CBI

Strategic partner

SOURCE ADVISORS

INNOVATION INVESTMENT

Firm foundations for growth

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Foreword from the CBI

Throughout the history of our country, the UK's economic success has been built on the ideas of people who have risked doing things differently: from the Industrial Revolution and the steam engine, to today's trailblazers in health and life sciences, companies who build offshore wind platforms, and innovators in our world-leading financial services sector.

Ingenuity and inspiration alone are not enough to bring an idea to life. Businesses need confidence to continue to take those risks and invest in new technologies, new ways of working, and new business models. If the government is serious about driving growth, they need a laser focus on giving businesses that confidence and unlocking innovation investment. This will be the cornerstone of the UK's future growth, and ensure firms can deliver the best products and services for customers.

Over the past 18 months, this government has set out strategies and plans aiming to give businesses that confidence: the most ambitious Industrial Strategy in years, the first Trade Strategy since Brexit, and the first serious Infrastructure Strategy in over a decade. But strategies alone do not bring ideas to life; we need delivery.

This report outlines three major shifts in the UK policy system to effectively deliver on those plans and unlock business innovation investment in the UK: **making innovation for growth a whole-of-government responsibility**; **shifting gears from strategy to delivery – fast**; **and building the UK's market for innovation**.

If we get this right, by aligning policy, accelerating delivery and building a vibrant market for innovation, we can make the UK once again the best place in the world to innovate, invest and grow.

The CBI is deeply grateful to our strategic partner, Source Advisors, for their valuable contributions to this work, including their strategic input, deep knowledge of the innovation landscape, and business insight. We are also grateful to the many firms that fed into this work, whose insights, honesty and ambition form the backbone of this report. Their insight is clear: the UK has the ideas and the ambition. Now we must turn that into action.

Rain Newton-Smith
Chief Executive, CBI

Naomi Weir
Director, Innovation, CBI

Foreword from Source Advisors, strategic partner

For the last decade, I have witnessed first-hand how policy meets business innovation with some incredible successes, but with an underlying sense that we are not making the progress that we all hoped for. Headlines will be dominated by a lack of funding, bureaucratic processes and a lack of talent so we want to quantify those challenges, but more significantly, find solutions to unlock the UK's potential.

We have an awful lot to be proud of in the UK, incredible innovation, passionate entrepreneurs and a hunger for growth, yet we are not harvesting the fruits of our labour. Public investment in R&D is a lever that will deliver growth. It needs a policy environment that is dynamic, joined up and willing to not just back the hopefuls, but also buy from the winners.

Innovation, by its very nature, works at pace and the recommendations from this research would enable a faster, more agile environment that will deliver better outcomes. With pace comes a desperate need for alignment between siloed departments and strategies. The theory and plans are strong, but we need to break the department mentality and force collaboration to see through on the bold and ambitious plans promised. We do not need another plan. We need to do more to get the plans we have working. What is clear to me from this report is that for all the improvements that can be made around pace and collaboration, the biggest opportunity is to use government procurement to create the market that innovators can address. Simply put, identify the problem, innovators will solve it and then buy the solution. We can no longer lag behind other major economies when it comes to commercialisation.

Signalling and early adoption allows the innovators to have the faith and confidence to build momentum and their investment. We must appreciate that those early adopters will make just as much impact and should be able to rely on policies and incentives that encourage them to invest in innovation.

We are thankful to all the businesses that have taken the time to feed into this cornerstone research and to the excellent team at the CBI. We are determined to ensure that the time taken is not wasted and doesn't become another talking shop. This will make an impact.

SOURCE ADVISORS

Luke Hamm
UK Managing Director, Source Advisors

Executive summary

The UK is at a turning point. After years of low growth, flat productivity and rising costs, businesses want to invest, hire and grow. And innovation is core to this. From ensuring our frontier industries stay at the cutting-edge, to AI re-shaping business processes across the economy, innovation drives UK competitiveness, productivity and growth. Yet too often businesses feel the system holds them back. **Fewer than half of the businesses we surveyed believe they are investing optimally in innovation.** There are therefore major opportunities to unlock business investment and kickstart growth by making the UK innovation system more competitive.

Over the last 18 months, the government has set out a clear ambition for growth, backed by major strategies on industry, skills, trade, and infrastructure. These are strongly welcomed by businesses. But there is a disconnect between that ambition and how businesses feel as they innovate on the ground. **Over half of business leaders surveyed, across all sizes and sectors, said that the UK was a less competitive site for innovation investment compared to three years ago.** Firms are under pressure from increasing costs (including tax rises), find innovation support disjointed, and don't see delivery against the ambition set out by government. **There is an urgent need for the government to shift gears from strategy to full-throttle delivery** by ensuring policies pull in the same growth-focused direction, providing joined-up support to innovators, and delivering at pace on existing policy commitments.

The UK's innovation support system is strongly focused on supply-side support for early-stage R&D, for example through R&D tax credits, innovation funding, and research infrastructure. There is comparatively little policy focus or public investment on ensuring demand-side pull for innovation. **Yet market demand is the single greatest influence on business innovation investment; over 75% of innovators said it has a significant influence on both how much and where they invest.** Tilting the UK's innovation system towards building market demand – providing a clearer route from R&D to deployment in the UK, rapidly improving public procurement of innovation, and providing support for technology adopters – would have an outsized impact on the environment for investment in the UK.

This report therefore sets out three major shifts required to unlock business innovation investment.

1. Make innovation for growth a whole-of-government responsibility

Businesses' innovation decisions are shaped by policy decisions far beyond DSIT or DBT. Tax policy, public procurement, regulation, planning, skills, and energy policy are all pivotal. Yet firms experience these levers as disjointed and often pulling in opposite directions. Embedding innovation impacts into policy appraisal across departments and developing joined-up end-to-end support for innovators, would provide clearer pathways from research to deployment and build confidence that the UK is serious about growth.

2. Shift gear from strategy to delivery, fast

While government strategies are broadly welcomed, businesses are not yet seeing change on the ground. HMRC delays undermine the value of R&D tax credits; Innovate UK's processes remain slow and administratively burdensome; and regulatory reviews routinely lag behind international competitors'. The government should be laser-focused on delivering committed policy at pace and removing friction in the innovation support system that pulls against policy intent.

3. Build the UK's market for innovation

Market demand is the single biggest driver of business innovation investment. Innovators need adopters to survive. But while adoption of new innovations is risky and difficult, the UK currently provides minimal support for technology adoption. Public procurement is risk-averse, fragmented, and too often fails to scale promising technologies. And private-sector adoption, especially among SMEs, lags international competitors. A step-change is needed: expanding challenge-based procurement, scaling the DSIT Commercial Innovation Hub, and deploying business support for adoption of new technologies across all sectors.

Taken together, these changes would tilt the UK's innovation system toward delivery, speed and clear routes to deployment at scale in the UK, giving businesses and investors the confidence to invest for the long-term in the UK, driving productivity and long-term economic growth.

Introduction: Accelerating business innovation investment is essential for kickstarting UK growth

The UK has well-recognised economic challenges with low growth, poor productivity, and high inflation, all underpinned by low levels of business investment. GDP is widely expected to stay below 2% in the foreseeable future,[1] while inflation remains almost twice the Bank of England's 2% target. Recent OECD data shows the UK had the lowest business investment in the G7 in 2022.[2] Alongside serious pressures from government debt and increasing borrowing costs, these economic challenges are having serious impacts on the UK's ability to deliver good public services and maintain living standards for working people across the UK. There is therefore an urgent need to increase business investment in the UK to kickstart growth.

Innovation investment is central to this. Innovation, from introducing cutting-edge new products to developing new business models, drives growth both for individual businesses and for the whole economy. Innovate UK found that businesses that innovate experienced sales growth over three times greater than those that do not,[3] and McKinsey reported that innovators achieve shareholder returns well above the average for their sector.[4] Beyond individual firms, innovation investment has a disproportionate impact on cross-economy growth as it delivers spillover benefits, such as increasing sectoral competitiveness and building skills and knowledge pools. Higher levels of innovation are therefore strongly related to a country's growth.[5]

[1] OBR, 2025, **Economic and fiscal outlook – March 2025**
[2] IPPR, 2024, **Revealed: Investment in UK is lowest in G7 for third year in a row, new data shows**
[3] Innovate UK, State of Innovation 2024 report, **IUK-051224-StateInnovation2024Report.pdf**
[4] McKinsey, Innovate Growers: a view from the top, 2023 **https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/innovative-growers-a-view-from-the-top**
[5] E.g. My Thi Thi, D., & Tran Phu Do, T. (2024). The interrelationships between economic growth and innovation: international evidence. *Journal of Applied Economics*, *27*(1).

However, as with other forms of business investment, the UK lags behind comparator countries – including the US, Germany, and Japan – on business R&D and innovation investment.[6] The UK has some incredible strengths in R&D and innovation, including world-leading universities, the highest-quality research in the world,[7] and the reputation of being Europe's leading site for tech start-ups.[8] But these strengths are not effectively translating into attracting or unlocking business innovation investment for growth. UK R&D investment has fallen by more than 6% in real terms between 2021 and 2023.[9] And for broader innovation, only 56% of UK businesses reported making changes to products or services over the last year, a drop from 61% in 2023,[10] much lower than the proportion of innovating firms in Germany or Canada, for example.[11]

The *Innovation investment: firm foundations for growth* work set out to explore how businesses are making innovation investment decisions in the UK today, including the internal and external factors that influence them, as well as how they can be supported to increase innovation investment in the UK to accelerate economic growth.

This report brings together insights from across the UK business landscape, based on evidence from 30 businesses engaged through roundtables in Cranfield, Glasgow, and Liverpool, 30 in-depth one-to-one interviews, and a survey of more than 360 firms spanning business sizes, sectors, and levels of innovation intensity. Together we* spoke with businesses from cutting-edge, R&D-driven spin-outs, to large manufacturers, to SME adopters in the everyday economy.

[6] OECD Main Science and Technology Indicators, Business R&D as a proportion of GDP, 2023, **Main Science and Technology Indicators | OECD**
[7] International comparison of the UK research base 2025, **International comparison of the UK research base, 2025 - GOV.UK**
[8] Government statistics, 2022, **UK tech sector retains #1 spot in Europe and #3 in world as sector resilience brings continued growth - GOV.UK**
[9] NCUB, 2025, Unlocking the UK's business-led R&D potential
[10] Innovate UK, State of Innovation 2024 report, **IUK-051224-StateInnovation2024Report.pdf**
[11] OECD, Business Innovation Indicators, 2023 **business-innovation-indicators-2023-highlights.pdf**

Innovation clearly looks different for different businesses. Rather than impose a single definition, we asked businesses to tell us about investment in work that they consider innovative. This has allowed us to explore what innovation really looks like on the ground: how it is funded, managed and experienced across different parts of the economy. To help make sense of this diversity, we distinguish in this report between two broad groups: 'innovators' who are developing ideas new to the world, and 'adopters,' who are deploying or adapting innovations that are new to their firm but not new to the world. The boundary between the two is fluid: a pharmaceutical company may be a pioneering innovator in medicines discovery while adopting proven digital tools in their HR or finance operations, whereas a professional services firm may largely adopt existing technology but be experimenting with emerging AI in partnership with a university or start-up. While imperfect, this distinction highlights different drivers and enablers of innovation across the economy and shows how policies can support those creating new ideas and those turning them into widespread economic value.

This report is divided into two halves. The **first sets out what we have heard from businesses on their innovation investment today**, including how investment decisions are made, how they handle risk, and how emerging digital technologies like AI are impacting innovation. The **second then explores how the policy environment interacts with these decisions and how businesses can be supported to invest** more in innovation in the UK to kickstart economic growth.

*Unless otherwise specified, the words 'we' and 'us' throughout the report refer to 'the CBI'.

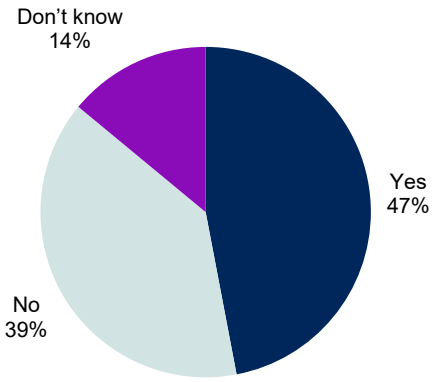
The state of UK innovation

Businesses want to invest more in innovation in the UK

The UK's historic strengths for innovation are well known. With globally renowned universities, the UK leads the world on research quality.[12] It is a top site for science and technology (S&T) start-ups, and the UK's tech ecosystem is currently valued at £1.2tn.[13] But the UK's position is at risk. The UK has dropped from fourth to sixth in the Global Innovation Index over the last two years, and between 2021 and 2023, private R&D investment fell by over 6% in real terms.[14]

Fewer than half of business leaders surveyed feel their business is investing optimally in innovation to achieve their business's strategy or growth. Businesses recognise that innovation across products, processes, and business models is core to driving their business growth. But many feel held back from investing more.

Do you consider that the amount that your business invests in innovation is optimal for driving your business's strategy or growth?



[12] International comparison of the UK research base 2025, **International comparison of the UK research base, 2025 - GOV.UK**
[13] **The Tech Nation Report 2025 - Unlocking the UK's Growth Potential**
[14] NCUB, 2025, **From ambition to advantage: Unlocking the UK's business-led R&D potential - National Centre for Universities & Business**

The majority of those not investing optimally in innovation are held back due to a lack of finance, with a range of inter-related factors:

- Relatively poor market demand and broader economic confidence. This is reducing business appetite for investing reserves in areas with uncertain returns, like innovation.
- Increasing cost pressures. Businesses feel under pressure in the UK from rising employment costs (primarily due to increases in National Insurance Contributions (NICs)), high energy costs, and broader inflation and cost of doing business, reducing funds available for investment.
- Lack of access to external finance for investment. This is a particular challenge for start-ups, scale-ups, and highly innovative SMEs.

Other factors holding businesses back from investing optimally include policy and political uncertainty, regulatory barriers, and challenges accessing people and talent to deliver innovation on the ground.

Why do businesses invest in innovation?

Businesses have two core drivers for innovation investment:

Growing their market through improved products, services, or business models. This includes the straightforward development of new products and technologies, either to expand into new markets or to deliver improved solutions for existing customers. But it can also be much broader: for example, innovation can grow markets by improving customer experience, meeting demand for more sustainable solutions, or maintaining business reputation in a changing world.

> Innovation is fundamental to everything we do. Since Lubrizol's founding in 1928, we've continually developed and commercialized breakthrough solutions to meet the demands of the market, solving some of the world's toughest challenges. We partner with key industry players to accelerate progress – our customers come to us because of our innovation competencies, our capabilities, and the expertise that we have.
>
> **Mike Sutton, Corporate Fellow, Lubrizol**

Reducing costs through increased productivity and streamlined internal processes. This is an increasingly important focus for many firms due to increasing cost pressures, as well as the rapid growth in availability of new technologies like genAI that can be broadly applied to internal productivity.

> Our margin has been remaining fairly flat, and increasing employment costs in terms of salaries and National Insurance increase has been a driver for us to look at how we can grow our business, grow productivity, without having to increase our headcount.
>
> **Angus White, Partner, Naylors Gavin Black**

Broadly, innovators tend to be focused on market growth, and adopters on reducing costs. But in practice these are often intertwined. For example, a financial services business reported that improvements in their digital products improve the customer journey while increasing productivity for the teams that use that technology to streamline customer support. Likewise, a small tech business adopts third-party tech products by integrating them into their own product offerings and internal systems in innovative ways, which ultimately improves customer experience and streamlines internal operations. And R&D intensive businesses, like biotech companies, use new digital technologies to increase the productivity of their research and accelerate product development.

Innovation 'in business DNA'

In addition to the financial drivers above, many businesses spoke of innovation as a value – the desire to continually improve, to seek new ways of doing things, or to better meet customer need, is built into their business culture and core to who they are as an organisation. This is particularly the case for S&T-based businesses and innovative start-ups, but not exclusively; many early adopters also talked about innovation in this way.

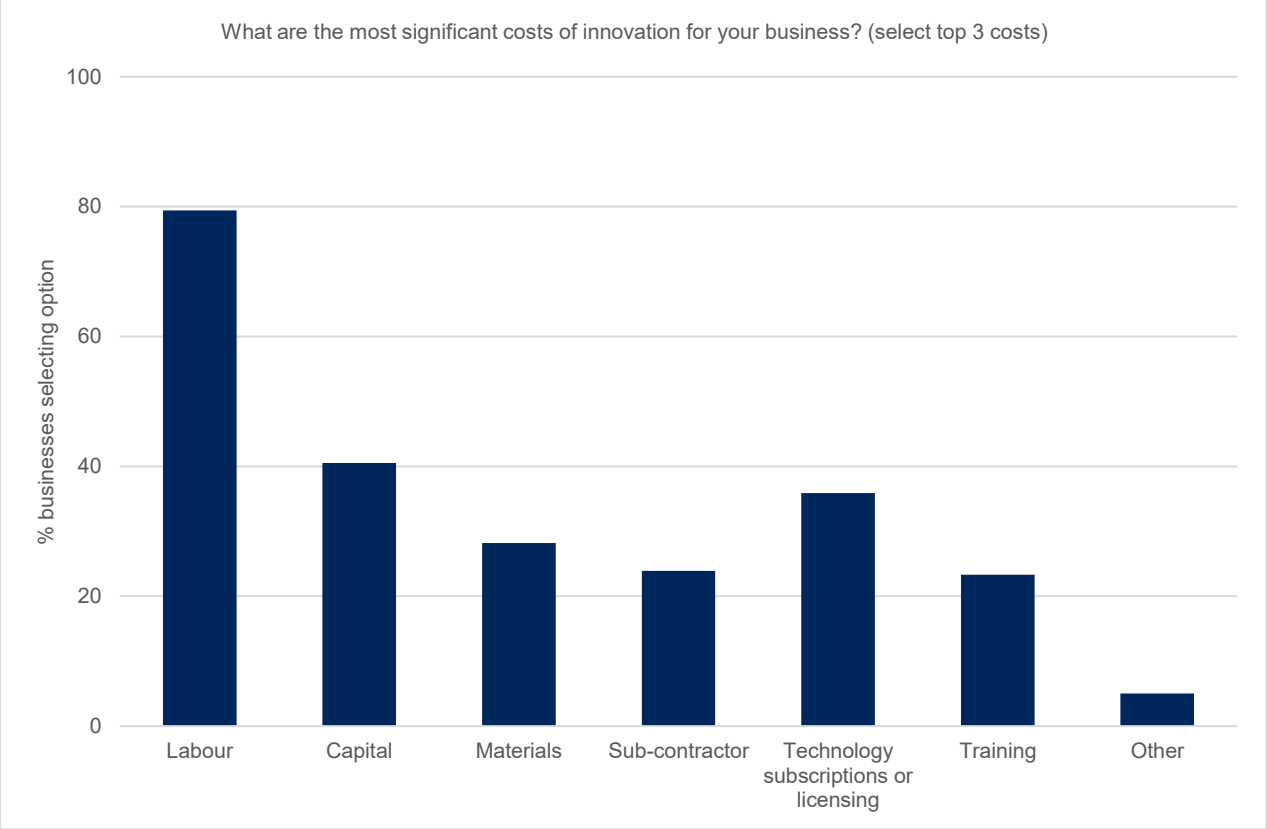
> Our business ownership and SLT structure is changing…but I think we'll continue over-investing in innovation relative to the size of the company, because it's in the very DNA of the company and our proposition is to build against unmet needs.
>
> **Andrew Webber, Chief Partnerships Officer, Whitespace**

What does innovation investment really mean for businesses?

People are at the heart of innovation

For the majority of businesses, innovation investment is primarily an investment in people. 79% of businesses named labour costs as one of their top innovation costs, far ahead of capital investment (41%) and technology licensing and subscription (36%), which were the next highest selections. This was the case for both innovators and adopters, across almost all sectors.

People play a particularly important role in UK innovation given the service-heavy nature of the UK economy. In sectors such as digital & tech and professional & business services, innovation depends almost entirely on people evolving their knowledge, skills, and working approach. However, even in capital-intensive sectors like manufacturing, labour costs were still selected by the highest number of businesses.



For innovators, scientists and engineers are essential for researching, developing, testing, and scaling innovation. Many businesses noted the UK's strengths in science and technology talent, although there are well-recognised skills gaps in some areas, such as engineering skills,[15] that hold back some innovation investment.

For adopters, a broad range of people across the business are involved in innovation – researching available technologies, testing and trialling them, communicating new approaches, and delivering learning and development for users across the business.

[15] Engineering UK, Engineering skills needs – now and into the future, 2023. **engineering-skills-needs-discussion-paper-engineeringuk-may-23.pdf**

Businesses take different approaches to their allocation of staff time to innovation. Some have individuals working entirely on future-focused work that does not directly generate income. For example, a small tech firm noted that they set aside a non-revenue-generating team focused on researching new tech and integrating it into their systems. Others ask staff to dedicate time to trialling new approaches alongside their day-to-day functions. This is often necessary for adopters as they need teams with business expertise to integrate the technology into business functions. However, innovation can then compete with other priorities at the individual and team levels. For example, a professional services firm highlighted a major challenge for technology adoption is asking busy junior staff to carve out time to test and trial new technology alongside their existing work priorities.

The importance of people for business innovation means that labour costs, as well as the availability of talent, have a significant impact on business innovation investment in the UK.

For many businesses, technology costs, including licensing and subscription, are the second-largest innovation expense after labour costs. Business leaders anticipate that these costs will increase in the coming years with the increasing availability and importance of new digital technologies like gen- and agentic-AI. However, many adopters are looking at technology as a route to increasing productivity and growth without further increasing headcount, so the balance between investment in people and technology is an active consideration.

Innovation is not just about new shiny tech or radical breakthrough ideas

Incremental innovation is vital. For almost all businesses outside of S&T start-ups, the vast majority of innovation investment is focused on incremental innovation that can deliver returns within a relatively short timeline (around six months to a year). This innovation drives steady growth for businesses as they improve products and services, build market share, and improve their productivity. It is often less exciting or newsworthy than radical breakthroughs, so it is at risk of being undervalued by policymakers and broader society. But this is the bread and butter of business innovation. If the UK wants to get more businesses innovating, incremental innovation is where they will start. **It is, therefore, essential that the UK's innovation system recognises, values, and supports incremental innovation.**

> We're not trying to automate everything from day one. Incremental improvement is better than no improvement. As long as the partial automation doesn't take longer than the return, then you know it is worth looking at.
>
> **Tony Dougan, Chief Technology Officer, Aspire Technology Solutions**

There is also a role for radical and disruptive innovation, particularly for innovators. Most innovators invest in both incremental and radical innovation, taking a portfolio approach across their investment. Many use innovation models such as the McKinsey Three Horizons model[16] to divide innovation investment across incremental work expected to deliver relatively short-term returns (horizon 1 – accounting for the large majority of investment for most businesses), and more future-focused work expected to deliver returns over longer time periods (horizons 2 and 3). Investment in more future-focused research and innovation allows businesses to explore high-risk, high-reward ideas that may generate high-value products, services, or transformative business models in the future. It also helps 'future-proof' an organisation, ensuring it stays ahead of competitors through building awareness and expertise in emerging technology. However, since this investment does not deliver immediate returns, it can be challenging for businesses to continue investing during tough economic conditions, with implications for longer-term business and economic growth.

[16] **Enduring Ideas: The three horizons of growth | McKinsey** 2009.

Making the business case for innovation investment

Innovation investment differs from other investments because there is an inherent risk of failure that makes returns less certain.

45% of survey respondents said they make innovation investment decisions in the same way they make all other investment decisions. For example, most businesses put together business cases that set out a cost-benefit analysis and anticipated return on investment (ROI). Innovation is therefore supported by factors that broadly enable business investment, such as a stable policy and economic environment, and economic conditions that give businesses more headroom to invest, like buoyant markets and lower costs.

However, the benefits of innovation investment are not guaranteed, particularly for more disruptive innovation, which makes it harder to put together a compelling business case. ROI from innovation can, for example, have a range of possible values. Therefore, many businesses take a different approach to these investment decisions. 31% of survey respondents said innovation investments are more or less dependent on business strategy than other investments, 21% said decisions are made by different people, and 20% said decisions are made at different levels of their organisation.

While many organisations use the same structures for all investment decisions, usually with executive teams putting together business cases for review by their board or investors, others have distinct structures to support the different nature of innovation. For example, one professional services firm has established a cross-functional innovation committee to make investment recommendations to the board. By gathering input from all business functions upfront, the board can more easily review and approve proposals, supported by evidence of organisational buy-in and implementation plans that are essential for effective adoption.

Executive innovation champions who can effectively make the case for investment have an outsized role in driving innovation

With some exceptions, the majority of businesses we spoke with noted that their boards or investors lack innovation or tech expertise and so rely significantly on the business cases for innovation investment brought to them by executive teams. Therefore, having executive champions with a clear vision, knowledge, and drive for using innovation for growth plays an essential role in allowing businesses to invest above average amounts in innovation.

Handling risk

> If you aren't prepared to fail, you're never going to succeed. You just sit there doing what you've always done.
>
> **Roger Bailey, Chief Technical Officer, Tideway**

Innovation investment carries risk; however, *not* innovating is also a risk

Not all innovative projects will succeed and generate returns. Several surveyed businesses noted that their leaders are cautious, and the business culturally risk averse. This creates a barrier to investing in innovation.

However, businesses are also conscious of the potential to be 'left behind' or outperformed by future-focused competitors. This is an increasingly common sentiment in relation to new digital technologies like AI; firms are aware that competitors are adopting and using the technology at pace. This dynamic is leading many previously risk-averse organisations to increase their appetite for innovation and their tolerance for failure.

Businesses must weigh the risks of innovating against the risks of falling behind. Government support that mitigates the risk of innovation – through funding, partnerships or shared skills – is hugely important in accelerating business innovation.

> Risk is converted into overall marketing strategy - so that if innovation fails it is not actually a failure - it is a contributor to the overall image of the company as viewed by a client. They may not actually use our innovative product, but they see us investing in our industry when almost nobody else is. In this way presented it acts as a client magnet ... win, win.
>
> **Survey respondent**

For many innovators, their biggest risk is navigating the route to market. Several businesses outlined how their technology or product R&D can be the easiest, cheapest, and quickest part of innovation. In contrast, taking innovations from working prototype through to market is slow, costly, and risky. Depending on the innovation, this may include regulatory approval, manufacture, scale-up, market engagement, and procurement.

Innovators use a range of approaches to manage and mitigate risk. Most take a portfolio approach, investing in a range of projects, and invest heavily in lower risk, incremental work, with smaller amounts set aside for riskier, longer-term research and innovation.

Starting small and failing fast is key for mitigating risk. Businesses generally use two approaches to risk management, both starting with small investments and quickly discontinuing unsuccessful projects:

1. **Clear, stage-gated, risk management process** – larger businesses often have formal project management processes in place to monitor progress and risk. This may include setting a long-term innovation strategy, only investing in innovation work closely aligned to strategy, taking a stage-gated approach to innovation projects with regular reviews, and killing projects that are not progressing or succeeding. However, even with these formal processes, project decisions still depend on individual judgement, and are influenced by a wide range of factors, such as customer demand and feedback as well as technical progress.
2. **Agile approach to piloting and failing fast** – other businesses, particularly smaller to medium size businesses, take a more agile and iterative approach. They invest small amounts, often below levels that require board approval, for teams to trial new ideas or generate first-level prototypes. For some this remains closely aligned to business strategy, while others allow innovation teams to follow their curiosity and ‘play’ with emerging technology. Successful pilots are advanced and scaled to demonstrate potential value to the organisation. This supporting evidence is then presented to senior leadership or the board for approval to scale-up investment.

> We have a stage gate product innovation process with five gates in. We review projects at each stage and if they are not suitable to continue we stop them – and we're getting better at stopping them and not allowing them to limp on.
>
> As you move further on, you're committing more resource as you move from concept phase, into product development and then into commercialisation. That's when investment peaks. So you want to be confident by then that you've got something that's differentiated, that customers want, and will generate value for the business.
>
> **Marc Saunders, Director of Group Strategic Development, Renishaw**

Customer- or problem-led investment reduces risk. Close engagement, or even partnership, with end customers gives innovators more confidence in market demand and reduces the risk of their investment. This is therefore one reason why a **poor economic environment or poor market conditions decrease business risk appetite.** As businesses are increasingly squeezed from increasing costs of doing business, or are concerned about market conditions, this impacts their cost-benefit analysis and means they are less likely to make innovation investments with uncertain returns.

It is worth noting that several innovators outlined how they had arrived at these processes through ‘trial and error.’ Several noted that they had previously invested large amounts upfront in technologies that failed or attempted to enter markets where they had little expertise, which had led them to adopt better risk mitigation processes.

Technology adoption is a key route for reducing risk. While there is still risk associated with adopting new technologies, particularly where they are novel or where they need to be integrated within a business’s own systems or processes, the risk is lower than developing technology from scratch, since early R&D costs and risks are borne by other organisations. Several businesses we spoke with are shifting from conducting R&D work in-house to working more closely with tech vendors or innovative SMEs to limit their costs, leverage external expertise, and reduce their risk.

For adopters, getting people onside and upskilled is the biggest risk. When adopting technologies, the primary risk sits not with the innovation itself, but in the possibility that it does not generate value for the business. For example, if not widely used or not effectively integrated into the business's processes. These factors can be hard to measure, and hard to estimate in advance, making them difficult to build into a business case. Risk management and mitigation for adopters requires a focus on effective change management, learning and development, and staff engagement, alongside technology development and integration. In some cases, well-developed company policies, for example on responsible use of technology, or cyber safety and resilience, also play a role in risk management.

Business culture sets risk appetite. Innovators and adopters both emphasised the importance of leaders who accept that not all projects will work, give 'head cover' for failures, and encourage active learning from unsuccessful projects, for driving innovation investment. Different risk appetites across individuals can require significant compromise. For example, some businesses noted their CFOs tend to be more cautious, while CTOs or other innovation leads tend to focus more on the potential benefits from innovation. This balance of perspectives is usually healthy, leading to compromises that deliver optimal investment for the business's strategy, but it again highlights the importance of individuals in driving innovation investment decisions.

Innovative start-ups and scale-ups embrace risk

Innovative start-ups and scale-ups have a fundamentally different approach to innovation and risk to other businesses. At this early stage in their growth, everything they do is highly risky. Therefore, they also have a very high-risk appetite for innovation investment. Many embrace risk – investing in radical and disruptive innovation with the possibility of significant ROI from developing highly novel approaches, products, or services.

The biggest challenge for these businesses is access to finance, specifically to finance with a risk appetite that matches their own, to sustain the business through to profit-generation. Several innovative start-ups noted that UK investors tend to be risk averse, preferring to invest smaller amounts or invest at later innovation stages, compared to investors from the US or Middle East. This had led many to seek international investment, raising challenges for keeping businesses, their high-value innovation work, and the returns on this investment, in the UK as businesses scale up.

Additionally, businesses noted that their greatest risk is not technological development but the slow pace of taking innovations through to market in the UK. Government policy has a significant influence here, for example on timelines for regulatory review and public procurement of innovation as a key market for testing, scaling and buying innovation. While these factors also impact large businesses, for innovative start-ups and scale-ups they can be existential.

Partnerships reduce innovation risk and are a UK strength

Almost all businesses, both innovators and adopters, innovate in partnership – from cutting-edge R&D with universities, to accelerating adoption with vendors and consultants. Partnerships allow businesses to access complementary expertise, horizon scan for emerging trends and, crucially, de-risk investment by sharing the risk. They therefore allow businesses to invest more in innovation than they could alone.

The UK's world-class universities play a particularly important role in attracting globally mobile R&D to the UK, and S&T-intensive businesses find UK university partnerships work smoothly and deliver significant value.

> Hitachi partners with universities around the world as part of our commitment to developing cutting-edge technology. We have invested in long-term collaborative research centres with Imperial College London and the University of Cambridge because they provide access to scientific expertise in areas such as climate repair and quantum technologies. The strong reputation of UK universities in early-stage research, combined with their industry and government networks for wider engagement, makes them attractive investment opportunities for companies like Hitachi.
>
> **Paul Taylor, Head of R&D - Sustainability Lab, Hitachi Europe**

Universities also play a broader role in the UK's innovation landscape supporting adopters to access expertise, trial new approaches, and build knowledge networks. Many adopters would like to work more with universities, but lack the time and resources to explore opportunities fully.

Maintaining the strength of the UK's university partnership offering is essential for building business innovation investment in the UK:

- Business-university partnerships take many forms, from sponsored studentships, to collaborative projects, or contract research work. Much recent government policy has focused on university spin-outs and research commercialisation, but it is essential that partnerships with established businesses are equally valued, particularly since they have a greater impact on economic growth in the short-medium term.
- UK universities face significant challenges in the sustainability of their financing models, with knock-on impacts for their investment in research and innovation. It is crucial that the government and universities continue to work together to address these challenges to ensure the UK's research strengths are maintained and can continue to attract business investment.
- Universities should continue to build relationships with local businesses, making their expertise, facilities and networks as visible and easy to access as possible, since many adopters would value greater partnership with the sector to accelerate innovation and growth.

Beyond universities, partnerships with start-ups and SMEs, across supply chains, and with local and national government all enable innovation. While there are opportunities to continually improve the pace of partnerships and reduce associated bureaucracy, **businesses strongly value opportunities for partnerships in the UK** and feel they are a strength of our innovation ecosystem.

Individual innovation champions are essential for driving innovation

We found a strong relationship between businesses noting they had leaders with a vision and focus on innovation, and those reporting 'above average' innovation investment compared to competitors.

Many innovative businesses with founder involvement refer to innovation as 'in their DNA.' However, **the role individuals play in driving innovation investment holds across businesses with different ownership and financing models**.

The impact of individuals occurs via distinct routes across different types and sizes of business. For example, we heard how innovation champions could:

- 'Allow' under-the-radar amounts of radical innovation – giving teams the chance to explore curiosity-driven ideas
- Prioritise allocation of investment to innovation when resources stretched
- Help their organisation stay ahead of the curve on emerging technology due to the individual's interest and expertise.

Two key routes for individuals driving increased innovation investment are:

1. **Proactively making the case for innovation investment at board level**. With exceptions, many businesses noted that their boards have limited expertise or time to drive innovation investment. If individual executives can set out a clear business case for investing in innovation, boards and investors will often approve.
2. **Setting business culture**. Senior leaders can establish an innovative culture throughout the business – demonstrating a willingness to trial new approaches, valuing continual improvement, and setting an acceptance of failure and ability to learn from unsuccessful projects.

When senior executives understand technology and innovation, have a vision for how innovation can grow their business, and can set out a compelling case for investing, businesses largely prioritise investment in innovation. Conversely, where senior executives have a more cautious approach, businesses tend to invest more in line with competitors, or invest only where driven by immediate need, for example on information security or to tackle rising costs.

I have a passion for innovation and our CEO absolutely has that passion too. I think we've done a great job over the last 15 years of making sure that all the senior management team understand it, understand it's not a threat, it's an opportunity, and demonstrate how happy it can make our customers and how exciting future opportunities can be

Tony Dougan, Chief Technology Officer, Aspire Technology Solutions

Our CEO's focus on innovation and willingness to invest in ideas and approaches that weren't guaranteed successes has been key. Our Board and investors have been won over by seeing the success and return on investment from a number of our innovation projects.

Nigel Watson, CIO, Northumbrian Water

[Investment] is mostly strongly influenced by individual champions for a given idea. I cannot emphasise this strongly enough and without a champion most ideas will fail to flourish.

Survey respondent

Business approaches to innovation investment are always evolving

Only around one-third of surveyed businesses invest the same amount in innovation now as they did three years ago, and 30% have changed their approach to innovation investment decisions over the same period. This suggests that businesses' approaches to innovation investment are always adapting.

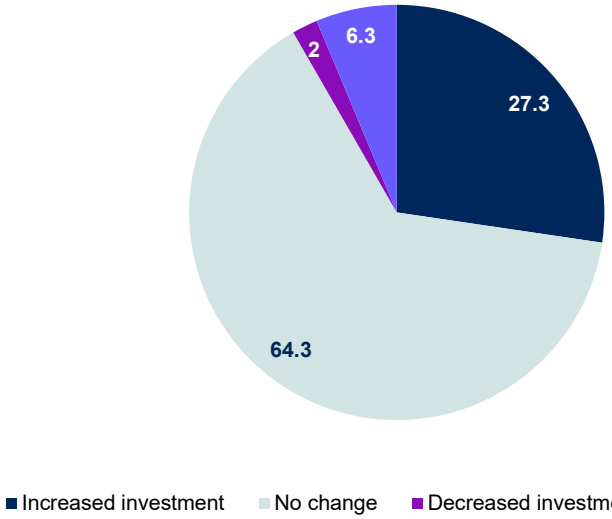
Approaches to innovation decisions adapt with changes in leadership, or as organisations develop and grow. For example, some formalise their decision-making processes as the business scales up, or they scale up their investment in innovation. Others adapt their risk management approaches having learnt from previous unsuccessful investments. And others are trialling new approaches to improve decision making. For example, one professional business firm has developed a cross-functional innovation committee to bring in different perspectives on direction and investment prior to making recommendations to their board.

The fact that evolution of investment decision-making is a routine aspect of business cycles should mean there are significant opportunities to grow business innovation investment in the UK, including through effective use of policy levers. The rapid emergence of new digital technologies like AI is also impacting this evolution and accelerating changes in how businesses approach these decisions.

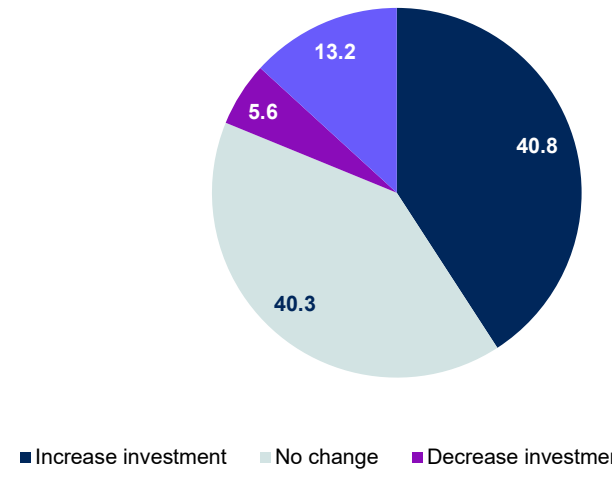
AI is increasing business innovation investment, but adoption is still risky and challenging

27% of businesses surveyed said the more widespread availability of AI and related digital technologies has already increased their overall innovation investment, and over 40% expect it will increase their investment further in next three years. Well under 10% anticipate that AI will decrease their investment in innovation over this timeframe.

How has the more widespread availability of AI and related digital technologies impacted your business's innovation investment over the last three years?

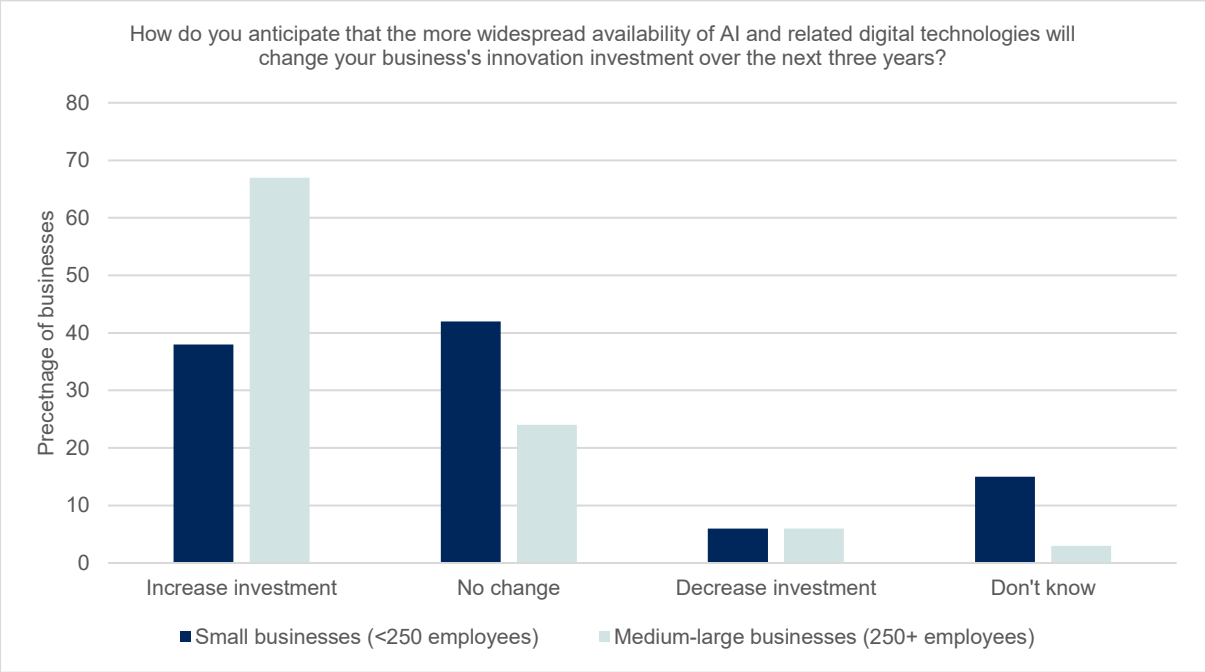


How do you anticipate that the more widespread availability of AI and related digital technologies will change your business's innovation investment over the next three years?



These technologies are impacting innovation across all stages and processes, from R&D to business model innovation. **Only 18% of businesses think AI will not impact any area of their innovation over the next three years.** The greatest proportion expects impacts on the quality and productivity of their process innovation, accelerating innovation in their internal processes such as business operations, manufacturing, or service provision.

However, there is a clear distinction between large and small businesses. Among large businesses (250+ employees), two-thirds believe that new digital technologies will boost their investment in innovation over the next three years, while this is less than 40% of small businesses. This points to a real danger that the productivity gap between large and small UK firms could widen, as bigger companies adopt AI and similar technologies quickly, leaving smaller businesses falling behind. There is, therefore, a real urgency to accelerating support for small firms to embrace new technologies.



The impact of AI and related technologies on overall innovation investment levels is similar for innovators and adopters, but looks different on the ground for these businesses.

Almost all innovators use AI in their R&D and innovation. ICT innovators have been using these technologies extremely broadly across their organisations for multiple years. Half the tech businesses in our survey have already increased their innovation investment due to the emergence of these technologies, and almost two-thirds expect to increase investment further in the next three years. In other R&D-intensive sectors, AI is accelerating the R&D process, from simply making it quicker and easier to review scientific literature, to accelerating the discovery of potential new medicines. But for most innovators, AI is simply a new digital tool that supports and accelerates their existing business model.

The impact of these technologies on adopters is much greater. The broad applicability of these tools for increasing internal productivity, where adopters often focus their innovation, combined with pressures on businesses from rising costs and slow economic growth, is leading adopters to invest significantly in this space. Additionally, several businesses noted their customers are beginning to expect them to be using these tools, and therefore demanding quicker services, driving them to invest further. And, unlike most innovators where their core processes and business model are largely unaffected by these technologies, AI is raising broader questions around business models and career pathways for many adopters.

The hype around AI is well documented. But **this hype is not unhelpful for driving business investment and growth.** Many adopters are investing in innovation because of the wide availability and visibility of new AI technologies, and awareness that their competitors are investing. (52% of businesses said technology change and availability has a significant influence on how much they invest in innovation – this was the third highest of all factors influencing investment.) AI is not the right solution to every business productivity challenge. However, with the right skills and guidance, businesses driven to explore new digital options by AI hype, are discovering a range of innovative solutions to boost their productivity and growth. Overall, this trend should lead to improved productivity and growth throughout the economy.

However, integration of gen-AI and related technologies feels risky for adopters. Most adopters are used to deploying established technologies. While there are applications where AI is now tried and tested, the widespread application of gen- and agentic-AI to broad business processes at scale is still in the early stages, and many sectors cannot see clear examples of ROI from comparator businesses. This means AI adopters are having to increase their risk appetite and adjust their approaches to innovation investment accordingly. It will be interesting to see whether this experience with AI leads adopters to maintain an openness to experimenting with emerging technology or prompts them to become more cautious and slow down future adoption. We heard from a few firms who are already losing confidence in the technology by seeing early failures to deliver value in their business or others. **It is essential that technology innovators and vendors remain transparent about the opportunities and limitations of AI and related technologies, without over-promising results**, to avoid a move away from early adoption for the technologies of the future.

> The appetite for AI adoption in AstraZeneca is high - over 40,000 of our staff have already completed AI training programmes. We see clear productivity gains at an individual level, but our focus now is understanding how to orchestrate the technology, with humans in the loop, at a workflow and organisational level, and this is not straightforward.
>
> We're also balancing the need to keep encouraging experimentation, while rolling out good practice in a more managed way.
>
> **Jonathan Evans, Global HR Business Partner, AstraZeneca**

And adopters face challenges in delivering significant ROI from their investments in new technologies like AI, because **adoption of disruptive new technologies is difficult.**

> Our ability to successfully deliver that change is probably the biggest obstacle. It's easy to deliver the product. The difficult bit is actually making sure that the systems and new ways of working are actually adopted in the business day-to-day. That's why we're very focused on developing our learning and development activity to really help people on the journey.
>
> **Steve Cresswell, EMEA COO and CFO, Avison Young**

Barriers to the effective adoption and integration of AI across businesses include:

- **Resource availability** – the cost of purchasing or licensing tech can be a barrier for small businesses. But beyond these costs, adoption requires significant investments of resource from firms. They have to research the broad range of available tech, test and trial them, analyse the potential value of investment, and implement change management across the business. Finding resource for this process when businesses are under pressure from rising costs is a challenge for many.
- **Skills and expertise** – developing or accessing the skills needed to drive this process, from the technical IT skills to identify and integrate the right tech, to the broad user skills needed to gain value from the technology, is a challenge. For small businesses, finding the right, trusted, external advice is essential. For larger businesses, learning and development processes are now a key part of innovation investment. Previous waves of digital change often treated upskilling as an afterthought, with change done to people rather than with them. The lesson this time is clear: embedding workers in co-design, continuous learning and responsible use is key to ensuring lasting adoption and trust, but can be a challenge to resource and deliver in practice.

- **Underpinning data infrastructure and legacy tech** – delivering maximum value from AI and related technologies requires a business's underpinning data and IT infrastructure to be appropriately structured, integrated, and accessible. Mature businesses usually have a broad range of legacy IT systems. Ensuring data and IT systems are in a state that allows new technologies to deliver value across a business often requires significant investment of money and time. Strengthening workforce data literacy and governance skills is also key to unlocking value from AI investments.
- **Broader changes to business or sector operating models** – to date the impacts of AI-related technologies on business- or sector-wide models has been limited but many expect this to change in the coming months and years. For example, in law or other professional services, businesses are considering how the technology may impact traditional career paths, since many tasks currently performed by junior staff, which form a key part of learning and career development, may become partially or fully automated. Or in financial services, where businesses are considering what role the technology can play in delivering advice directly to customers. Businesses are keen to work at pace across their sectors, with professional bodies and regulators, to explore these questions and ensure they can adopt the technology responsibly, driving growth alongside broader benefits for customers and staff.

Broadly, businesses are enthusiastic about the potential for AI and related technologies and are investing significantly, both financially and with internal resource, in adopting them. However, adoption at scale is not straightforward. It is likely to be an ongoing process over the coming years and is an area where the government could have a significant impact on business productivity and growth through well-designed support programmes, particularly for SMEs. Interestingly, no businesses mentioned to us yet using AI directly with investment-decision making itself – it will be interesting to see if this emerges over the coming years.

Policy implications: Enablers for and barriers to innovation investment

The UK's position as a leading innovation nation is at risk

The UK's historic strengths in innovation are well known. With globally renowned universities, the UK leads the world on research quality[17] and is a top site for S&T start-ups, with the UK's tech ecosystem now valued at £1.2tn.[18] But this position is at risk. The UK has dropped from fourth to sixth in the Global Innovation Index over the last two years, and between 2021 and 2023, private investment fell by over 6% in real terms.[19]

Our survey echoed this drop in the UK's position. **Over half of business leaders surveyed (56%), across all sizes of business and across innovators and adopters, said that the UK was a less competitive site for innovation investment** compared to three years ago. This number was even higher, well over 60%, in human health and professional business service sectors. Just 16% of respondents thought the UK was more competitive as a site for investment compared to three years ago.

The impact of this varies by business: innovators may move globally mobile R&D overseas, multinational adopters may trial tech in other jurisdictions first, or smaller UK adopters may simply not invest in productivity-enhancing technologies as quickly as they might. Every one of those choices negatively affects UK growth.

However, our survey showed that businesses' approaches to innovation investment evolve rapidly. **With the right policy decisions and, more importantly, on the ground delivery, it is possible to reverse this decline in investment.**

This half of the report draws on the evidence above on how businesses make innovation investment decisions, along with business views on the UK's policy environment, to set out three major shifts required in UK policy to unlock business innovation investment:

[17] International comparison of the UK research base 2025, **International comparison of the UK research base, 2025 - GOV.UK**
[18] **The Tech Nation Report 2025 - Unlocking the UK's Growth Potential**
[19] NCUB, 2025, Unlocking the UK's business-led R&D potential

1. **Make innovation for growth a whole-of-government responsibility.** Business innovation investment is influenced by a wide range of government policies. If serious about accelerating UK growth, all of government must take responsibility for enabling business innovation investment and providing clearer pathways from research to deployment in the UK.
2. **Shift gear from strategy to delivery, fast.** Businesses welcome many of the strategies set out by government over the last 18 months. However, there is a disconnect between this ambition and how it feels as they innovate on the ground. Government should be laser-focused on delivering committed policy at pace and removing friction in the system that pulls against policy intent.
3. **Build the UK's market for innovation**. Market demand is the single biggest driver of business innovation investment. Innovators need adopters to survive. Yet while the UK's 'supply side' support for research and innovation is robust, the UK is a poor market for innovation. A step-change is needed: to help innovators scale and deploy innovation in the UK, the government must address public procurement of innovation at pace while providing much greater support for businesses to adopt technology.

Taken together, these changes would tilt the UK's innovation system toward delivery, speed, and clear routes to deployment at scale in the UK, giving businesses and investors the confidence to invest for the long-term in the UK, driving productivity and long-term economic growth.

Innovation for growth must be a cross-government responsibility

Kickstarting UK growth is a central priority for this government. Enabling and unlocking business investment in innovation is essential to achieving this ambition.

While the Department for Science, Innovation and Technology (DSIT) and the Department for Business and Trade (DBT) have made this a central pillar of their work, the policies that shape the landscape for business innovation often sit beyond the boundaries of 'innovation policy' or even 'business policy.' **Crucial levers for spurring innovation sit outside the direct control of DSIT and DBT, making a whole-of-government approach essential.**

Business strategy and performance are a major determinant of innovation investment – almost 75% of businesses said this has a significant influence on how much they invest. Of businesses that are not investing optimally in innovation, two-thirds said it was due to squeezed finances, with increasing cost pressures from energy costs; tax burden, including the recent increase in NICs; and broader inflation all have an impact. These factors particularly impact innovation investment because:

- Investment in innovation, especially more radical innovation, delivers longer- rather than short-term returns on investment. Therefore, when businesses are financially squeezed and under pressure to drive up returns, they may reduce investment in innovation.
- Innovation is inherently risky, and investment decisions are often based on a risk: benefit analysis. Higher costs and poor market conditions increase the risk, reducing the likelihood of businesses investing.

The increase in NICs was raised as a particular challenge. Labour costs are the most significant innovation costs for many businesses, particularly in service sectors. Increasing labour costs are therefore putting significant pressure on businesses' innovation investments in the UK.

> At present, the risk of not getting a return is too high [for us to invest in innovation] when budgets are tight.
>
> **Survey respondent**

> High taxation, National Insurance Contributions etc [are] restricting funds available for R&D investment.
>
> **Survey respondent**

Beyond tax burden and the cost of doing business, public procurement, regulation, and skills and talent all have significant impact on innovation investment – none of which sit directly within DSIT or DBT's control. It is therefore essential that **all of government prioritises and takes responsibility for driving up UK business investment, including innovation investment.**

Recommendations

1.1 Embed innovation for growth as a cross-government responsibility, sending clear consistent signals on the importance of business innovation for growth.

1.1.a HMT should embed impact on business investment, including innovation, into policy impact assessments across government.

1.1.b The Science and Technology Committee and Business and Trade Committee should compile a tracker of major government policy decisions and their anticipated impact on business innovation investment. Policies with a negative impact should be scrutinised through an annual joint committee evidence session.

Develop joined-up, end-to-end support programmes for innovators

A wide range of government work impacts innovators' route to market, from the R&D ecosystem, to regulation, planning, infrastructure and grid connectivity. Businesses find these different parts of the UK policy landscape extremely disjointed. This is a particular challenge in highly regulated sectors like energy or life sciences.

One business described engagement with the UK policy environment as a '*random walk*' where you may or may not encounter support along the way. Navigation of the system, which SMEs find particularly challenging, is one element of this. But the challenge is much broader than difficulties with understanding and navigation – rather elements of the system can pull in opposite directions, misaligned timelines slow progress to market, and innovators struggle to see a route through from R&D to deployment in the UK.

This was repeatedly held up in contrast to the support that businesses, including UK-based businesses, receive in other countries including China, Singapore, and the Middle East, but also other European countries, where businesses often receive a package of support or 'concierge service' alongside innovation grant funding. This can include land with planning permission or access to testing facilities, support through the regulatory pathway, partnership with the public sector to set up trials or pilots, or ultimately pathways to public procurement.

The recognition in the Industrial Strategy of the disconnect in public funding support, and the commitment to better join-up UKRI, British Business Bank, and National Wealth Fund funding, is welcome. But joined-up support must go well beyond funders. For example, in the energy sector a strategic approach to innovation from early-stage development through to scale up and deployment, requires engagement from a minimum of UKRI, DESNZ, NESO, Ofgem, and local authorities. A coordinated approach across these agencies would provide energy innovators with a clearer route from research to market, reducing their risk and supporting them to invest confidently in the UK.

Recommendations:

1.2.a Develop end-to-end support for innovators, beginning with the R&D Missions Accelerator Programme. Establish a joint DSIT-DBT unit with responsibility for providing a clear route from R&D to market in the UK for publicly supported innovation. This should include engagement from R&D funders, regulators, and public sector customers. Focus initially on a small number of priorities in line with the Industrial Strategy, beginning with the R&D Missions Accelerator Programme.

1.2.b The Office for Investment's Strategic Investment Opportunities Unit (SIOU) should partner with Mayoral Strategic Authorities (MSAs) to identify and prioritise regional projects most likely to unlock innovative-led growth. Dedicated SIOU resource should be provided to MSAs to ensure they can work in partnership across the public sector to ensure prioritised projects deliver maximum impact as part of a joined-up approach to supporting business investment.

Shift gear from strategy to delivery, fast

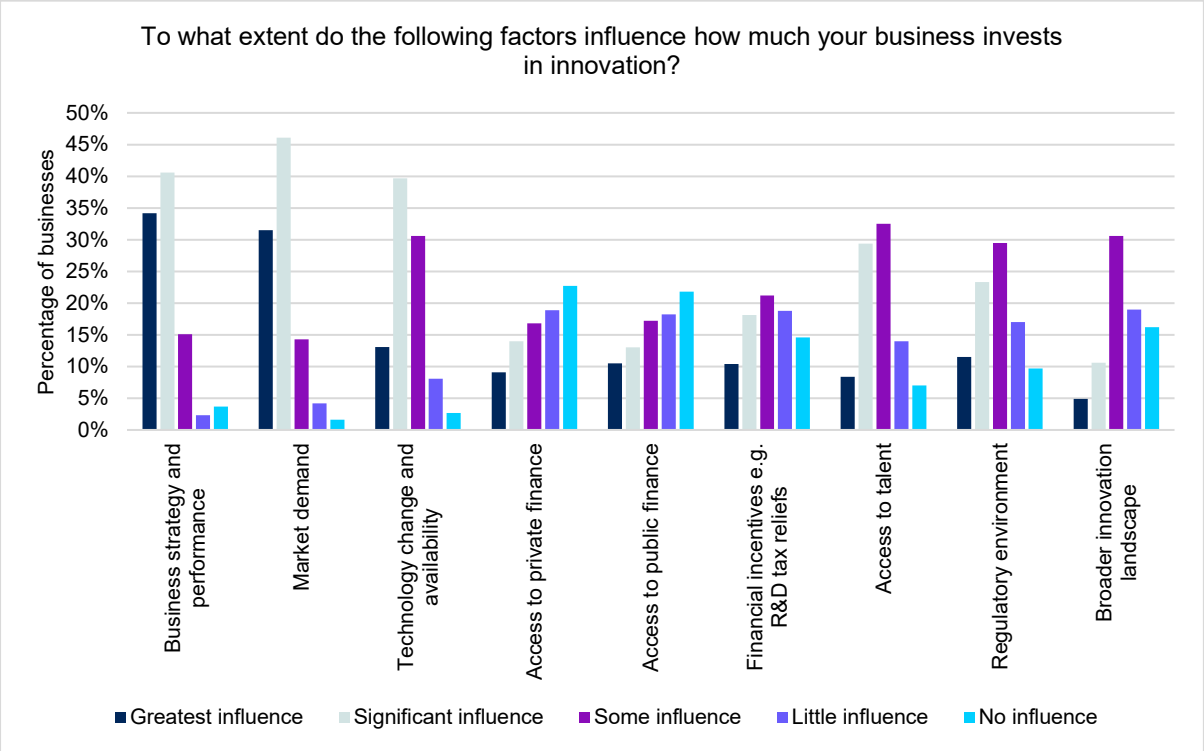
In the last 12-18 months this government has set out a broad range of strategies and policies, including the Modern Industrial Strategy. These have been welcomed by businesses. However, during this time many competitor countries have been accelerating their tangible support to businesses on the ground. In the UK, **businesses feel a disconnect between the ambition and strategy set out by government, and how it feels as they innovate day to day.**

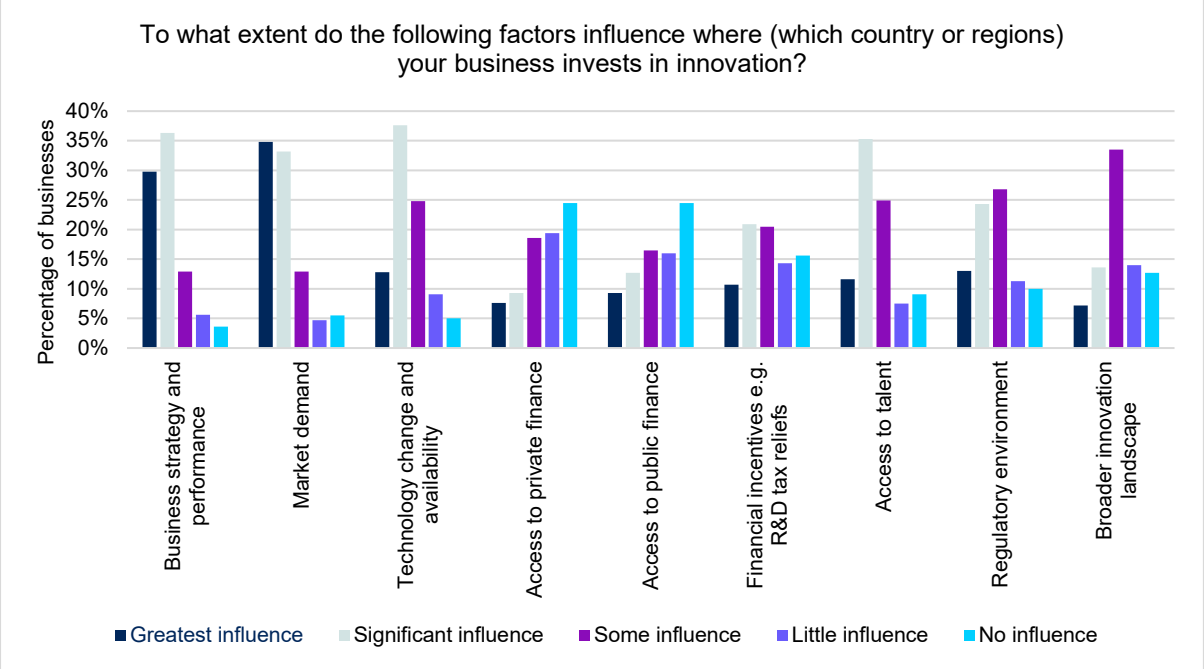
It is essential that government and the broader public sector now shift gears to full-throttle delivery, firstly accelerating on-the-ground delivery of existing policy commitments, and secondly removing the friction in the system.

Maximise the impact of existing policy by accelerating delivery

Focus DSIT delivery against the Science and Technology Framework

The graphs below set out the factors that surveyed businesses said have a significant influence on *how much* and *where* they invest in innovation. Market demand, business strategy, and technology change and availability stand out as particularly influential, with over 75% of businesses saying these have at least some influence on how much and where they invest.





Beyond these, businesses highlighted the impact of a wide range of policy areas on their innovation investment including: the need for clear policy choice on UK technology priorities; access to finance (public and private); regulation of innovation; skills and talent; and public procurement of innovation. These are all prominent in DSIT's **Science and Technology Framework**. **Businesses strongly agree that these are the right areas for DSIT and broader government departments to focus on to accelerate business innovation investment** and welcome government's continuity in building on this Framework initially compiled under the previous government.

Recommendations:

2.1 Use DSIT's Science and Technology Framework to drive innovation policy, both within DSIT and for collaboration where policy levers are owned by other departments. Publish an annual scorecard, starting in 2026, setting out tangible progress and impact against each of the ten items in the framework**.**

Unlock the potential of the Growth and Skills Levy

Innovation investment is first and foremost a people investment – from world-leading scientists delivering cutting-edge research, to the broad range of IT experts, engineers, and business managers required to embed new digital technologies like AI or robotics across an organisation. Skills and talent are therefore an essential foundation to enabling business to innovate. 38% of businesses surveyed said access to skills had a significant influence on how much they invested in innovation, and 47% said it significantly influenced where they invest.

Businesses have mixed views on the UK's skills and talent landscape. Many innovators noted the UK's deep talent pool as a strength, though gaps were highlighted in some sectors, such as life sciences product development and engineering.

Adopters noted greater challenges; over 40% of adopters listed skills and talent as a top area where positive government intervention would accelerate their innovation investment. For these businesses, skills challenges lie not primarily with technical STEM skills, but with broader innovation skills – leadership, change management, and a broad base of digital skills, including AI literacy, that allow employees to learn and adapt quickly to new technologies.

The government has recognised the imperative to rapidly upskill the UK workforce in emerging digital technologies, setting out the ambition to train 7.5 million workers in AI skills in partnership with industry, as well as changes to the Growth and Skills Levy to fund more flexible short courses in AI and digital areas. It is now important to move from strategy to delivery, with government and businesses working together at pace to build workforce skills. The CBI has recently published the ***AI Skills Report***, which sets out recommendations on how the UK can build an AI-ready workforce. Key recommendations that apply to innovation skills for AI adoption and beyond are below.

Recommendations:

2.2.a Unlock the potential of the Growth and Skills Levy to fund the scale of training needed for an AI-enabled economy. Expanding the Growth and Skills levy to fund short AI and digital courses is welcome. But to support the scale of training needed, it is critical that government takes steps to reduce competing pressure on the Growth and Skills Levy, ensuring the full funding raised through the Levy and the Immigration Skills Charge are spent on skills and training.

2.2.b Make apprenticeships more flexible and responsive to employer needs so training keeps pace with technological change and evolving business demand. Skills England and DfE should make the process for updating apprenticeship standards more agile, enabling training content to keep pace with emerging technologies. This includes modularisation of apprenticeship standards and allowing businesses to adjust a proportion of approved training content as technologies evolve.

2.2.c Co-create AI-focused micro-credentials and hybrid qualifications that keep pace with evolving AI capabilities and sector demand. The Department for Education, working with Skills England and DSIT, should convene employers, universities, further-education and independent training providers to deliver a new generation of AI-focused micro-credentials and hybrid qualifications. These qualifications should blend technical AI learning with applied domain expertise.

Stay laser-focused on implementation of the Mansion House reforms

> Our recent external funding round will drive a step-change in our innovation investment. Bringing in this additional finance will allow us to really go for it, dedicating more resource to R&D and innovation, particularly longer-term projects.
>
> **Andrew Webber, Chief Partnerships Officer, Whitespace**

External finance allows early-stage innovators to invest in innovation, scale, and grow. Access to finance with a significant risk appetite, particularly from UK funds and investors, remains a major challenge for start-ups and scale-ups in the UK. Many businesses therefore receive international investment at a relatively early stage in their growth, which influences how they think about their future in the UK.

> We ultimately want to work with investors who share our ambitions and risk preferences, so half of our early-stage investment has come from overseas. We'll continue to build global relationships as we scale, and there's a huge opportunity for UK investors to step in and support us on that journey.
>
> **Thomas Hall, CEO, Embed Biotech**

> Our early investors are UK generalists and local funds, which don't necessarily have the network or experience to help with growth in this space. This is making it difficult to attract further rounds of investment. We hope our current funding round will be our last external funding round and take us to profitability. However, if further expert private investment were available in the UK this would allow us to invest, innovate, and grow the business in new directions.
>
> **Jenna Bowen, Senior Executive Officer, Cotton Mouton Diagnostics**

Businesses are very positive on the potential of the Mansion House reforms and compact to increase institutional investment into earlier stage innovative UK businesses, as well as recent increases to British Business Bank funding. However, both businesses and funds told us they have not yet seen any impact of these reforms on the ground.

Recommendation:

2.3 Remain laser-focused on delivery of the Mansion House reforms. HMT should monitor and publish progress and impact of the reforms annually, beginning in Q2 2026, in close partnership with institutional investors, and consider further reforms if the impact does not match the ambition of the policy.

Access to finance is also very strongly linked with other areas of the innovation landscape, particularly market demand and commitment. A clear route to market or, preferably, a commitment from a larger customer to purchase new products or services, significantly reduces the risk for investors, making access to finance much easier for innovators. Therefore, ensuring the UK's innovation system provides end-to-end support, with a step-change to focus on the UK's market for innovation, will have knock on positive impacts on access to finance.

Remove the friction in the UK's innovation system

HMRC must radically improve administration of R&D tax credits

R&D tax credits are highly valued by businesses. They allow businesses to invest more in innovation than they otherwise would and help attract R&D investment to the UK. Around half of survey respondents said financial incentives like tax credits have some influence on how much and where they invest in innovation. As would be expected this was higher among innovators – over 60% of innovators said they have some influence on both where and how much they invest in innovation.

However, **friction in the delivery of R&D tax credits is significantly eroding their impact and pulling against policy intent.** Over the last few years HMRC has significantly increased their focus on tackling fraud and error in the R&D tax credit system, which is appropriate. However, this work is having substantial unintended impacts on legitimate claimants and the UK's reputation for innovation. Examples of challenges businesses face include:

- **Slow delivery** – the standard service timeline for R&D tax credit administration is 40 days, increased last year from 28 days as HMRC tackles fraud and error. However, we heard from multiple innovative businesses that have faced delays of 7-10 months in delivery.
- **Frequent investigations** – legitimate claimants are facing multiple investigations of claims, which absorbs business resource and generates significant uncertainty.
- **Poor administration** – in one example, a business had investigations into their claims two years running (both were approved in full), but HMRC had no record of the previous year's investigation so began from scratch in understanding the business's R&D programme in the second year. This process absorbed significant resource for the business and HMRC. Another business noted that their financial year ran differently to HMRC's year. One year, HMRC asked them to split their filings, which resulted in a lower claim due to the reduction in value of the credit for SMEs brought in that year. However, the following year, when splitting the year would have increased the business's credit due to the introduction of the increased rate for R&D intensive SMEs, they were told that splitting the financial year was 'too difficult' so their entire claim was calculated at the lower rate.

These administrative challenges are not just inconvenient. They are significantly undermining the intent of the scheme and eroding trust in government commitment to research and innovation. A few businesses told us they are no longer baking R&D tax credits into their financial planning due to the uncertainty around administration, meaning they cannot impact innovation investment decisions. Others told us HMRC's approach is impacting their business sentiment, creating a feeling that business innovation investment is not valued and prioritised by UK government. And while delays in administration are inconvenient for all businesses, for innovative small businesses delays in expected cash flow can be existential.

Recommendations:

3.1 HMRC must address administration issues with the R&D tax credit system at pace to avoid eroding the value of the scheme further, ensure the UK remains an attractive destination for business R&D, and align their approach with the policy intent of the scheme.

3.1.a HMRC should commit to reducing standard service timelines back to 28 days by the end of 2026. As an interim milestone they should meet the current 40-day timeline for at least 95% of applications by mid 2026.

3.1.b Implement an expanded training programme to upskill R&D tax credit caseworkers by mid-2026. HMRC should draw on the expertise of the Expert Advisory Panel to design a training programme to rapidly upskill new caseworkers to give them sufficient technical understanding to support innovative businesses make accurate claims and report back accurately to HMRC decisions makers. Caseworkers should be upskilled on the role of the scheme to drive business innovation investment, and engagement with low-risk businesses (including R&D intensive sectors, university spinouts, and businesses receiving public innovation funding) should focus exclusively on supporting businesses to make accurate claims, not hostile investigations.

3.1.c Use digital approaches to reduce fraud in the system, improve processing times, and reduce business and HMRC burden. This should include introducing an online customer ticketing system by mid-2027 to enable taxpayers to track the progress of enquiries and administration requests, and collaboration with broader government on digital verification approaches.

R&D tax credits are very narrowly targeted at businesses conducting frontier scientific research and generating new knowledge. Early adopters conduct highly innovative projects, adapting and integrating new tech to tackle industry challenges. This work is risky, has spillover benefits across the sector, and is hard for businesses to invest in. However, it is not eligible for R&D tax credits and there are currently very few routes for government-led incentives or support for this innovation. It would be useful to explore whether a tax incentive could support businesses invest in early adoption, that doesn't meet the existing definition for R&D tax credit relief (see recommendation 4.3).

Innovate UK should simplify their programmes and significantly review their administrative processes

Businesses strongly value public R&D grants. For innovative start-ups these are essential for developing innovation to an investable proposition. For larger businesses, grants de-risk investment, allowing them to undertake significantly more risky innovation than they can with their own finance alone. This helps them explore new horizons and test new approaches before making substantial investments, attracting this work to the UK and increasing the chance of transformative breakthroughs being made here.

54% of businesses surveyed, rising to 62% of innovators, chose grants as a top source of finance that would allow them to increase their innovation investment, and 49% of businesses said public grant funding was an area where policy change would grow their innovation investment, the highest of all policy areas listed.

However, the UK public innovation grant system is not working well for businesses, particularly grants from Innovate UK.

- **Funding is spread thinly across a very broad range of programmes and initiatives.** Businesses are confused about Innovate UK's priorities, particularly whether it is primarily aiming to support business growth or address government policy challenges. They therefore struggle to understand how they can engage. Thinly spread funding also means most grants are small, and so rarely shift the dial for business innovation, particularly for capital-intensive sectors or more costly later stage innovation (TRL5-6+).
- **Most grants and programmes are short-term**. Several businesses noted that short-term grants do not allow them to plan or invest strategically, including in some cases employing and maintaining staff. An increase in longer-term programmes (2+ years) would give businesses more certainty to invest strategically alongside the public sector.
- **Administration is highly burdensome.** Many businesses, both large and small, find the bureaucracy of public grants a barrier to engagement. This is particularly the case for grant applications, which require businesses to provide large amounts of detail upfront, often with very low chances of success, but administration throughout the grant lifecycle is also burdensome. Businesses appreciate programmes may be oversubscribed, but a lack of transparency around total funding available and success rates for comparable programmes makes it impossible for businesses to calculate the cost:benefit ratio of applying. This bureaucracy is not just an annoyance for businesses. It absorbs significant resource, taking this away from productive work; one large business noted it literally cost them as much (in time resource) to apply for and administer a grant as the money they received. This burden is putting off businesses from engaging with the system and leading them to seek funding elsewhere, including internationally.

Innovate UK and other public grants have played an incredibly valuable role in growing our tech and our business. But they can be very slow – and a delay of 6-8 months in receiving money can kill a small business, and means the project the funding was allocated for is now out of date.

Jenna Bowen, Senior Executive Officer, Cotton Mouton Diagnostics

Through our innovation hubs, we are supporting SMEs with their technology adoption and innovation using our partners and students, funded by Innovate UK. This is a new model and pilot for us that is benefitting the SMEs and our students. But we're in a one-year funding model, which means the programme's sustainability is constantly reviewed and it is very difficult to plan strategically for this work going forwards.

Suzie Branch-Haddow, Vice-Principal – External Development, Birmingham Metropolitan College

Public grants give you funding for four months, or twelve months for example. You can't do anything useful with that – you can't employ people easily and the amounts are too small to shift the dial in capital-intensive sectors like manufacturing.

Tim Daffern, C3 Biotech

> Public grants mostly don't work well for us – they aren't worth the additional work to participate. But working with the ATI has been very helpful – the programme we've worked on has been focused, provided funding at scale, and the project reviews provide helpful external perspectives without painful admin.
>
> **Marc Saunders, Director of Group Strategic Development, Renishaw**

> Institutions that administer grants have to communicate clearly how much money there is and what is the likelihood of success, because otherwise it is like dangling a carrot for innovative start-ups, but there is really no carrot at all. Applications require a lot of work and effort, but feel like they waste the resources of so many start-ups like us, diverting their attention and resources away from customers, innovation, and core business development.
>
> **Taha Ouertani, Co-founder and CEO, MindBay Technologies, mental health digital solutions**

Businesses find some UK public innovation funding bodies easier to work with. For example, the Aerospace Technologies Institute (ATI) has streamlined administrative processes that work well for participating businesses. This has been facilitated by the ATI's long-term budget enabling them to plan and deliver long-term programmes at scale. The Northern Powerhouse Investment Fund is also moving at pace, administering funding significantly more quickly than many UK funders. Regulator innovation funds, such as Ofwat and Ofgem's funds, allocate larger grants, funding fewer programmes at scale, and are therefore able to drive greater impact in their sectors. Innovators also noted that international funding agencies, such as in the US, require significantly less information prior to awarding grants, while maintaining robust governance.

The government and UKRI's recent announcements on R&D funding allocations and reforms[20], are very welcome. They provide much greater strategic clarity on public R&D funding; increase funding available for business innovation; and should support UKRI and Innovate UK to deliver fewer programmes better, at scale, ensuring each grant drives a step-change in innovation for recipients. Alongside implementation of these strategic changes, **Innovate UK should also rapidly reduce administrative burden for innovators.**

[20] **More targeted R&D investment towards driving UK growth and jobs unveiled by Technology Secretary - GOV.UK**

Recommendation:

3.2 Innovate UK should review their administrative processes by the end of 2026, significantly reducing burden for innovators. As Innovate UK re-shapes its work programme to deliver against updated priorities, Innovate UK, UKRI and DSIT should re-design administrative processes around principles of proportionality and pace, while maintaining appropriate governance. Innovate UK should collaborate with other government departments on digital verification processes, aiming for applicants to use a single online profile to apply for, track, and monitor grants by the end of 2027.

Government should accelerate regulatory reviews of innovation

In many sectors the UK has leading regulatory expertise and takes pragmatic, outcomes-based approaches, which businesses value. It is essential that the UK builds on this, empowering regulators to take proportionate risks, creating an environment where innovation can flourish while upholding high standards and protecting consumers. Sponsoring departments should provide clear political backing, giving regulators the confidence and mandate to champion innovation.

However, **UK regulation of innovation is too slow** – both at the level of individual regulatory decisions for businesses and on deciding regulatory approaches across emerging technologies or sectors. This significantly delays innovation reaching UK markets, allowing international competitors to leapfrog UK businesses, or driving UK businesses to launch innovations in other territories, meaning the UK economy and customers miss out. And for small and scaling businesses, regulatory delays can be an existential threat.

For example, one medical device company told us they had waited over a year for regulatory review of their device in the UK, allowing competitors from other countries to progress faster to market. In contrast review took just 6 months in the US. Another business noted that the UK government's slow decisions on regulatory and policy approaches to 5G technology meant the UK market for associated technologies lags comparator countries and business investment has focused elsewhere.

Additionally, some regulators are far behind others in experience, expertise, and capacity to effectively regulate innovation. There are particular challenges in smaller regulators, and regulators of traditionally 'adopting' rather than 'innovating' sectors. For example, legal sector regulators were noted as slow-moving and under-capacity to effectively regulate emerging digital technologies, despite businesses being keen to work across the sector and with regulators on this topic.

Recommendations:

3.3 Accelerate regulatory reviews of innovation in the UK – both at the level of individual products and services, and deciding regulatory approaches to new technologies or sectors

3.3.a Reduce regulatory review service level timelines for new products and services by 25%, in line with government ambitions to reduce overall business regulatory burden by 25%. Regulators should receive increased funding to meet this target. This should include resource for implementing digital approaches, increasing regulatory capacity, and supporting regulatory staff to remain at the forefront of emerging tech and innovation in their sector, for example through conference attendance or participation in fellowship programmes.

3.3.b The Regulatory Innovation Office should expand the cluster model for regulators to accelerate sharing of learning and good practice on regulation of innovation. This should build on the example of the Digital Regulation Cooperation Forum, and focus on sharing lessons from Regulators Pioneer Fund projects, and upskilling and resourcing smaller regulators.

Build the UK's market for innovation

Market demand is the factor with the greatest influence on business innovation investment. 78% survey respondents said it has a significant influence on how much they invest in innovation, rising to 88% of innovators, the highest proportion of all factors listed. This is expected since growing market is a core driver for business innovation.

But **market demand is also the factor with the greatest influence on *where* business invest in innovation.** 68% of survey respondents said market demand has a significant influence on where they invest in innovation, again the highest of all factors listed, increasing to 76% of innovators.

Building a thriving and growing market for innovation and a clear, smooth route to market for innovators is therefore essential for attracting and growing innovation investment. Currently, almost all UK public sector investment in innovation is on the supply side – for example through UKRI funding, R&D tax credits, and investment in skills. This supply-side input is essential to address market failures that would otherwise hinder investment in early-stage R&D. But given the influence of market demand on innovation investment, a relatively small shift in policy focus and public investment to supporting market growth would have an outsized impact on business innovation in the UK.

The UK is a small country and therefore for many multinational or exporting firms will only ever be a small part of their total market for innovation. However, small countries can attract innovation investment if they have a strong appetite for new approaches and products, and clear routes for trialling, scaling and deploying innovation. Thriving markets for innovation both attract high-value investment and jobs, bringing in R&D and later-stage innovation investment, and deliver benefits to the broader economy through improved productivity, growth and public services with the early adoption of better products and services.

Improving market demand also supports access to finance for scaling businesses. Clear market signals and commitments decrease the risk associated with innovation, unlocking private investment and making access to finance easier.

The UK rarely takes advantage of these opportunities:

- **UK public procurement provides an extremely poor market for innovation** – the public sector is a significant customer for many innovative businesses, from tech, to defence, to life sciences, to infrastructure. Businesses in these sectors tell us that public procurement is strongly risk averse, making the UK a difficult place to scale innovation.
- **The UK private market for innovation could also be strengthened** – some businesses, particularly innovative SMEs, experience UK firms as risk averse and work with international customers for early testing and adoption. This is reflected in the fact that UK businesses lag comparators in adoption of new technologies. However, others find UK customers more willing that international comparators to take a chance on new approaches, particularly in professional services.

The government must rapidly improve the procurement of innovation

There is a well-recognised opportunity to better use public procurement to pull through innovation in many sectors, including tech, construction and infrastructure, defence, life sciences, and energy. The UK's annual public procurement budget is around £350bn, many times the R&D budget. If even a small proportion of this is used to create clear market signals and demand for new technology, it would have a significant impact on attracting and retaining business innovation investment in the UK.

Businesses find the UK public sector a very poor market for innovation for many reasons:

- **Misalignment between public sector challenges and procurement pipelines.** For example, we spoke with one innovative SME developing tech to support young people struggling with mental health and help get them back into work – a major challenge for the UK economy. However, their solution does not fit into existing NHS pathways, and they cannot see a route for engaging with the public sector, making a route to market and reimbursement in the UK challenging.
- **A strong culture of risk aversion and resistance to change within public sector commercial teams**. While appropriate risk management is essential for good stewardship of public funds, strong risk aversion is delivering detrimental outcomes – both for public services that do not access the best solutions, and for innovators who do not have a viable route to market in the UK. Public sector procurement is often rigid, making it difficult to procure solutions that don't fit expectations. For example, we spoke with a tech firm who felt that the best solution to a public sector challenge was a team of people working with them to integrate and implement technology. However, the procurement process was set up to procure a tech solution, and an alternative approach could not be proposed.
- **Public procurement processes don't work for SMEs.** For example, an SME working with the Ministry of Defence noted that the whole procurement process is designed for primes, with contract timelines, milestone payments, and the due diligence processes all barriers to engagement for innovative SMEs.
- **Innovation collaborations and pilot procurement programmes, like Contracts for Innovation, are welcome. However, their value is limited if they are not tied to procurement at scale.** One business worked with a local authority on a successful collaborative pilot programme. Following this pilot, the authority put out a commercial tender and procured a lower cost solution from an international vendor. In another case, a public sector client collaborated with a business on a successful pilot, but then did not have finances available to procure at scale. In both cases this left innovative UK SMEs having received public sector innovation funding, with validated prototypes, but no viable customer.

In contrast, businesses shared positive experiences of working with international governments, most notably in the Middle East and Asia. For example, one business set out their experience with a Middle East country procuring innovative green technologies. Procuring officials had a clear problem statement and a list of technology categories they were interested in purchasing. They made rapid decisions within a couple weeks of interviewing potential vendors. The clarity, simplicity, and pace of the process allowed the business to make informed commercial decisions on future investment, and was a significant contrast to experiences working with UK customers.

Recent announcements in the Budget, and ongoing work within government, to improve procurement of innovation are incredibly welcome. The announcement of departmental Procurement Innovation Champions, as well as the DSIT Commercial Innovation Hub's (CIH) work on an Innovation Marketplace should be incredibly valuable. But the CIH is limited in its resource, and can only deliver a small number of pilot projects. To drive a real shift in government's procurement of innovation, the CIH's work must be scaled up rapidly, iterating in real time rather than waiting for small-scale pilots to complete.

Additionally, the CIH cannot tackle all challenges with procurement of innovation across all of government. It is designed to address highly novel, frontier innovation, primarily within large-scale anchor projects. But the majority of innovation is incremental – it delivers continually improved solutions and value for customers. Public procurement must also embrace incrementally innovative solutions that deliver improved value to the public sector.

The Procurement Act which came into effect in February 2025 should help here, giving commercial teams more flexibility, facilitating procurement for best value, and supporting the engagement of SMEs with procurement processes. However, businesses are not yet seeing the impact of the Act on the ground. Achieving the ambitions of the Act will depend on strong leadership within the public sector to foster cultural change, along with rapid upskilling of commercial teams.

Recommendations:

4.1 Rapidly improve public procurement of disruptive innovation to tackle government priorities

4.1.a Procurement Innovation Champions should publish annual departmental commercial problem statements. These should lay out problem statements in line with departments' procurement plans and budgets, to prioritise resources to tackle policy or delivery challenges. These could be developed similarly to departments' areas of research interest. Publish annual progress against the statements, championing how innovation is helping tackle government challenges.

4.1.b Increase funding for the DSIT Commercial Innovation Hub (CIH). CIH should be supported to rapidly scale up their work, learning and iterating from pilots as they progress, and have sufficient resource to support all Procurement Innovation Champions effectively procure innovation against commercial problem statements.

4.2 Cabinet Office should prioritise implementation of the Procurement Act at pace, setting expectations of significant culture change in public procurement.

4.2.a Publish an annual impact statement of the Procurement Act. This should report on delivery against the Act's aims, including delivering improved public benefit and support for SME participation.

4.2.b Publish the Commercial Innovation Playbook and use the expanded CIH team to support public sector procurement teams to use it.

4.2.c Establish a new 'Innovation for growth and value' award at the Government Commercial Function Awards from 2026. This should recognise and celebrate the procurement of innovative solutions to tackle public sector priorities and improve public services.

The life sciences sector and the NHS

The poor state of the UK market for innovation is a particularly well-recognised challenge for the life sciences sector, where the NHS is the primary customer.

The pharmaceutical sector faces specific challenges. The UK currently invests just 9% of its healthcare spend in medicines, compared with 17% in Spain. And ABPI data shows that more than 60 medicines or indications did not launch in the UK or were delayed between 2019/20 and 2022/23, with almost 70% of these decisions because of the UK's pricing requirements, including NICE thresholds and the additional value for flexible commercial arrangements. (**ABPI Competitiveness Framework Report 2025**).

However, it is not only large pharmaceutical businesses that face barriers to innovation adoption in the NHS. **None of the innovative medtech, device firms, or life science start-ups we spoke with see the NHS as a strong or viable market for their innovation.** The barriers highlighted are significant, from misalignment of incentives between politicians, NHS managers, and healthcare teams, to challenges navigating the procurement system. Slow processes, and a lack of join-up between pilot programmes and procurement are also a challenge. For example, one business noted that it took them two years to set up a pilot in an NHS trust, and this had no clear commercial opportunity at the end. In contrast, within six months working with a healthcare site in China, they had a pilot underway with a clear route to market if successful.

Businesses understand that balancing spending realities, NHS priorities, and the growth imperative is hugely challenging. Recent announcements, including the UK-US pharmaceuticals deal, are very welcome. But if the government is serious about maintaining and growing the life sciences sector in the UK, then the Office for Life Sciences, HMT, DHSC, and the NHS need to continue to work together with industry urgently to make tangible progress on the UK's market for innovation that would deliver real value to NHS patients.

We are a medical device start-up with a revolutionary, economic, scaleable approved, regulated product for complex neurodevelopmental disorders. Our technical risk is zero, but our UK commercial risk is huge because there is only one customer, the NHS, whose procurement processes are unknown, by everyone!!!
Survey respondent

Many investors just switch off when you mention the NHS because they don't believe the system can adopt innovation at pace.
Thomas Hall, CEO, Embed Biotech

Government should play a bigger role in supporting and accelerating private sector technology adoption.

Technology adoption is risky and firms face barriers including access to finance, skills, and infrastructure. Emerging technologies like AI are raising new challenges, including the need for businesses to adjust their risk appetite, build change management skills, and, in some cases, consider broader implications for their workforce strategies and business models. As a result, businesses are currently not investing optimally in innovation. In our survey **only 46% of adopters felt they were investing optimally to drive their business's strategy or growth.**

Despite the potential of tech adoption to drive productivity growth across the economy, as well as build a thriving market for innovators in the UK – a clear win-win – UK government innovation support is very strongly focused on supply side measures. Recent years have seen some policy shift, such as the publication of the Technology Adoption Review and SME Digital Adoption Taskforce report, and the appointment of ministerial responsibility for technology adoption. Still, aside from sector-specific initiatives like Made Smarter and Catapult-led testbed programmes, there are few tangible incentives or support mechanisms to help businesses invest in new technologies in the UK. This stands in contrast to many international comparators. For example, Enterprise Ireland was noted as providing broad business innovation support, for R&D but also adoption, learning and development, and change management.

The government can move further and faster in this space. A relatively small shift in focus of UK innovation policy towards technology adoption would have a significant impact on productivity growth in the UK, as well as improving the UK market for innovators, particularly in the tech sector.

The limited government support that is available for technology adoption is largely focused om SMEs. However, we have heard from many large firms also wrestling with tech adoption, especially for new AI and digital tech. While financial support may be best targeted at SMEs, broader support like access to skills development and peer support networks should be available to large adopters as well.

The productivity of the business wasn't growing. So our investment was very much led by the desire to make the business more robust, more resilient, more efficient. Our biggest challenge was trying to find someone who wasn't just trying to sell me a product, someone we had confidence in to come in and give us advice. We've heard of Made Smarter…but why is that just in one sector? Why can't that be washed across all sectors? The need is the same.

Angus White, Partner, Naylors Gavin Black

Where we really struggle is just the capacity and the resources to actually do it properly. Our resources are stretched to deliver on core business goals so finding time for people to work on ideas that may or may not have net business value is hard. Any funding support that government could give us to boost our capacity to invest in innovative approaches would be very valuable.

CTO, Financial services firm

Recommendations:

4.3 Grow support for private sector technology adoption

4.3.a Set out a National Technology Adoption Plan with clarity on where the government sees its role on technology adoption, clear responsibility and accountability within DSIT, government's plans for intervention informed by recent reviews, implementation timelines, and mechanisms for review.

4.3.b Deliver at pace on commitments to support business technology adoption, including expansion of the Made Smarter programme to Professional and Business Services (PBS), the creation AI adoption hubs, and expansion of the BridgeAI programme. The Northern pilot of Made Smarter in PBS should be operational by mid-2026.

4.3.c Expand the Made Smarter programme to all sectors of the economy, allowing all businesses to access the support they need to adopt productivity-enhancing technologies. These programmes should build on the successful elements of the Made Smarter programme, which combines expert advice with financial support, as well as opportunities for peer networking and sharing use case examples.

4.3.d Explore the potential for a tax incentive to accelerate the broad adoption of technology across the economy. HMT should work with business to explore whether a new or expanded tax incentive could support businesses to invest in new technologies to accelerate productivity and growth, beyond the reach of targeted funding through programmes like Made Smarter.

Growing the UK's pool of business innovation champions

Finally, as articulated in the previous chapter, there is a strong relationship between businesses whose leaders have a vision for and focus on innovation and businesses that reported 'above average' innovation investment compared to their competitors. The importance of individual innovation champions who drive business innovation investment for growth cannot be overstated.

This raises interesting challenges for getting more businesses innovating in the UK. While there are some actions businesses can take to attract, upskill, and retain innovation leadership talent, there is also a role for government and skills providers to cultivate more UK business leaders who understand both technology and innovation and who possess a clear vision for how innovation can drive business growth. This should be a key focus for UK innovation policy and will be essential for supporting long-term economic growth in the UK. The CBI would welcome opportunities to work with government and businesses to develop policies and programmes in this space.

Recommendations:

5.1.a Promote, and expand access to, opportunities for business innovation leadership training, including through the Help to Grow Management programme for small businesses.

5.1.b Innovate UK Business Connect should work with the Growth Hubs to develop an Innovation for Growth mentorship scheme, that pairs high-performing innovation leaders from successful scale-ups or corporate innovators with boards or executives of mid-size firms that want to strengthen innovation culture or capability. This could work with the Help to Grow Management alumni programme to share learnings and good practice in mentorship support.

Recommendations

Headline recommendation	Detailed recommendations	Supporting evidence
1. Make innovation for growth a cross- government responsibility	**1.1 Embed innovation for growth as a cross-government responsibility,** sending clear consistent signals on the importance of business innovation for growth. **1.1.a HMT should embed impact on business investment, including innovation, into policy impact assessments across government.** **1.1.b The Science and Technology Committee and Business and Trade Committee should compile a tracker of major government policy decisions and their anticipated impact on business innovation investment.** Policies with a negative impact should be scrutinised through an annual joint committee evidence session.	**Under half of the business leaders surveyed felt their business was investing optimally in innovation to achieve their business's strategy or growth.** Two thirds of these said it was due to squeezed finances, with increasing cost pressures from energy costs, tax burden including the recent increase in National Insurance Contributions, and broader inflation all having an impact.
	1.2.a Develop end-to-end support for innovators, beginning with the R&D Missions Accelerator Programme. Establish a joint DSIT-DBT unit with responsibility for providing a clear route from R&D to market in the UK for publicly supported innovation. This should include engagement from R&D funders, regulators, and public sector customers. Focus initially on a small number of priorities in line with the Industrial Strategy, beginning with the R&D Missions Accelerator Programme. **1.2.b The Office for Investment's Strategic Investment Opportunities Unit (SIOU) should partner with Mayoral Strategic Authorities (MSAs) to identify and prioritise regional projects most likely to unlock innovative-led growth.** Dedicated SIOU resource should be provided to MSAs to ensure they can work in partnership across the public sector to ensure prioritised projects deliver maximum impact as part of a joined-up approach to supporting business investment.	Businesses find different parts of the UK innovation policy landscape highly disjointed. One business described engagement with the UK policy environment as a '*random walk*' where you may or may not encounter support along the way.

2. Shift gears from strategy to delivery: Maximise value from existing policy by accelerating delivery

2.1 Use DSIT's Science and Technology Framework to drive innovation policy, both within DSIT and for collaboration where policy levers are owned by other departments. Publish an annual scorecard, starting in 2026, setting out tangible progress and impact against each of the ten items in the framework.

Businesses highlighted the impact of a wide range of policy areas on their innovation investment, that are prominent in DSIT's **Science and Technology Framework**

2.2.a Unlock the potential of the Growth and Skills Levy to fund the scale of training needed for an AI-enabled economy. Expanding the Growth and Skills levy to fund short AI and digital courses is welcome. But to support the scale of training needed, it is critical that government takes steps to reduce competing pressure on the Growth and Skills Levy, ensuring the full funding raised through the Levy and the Immigration Skills Charge are spent on skills and training.

2.2.b Make apprenticeships more flexible and responsive to employer needs so training keeps pace with technological change and evolving business demand. Skills England and DfE should make the process for updating apprenticeship standards more agile, enabling training content to keep pace with emerging technologies. This includes modularisation of apprenticeship standards and allowing businesses to adjust a proportion of approved training content as technologies evolve.

2.2.c Co-create AI-focused micro-credentials and hybrid qualifications that keep pace with evolving AI capabilities and sector demand. The Department for Education, working with Skills England and DSIT, should convene employers, universities, further-education and independent training providers to deliver a new generation of AI-focused micro-credentials and hybrid qualifications. These qualifications should blend technical AI learning with applied domain expertise.

People are at the heart of innovation - 79% of surveyed businesses named labour costs as one of their top innovation costs. Skills and talent are therefore an essential foundation to enabling business to innovate. 47% of businesses surveyed said access to skills had a significant influence on where they invest in innovation.

2.3 Remain laser-focused on delivery of the Mansion House reforms. HMT should monitor and publish progress and impact of the reforms annually, beginning in Q2 2026, in close partnership with institutional investors, and consider further reforms if the impact does not match the ambition of the policy.

Access to finance remains a barrier to innovation, particularly for innovative start-ups and scale-ups. Only 15% of businesses surveyed would not increase innovation investment with increased finance availability.

3. Shift gears from strategy to delivery: Remove friction from the system

3.1 HMRC must address administration issues with the R&D tax credit system at pace to avoid eroding the value of the scheme further, ensure the UK remains an attractive destination for business R&D, and align their approach with the policy intent of the scheme.

3.1.a HMRC should commit to reducing standard service timelines back to 28 days by the end of 2026. As an interim milestone they should meet the current 40 day timeline for at least 95% of applications by mid 2026.

3.1.b Implement an expanded training programme to upskill R&D tax credit caseworkers by mid-2026. HMRC should draw on the expertise of the Expert Advisory Panel to design a training programme to rapidly upskill new caseworkers to give them sufficient technical understanding to support innovative businesses make accurate claims and report back accurately to HMRC decisions makers. Caseworkers should be upskilled on the role of the scheme to drive business innovation investment, and engagement with low-risk businesses (including R&D intensive sectors, university spin-outs, and businesses receiving public innovation funding) should focus exclusively on supporting businesses to make accurate claims, not hostile investigations.

3.1.c Use digital approaches to reduce fraud in the system, improve processing times, and reduce business and HMRC burden. This should include introducing an online customer ticketing system by mid-2027 to enable taxpayers to track the progress of enquiries and administration requests, and collaboration with broader government on digital verification approaches.

Several businesses told us they are no longer including in R&D tax credits into their financial planning due to the uncertainty around administration, meaning the policy intent of the credits is being undermined.

3.2 Innovate UK should review their administrative processes by the end of 2026, **significantly reducing burden for innovators.** As Innovate UK re-shapes its work programme to deliver against updated priorities, Innovate UK, UKRI and DSIT should re-design administrative processes around principles of proportionality and pace, while maintaining appropriate governance. Innovate UK should collaborate with other government departments on digital verification processes, aiming for

'Applications require a lot of work and effort, but feel like they waste the resources of so many start-ups like us, diverting their attention and resources away from customers, innovation, and core business development.'

	applicants to use a single online profile to apply for, track, and monitor grants by the end of 2027.	
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4. Build the UK's market for innovation

4.1 Rapidly improve public procurement of disruptive innovation to tackle government priorities

4.1.a Procurement Innovation Champions should publish departmental commercial problem statements. These should lay out problem statements in line with departments' procurement plans and budgets, to prioritise resources to tackle policy or delivery challenges. These could be developed similarly to departments' areas of research interest. Publish annual progress against the statements, championing how innovation is helping tackle government challenges.

4.1.b Increase funding for the DSIT Commercial Innovation Hub (CIH) to rapidly scale up their work, learning and iterating from pilots as they progress, and ensuring sufficient resource to support all Procurement Innovation Champions effectively procure innovation against commercial problem statements.

4.2 Cabinet Office should prioritise implementation of the Procurement Act at pace, setting expectations of significant culture change in public procurement.

4.2.a Publish an annual impact statement of the Procurement Act. This should report on delivery against the Act's aims, including delivering improved public benefit and support for SME participation.

4.2.b Publish the Commercial Innovation Playbook, and use the expanded CIH team to support public sector procurement teams to use it.

4.2.c Establish a new 'Innovation for growth and value' award at the Government Commercial Function Awards from 2026. This should recognise and celebrate the procurement of innovative solutions to tackle public sector priorities and improve public services.

Market demand is the factor with the greatest influence on business innovation investment. 68% of survey respondents said market demand has a significant influence on where they invest in innovation, increasing to 76% of innovators, the highest of all factors listed.

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4.3.a Set out a National Technology Adoption Plan with clarity on where the government sees its role on technology adoption, clear responsibility and accountability within DSIT, government's plans for intervention informed by recent reviews, implementation timelines, and mechanisms for review.

4.3.b Deliver at pace on commitments to support business technology adoption, including expansion of the Made Smarter programme to Professional and Business Services (PBS), the creation AI adoption hubs, and expansion of the BridgeAI programme. The Northern pilot of Made Smarter in PBS should be operational by mid-2026.

4.3.c Expand the Made Smarter programme to all sectors of the economy, allowing all businesses to access the support they need to adopt productivity-enhancing technologies. This should build on the successful elements of the Made Smarter programme, which combines expert advice with financial support, as well as opportunities for peer networking and sharing use case examples.

4.3.d Explore the potential for a tax incentive to accelerate the broad adoption of technology across the economy. HMT should work with business to explore whether a new or expanded tax incentive could support businesses to invest in new technologies to accelerate productivity and growth, beyond the reach of targeted funding through programmes like Made Smarter.

'Our biggest challenge was trying to find someone who wasn't just trying to sell me a product, someone we had confidence in to come in and give us advice. We've heard of Made Smarter…but why is that just in one sector? Why can't that be washed across all sectors? The need is the same.'

5. Grow the pool of business innovation champions in the UK

5.1.a Promote, and expand access to, opportunities for business innovation leadership training, including through the Help to Grow Management programme for small businesses.

5.1.b Innovate UK Business Connect should work with the Growth Hubs to develop an Innovation for Growth mentorship scheme, that pairs high-performing innovation leaders from successful scale-ups or corporate innovators with boards or executives of mid-size firms that want to strengthen innovation culture or capability. This could work with the Help to Grow Management alumni programme to share learnings and good practice in mentorship support.

[Investment] is mostly strongly influenced by individual champions for a given idea. I cannot emphasise this strongly enough and without a champion most ideas will fail to flourish. Survey respondent

'*Our CEO's focus on innovation and willingness to invest in ideas and approaches that weren't guaranteed success has been key. Our Board and investors have been won over by seeing the success and return on investment from a number of our innovation projects'*

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Flutter UKI
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SSE
Tideway
Transport for London
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withdigital

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We are a specialised tax consulting firm supporting our clients with R&D tax relief and innovation tax incentive services.

We are fully immersed in the innovation ecosystem and have represented our clients' views and best interests at every level for 20 years in the UK. Our services are deeply rooted in quality, integrity, relationships and creating the very best working culture for our people. Source Advisors has a global team and work in partnership with the wider business advisory community to deliver value for our clients.

At Source Advisors, we believe that innovation needs to be the driving force behind the UK's economic growth.

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