENT IN EACH 'GRAND CHALLENGE'

For this publication, ICAEW asked research and data firm Beauhurst to estimate total equity investments for minority stakes in UK early-stage ventures and companies that could be broadly classified as complementing each 'Grand Challenge'. These are indicators of the level of potential commercial and public-private venture capital and growth finance that could be attracted to each challenge. The estimates do not include direct investment by the government or by government agencies in companies, but they do include deals by funds in which the government is itself an investor, such as funds supported by the British Business Bank.

AI and data economy

INDUSTRIAL STRATEGY CHALLENGE FUND COMMITMENTS



Source: government and UKRI announcements

SECTOR DEALS

- Artificial intelligence
- Creative industries

ESTIMATED COMMERCIAL GROWTH FINANCE INVESTMENT IN 'AI AND DATA ECONOMY' VENTURES

£3.0bn

total equity investment in growth capital deals 2011–2017

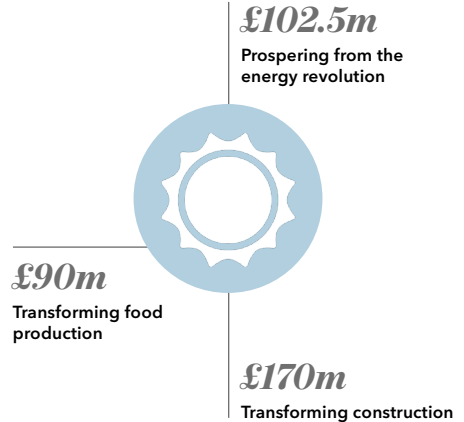
£333.1m

total equity investment in university spin-out deals 2011–2017

Source: Beauhurst

Clean growth

INDUSTRIAL STRATEGY CHALLENGE FUND COMMITMENTS



Source: government and UKRI announcements

SECTOR DEALS

- Construction (to be announced shortly)
- Nuclear industry

ESTIMATED COMMERCIAL GROWTH FINANCE INVESTMENT IN 'CLEAN GROWTH' VENTURES

£2.0bn

total equity investment in growth capital deals 2011–2017

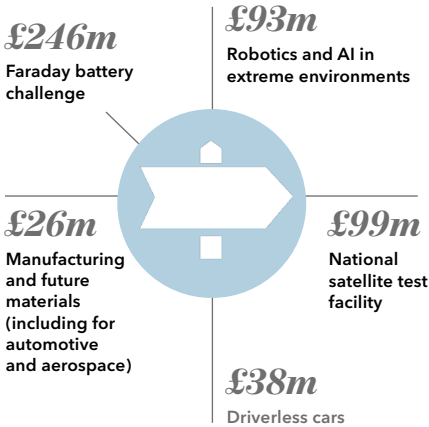
£332.7m

total equity investment in university spin-out deals 2011–2017

Source: Beauhurst

Future of mobility

INDUSTRIAL STRATEGY CHALLENGE FUND COMMITMENTS



Source: government and UKRI announcements

SECTOR DEALS

- Automotive
- Industrial digitalisation/'Made Smarter'

ESTIMATED COMMERCIAL GROWTH FINANCE INVESTMENT IN 'FUTURE OF MOBILITY' VENTURES

£0.7bn

total equity investment in growth capital deals 2011-2017

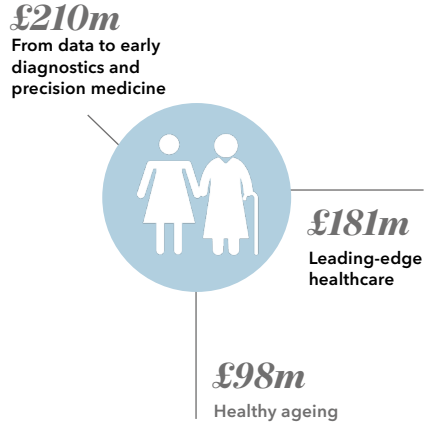
£57m

total equity investment in university spin-out deals 2011-2017

Source: Beauhurst

Ageing society

INDUSTRIAL STRATEGY CHALLENGE FUND COMMITMENTS



Source: government and UKRI announcements

SECTOR DEALS

- Life sciences

ESTIMATED COMMERCIAL GROWTH FINANCE INVESTMENT IN 'AGEING SOCIETY' VENTURES

£1.4bn

total equity investment in growth capital deals 2011-2017

£578m

total equity investment in university spin-out deals 2011-2017

Source: Beauhurst

This outline devised by
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Thanks to:

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